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August 22, 2000

VIA OVERNIGHT DELIVERY

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

CC 1202-TP

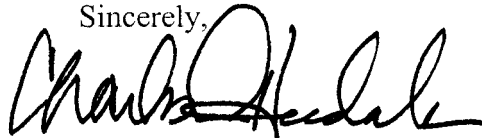
Re: Joint Application of Citizens Communications Company, Frontier Communications of the South, Inc. and Frontier Communications of America, Inc. for Approval of a Transfer of Control (the "Application")

Dear Sir or Madam:

Enclosed are the original and seven (7) copies of the Application. Please file the Application in your usual fashion and return one (1) file-stamped copy to us in the enclosed envelope.

If you have any questions or comments, please call the undersigned.

Sincerely,



Charles A. Hudak

CAH/jh

Enc.

cc: Citizens Communications Company
(with enclosure)
Global Crossing North America, Inc.
(with enclosure)

DOCUMENT NUMBER-DATE

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FPSC RECORDS/REPORTING

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:)	
)	
JOINT APPLICATION OF CITIZENS COMMUNICATIONS	)	DOCKET NO.
COMPANY, FRONTIER COMMUNICATIONS OF THE)	
SOUTH, INC. AND FRONTIER COMMUNICATIONS OF	)	<u>001202-TP</u>
OF AMERICA, INC. FOR APPROVAL OF A)	
TRANSFER OF CONTROL)	

JOINT APPLICATION

COME NOW, Citizens Communications Company (“Citizens”), Frontier Communications of the South, Inc. and Frontier Communications of America, Inc. (“FCA”) (the Frontier entities are collectively referred to as the “Frontier Subsidiaries”), pursuant to Section 364.33 of the Florida Statutes, and hereby file this Joint Application with the Florida Public Service Commission (the “Commission”), requesting approval of the acquisition of all of the stock of the Frontier Subsidiaries’ corporate parent company, Frontier Subsidiary Telco Inc. (“Frontier”), by Citizens.

This request is being made as a result of the execution, on July 11, 2000, of a Stock Purchase Agreement (the “Agreement”) by and among Global Crossing, Ltd. (“Global Crossing”) (the ultimate corporate parent of Frontier and the Frontier Subsidiaries), Global Crossing North America, Inc. (“Global N.A.”) (an intermediate holding company that directly owns Frontier and indirectly owns the Frontier Subsidiaries), and Citizens pursuant to which Citizens will indirectly acquire the stock of the Frontier Subsidiaries.¹ That is, pursuant to the Agreement, the Frontier Subsidiaries’ corporate parent, Frontier, will become a wholly-owned,

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FPSC-RECORDS/REPORTING

direct subsidiary of Citizens. There will be no assignment of the Certificates of Authority or of the tariffs of the Frontier Subsidiaries, which will retain the same corporate relationships with Frontier as they did prior to the stock transfer. Citizens and the Frontier Subsidiaries submit the following information to the Commission in support of the Joint Application.

I. INTRODUCTION

Citizens is a fast growing, community based utility service provider that is focused upon acquiring and operating telecommunications companies in small and medium-sized markets. Frontier is a well-established telecommunications company that has transformed itself into a major player across the country in many sectors of the United States telecommunications market, including the long distance, local exchange, and Internet services markets.² Together, the two companies will enhance the range of telecommunications services and choices available to their customers more rapidly than either company could do so independently. Moreover, the resulting entity will be focused upon the local exchange business to the benefit of local customers.

¹ Organizational charts of the current and proposed ownership of Frontier are attached hereto at **Exhibit "A."**

² Last year, the Frontier Subsidiaries were included among the Joint Applicants in the acquisition of all of the stock of their then parent corporation, Frontier Corporation, by Global Crossing, Ltd. See Request for approval of merger agreement whereby Global Crossing Ltd. will acquire control of Frontier Corporation and, indirectly, its communications operating subsidiaries, Frontier Communications of the South, Inc. (LEC Cert. Nos. 5 and 6), Allnet Communications Services d/b/a Frontier Communications (IXC Cert. No. 3955), Budget Call Long Distance, Inc. (IXC Cert. No. 3955), Frontier Communications International, Inc. (IXC Cert. No. 3558), Frontier Communications of the West, Inc. (IXC Cert. No. 3487), Frontier Local Services Inc. (ALEC Cert. No. 5574), and Frontier Telemanagement Inc. (ALEC Cert. No. 5308), Order Approving Merger Agreement, Docket No. 990555-TP (issued Aug. 3, 1999).

II. DESCRIPTION OF THE COMPANIES

A. Citizens Communications Company

Citizens is a diversified public utility that, through its various operating divisions or subsidiaries, currently provides telecommunications, electric, gas, water, and wastewater services to approximately two (2) million customers in twenty-two (22) states. The company recently decided to focus its business operations upon telecommunications, and, accordingly, is in the process of selling its public utilities businesses.

Citizens provides both regulated and competitive telecommunications services to residential, business, and wholesale customers. Through various of its subsidiaries, Citizens currently operates as an incumbent local exchange carrier (“ILEC”) in fourteen (14) states and provides local and long-distance services to more than one million access lines. Citizens also owns 83% of the outstanding common stock of Electric Lightwave, Inc., a leading full-service, facilities-based, competitive local exchange carrier that is authorized to provide long distance resale services in Florida,³ and 100% of the outstanding common stock of Citizens Telecommunications Company, Inc., a telecommunications carrier that is authorized to provide long distance resale services in Florida.⁴

As stated previously, Citizens has determined that it will now focus its business on acquiring and operating telecommunications businesses in small and medium-sized cities and towns that are experiencing above-average economic and population growth. To that end, in May 1999 Citizens entered into a series of definitive agreements with GTE Corporation to

³ Application of Electric Lightwave, Inc. for a Certificate to Provide Interexchange Telecommunications Services, Order Granting Certificate to Provide Interexchange Telecommunications Service, Certificate No. 4766, Docket No. 961050-TI (granted Feb. 13, 1997).

⁴ Application of Citizens Telecommunications Company, Inc. for a Certificate to Provide Interexchange Telecommunications Services, Order Granting Certificate to Provide Interexchange Telecommunications Service, Certificate No. 4465, as amended, Docket No. 970491-TI (issued July 23, 1996).

acquire approximately 367,000 telephone access lines. Thereafter, in June 1999, Citizens and US WEST Communications, Inc., announced that they had entered into a series of definitive agreements for Citizens to purchase local-exchange telephone properties serving approximately 545,000 telephone access lines in eleven (11) states. Finally, in July 2000, Citizens, Global Crossing, and Global N.A. entered into a definitive stock purchase agreement whereby Citizens will acquire approximately 1.1 million additional access lines in thirteen (13) states. When all of the pending transactions are consummated, Citizens will serve more than three (3) million access lines in a service territory encompassing thirty (30) states.

Citizens has a strong income statement and balance sheet and is financially qualified to complete all of its pending acquisitions and to operate the acquired properties in a manner that is consistent with the public interest. A copy of Citizens' most recent Form 10-K, as filed with the Securities and Exchange Commission, is attached hereto at **Exhibit "B."** Citizens expects to temporarily fund these transactions with either cash and investment balances or bank credit facilities. Permanent funding is expected from the proceeds from the sale or other disposition of Citizens' gas, electric and water properties and the issuance of new debt and preferred stock. Citizens has, and expects to maintain, a debt rating exceeding Global Crossing's current rating.

B. Frontier Subsidiary Telco, Inc.

Through its various operating subsidiaries, Frontier operates as an ILEC in thirteen (13) states, including Florida.⁵ Taken together, Frontier's thirty-three (33) local telephone companies serve more than one million local access lines. In addition, Frontier's subsidiary, FCA, is in the

⁵ Frontier has one (1) ILEC subsidiary that provides service in Florida: Frontier Communications of the South, Inc.

process of obtaining certification to provide long distance and alternative local exchange services in all thirteen (13) states (including Florida) in which Frontier's ILECs operate.⁶

C. Designated Contacts

The designated contacts for questions and correspondence concerning this Joint Application are:

For Citizens:

L. Russell Mitten
Vice President and General Counsel
Citizens Communications Company
3 High Ridge Park
Stamford, Connecticut 06905
(203) 614-5047 (Tel)
(203) 614-4651 (Fax)

Angelo F. Rella
VP - State Government Affairs - East
Citizens Communications Company
137 Harrison Street
Johnstown, NY 12095
(518) 773-6777 (Phone)
(518) 773-8814 (Fax)
For Frontier:

Martin T. McCue
Michael J. Shortley, III
Frontier Subsidiary Telco Inc.
180 South Clinton Avenue
Rochester, New York 14646
(716) 777-1028 (Tel)
(716) 546-7823 (Fax)

⁶ Application of Frontier Communications of America, Inc. for a Certificate to Provide Alternative Local Exchange Telecommunications Services, Docket No. 000862-TX (filed July 17, 2000); Application of Frontier Communications of America, Inc. for a Certificate to Provide Interexchange Telecommunications Services, Docket No. 000863-TI (filed July 17, 2000). These Applications are currently pending. In addition, FCA, along with Global Crossing Telecommunications, Inc. ("GCTI") filed a letter with the Commission on July 17, 2000, notifying the Commission of the proposed transfer by GCTI to FCA of its long distance customer base that resides within the franchised territories of Frontier Communications of the South, Inc.

For the Joint Applicants:

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III. REQUEST FOR APPROVAL OF THE TRANSFER OF CONTROL

A. Description of the Transaction

On July 11, 2000, Citizens, Global Crossing and Global Crossing N.A. entered into the Stock Purchase Agreement⁷ whereby Citizens intends to acquire control of Frontier and, indirectly, its communications operating subsidiaries. In Florida, the subsidiaries that will be indirectly affected by the transaction include FCA and Frontier Communications of the South, Inc. As a result of the stock transaction, Frontier will become a wholly-owned, direct subsidiary of Citizens. The transaction does not involve any assignment of the Certificates of Authority or tariffs of the Frontier Subsidiaries; rather, all shares of Frontier will be transferred to Citizens, and the Frontier Subsidiaries will retain the same corporate relationship with Frontier as they had prior to the transaction. The consideration for the sale of Frontier's shares of stock is cash.

B. Citizens' Technical, Managerial and Financial Qualifications

Citizens possesses the necessary technical, managerial, and financial qualifications to acquire control of Frontier. As noted in the description above, Citizens is a diversified public utility that, through its various operating divisions or subsidiaries, currently provides telecommunications, electric, gas, water, and wastewater services to approximately two (2) million customers in twenty-two (22) states. Through various of its subsidiaries, Citizens

currently operates as an ILEC in fourteen (14) states and provides local and long-distance services to more than one million access lines. Citizens also owns 83% of the outstanding common stock of Electric Lightwave, Inc., a leading full-service, facilities-based, competitive local exchange carrier that is authorized to provide long distance resale services in Florida, and 100% of the outstanding common stock of Citizens Telecommunications Company, Inc., a telecommunications carrier that is authorized to provide long distance resale services in Florida.

Information concerning the technical, managerial, and financial qualifications of Frontier and the Frontier Subsidiaries has been submitted with various applications filed with the Commission, and is, therefore, already a matter of record at the Commission. Frontier, through its subsidiaries and affiliates, has extensive United States networks and services which are managed by highly qualified employees who are skilled in marketing and providing local, long distance, data and Internet services. The Frontier Subsidiaries request that the Commission take official notice of information already on file with regard to Frontier's technical, managerial and operational qualifications and incorporate it by reference herein.

C. The Proposed Transaction is in the Public Interest

Commission approval of the proposed stock acquisition is in the public interest. The proposed transaction will positively benefit Frontier's local exchange operations and customers in Florida. The purchase by Citizens will provide the Frontier Subsidiaries with a parent organization that is focused on the local exchange business, and that shares Frontier's history of commitment to excellent customer service. Citizens will continue the trend of improved service quality in the Frontier Subsidiaries' operations in Florida. The parties expect the combined entity to grow at a rapid pace. The Frontier Subsidiaries believe that the expanded business

⁷ See Exhibit "C" for a copy of the Stock Purchase Agreement.

opportunities of the combined company will enable it to enhance and improve its overall presence in Florida.

Citizens is a long time participant in the local exchange marketplace focusing largely on rural and suburban communities. In recent years, Citizens has been determined both to increase its size and to emphasize its focus on rural and suburban communities, which it believes are underserved in the current telecommunications market. This transaction will permit both Citizens and Frontier to focus on the areas where they are most able to provide their customers with innovative and cost effective services. Furthermore, the combined size and depth of expertise of the companies will enhance their abilities to provide these services in additional areas in Florida.

The Frontier Subsidiaries will continue to offer the same high quality services at the reasonable rates that their customers in Florida have come to expect. The transaction will be virtually transparent to the Frontier Subsidiaries' subscribers, with the Frontier Subsidiaries continuing to operate essentially as they do today; that is, the Frontier Subsidiaries' customers will continue to be served by the same people serving them today. Indeed, as a result of the stock transfer, the Frontier Subsidiaries will be able to provide a more complete and robust variety of services to their customers in Florida. In addition, the increased size and depth of expertise of the combined companies will provide the resources needed to reduce the time to introduce new service offerings.

The combination with Citizens will help to continue Frontier's trend of prudent investment. Frontier is deploying ADSL service in its urban service areas and is actively exploring the deployment of this service in rural service areas. The Frontier Subsidiaries are and

will remain committed to providing new, advanced services to all of their customers wherever technologically feasible and economically reasonable. Citizens' oversight will assist the Frontier Subsidiaries in anticipating technology changes, building facilities for an evolving marketplace, and avoiding unproductive investment.

Local exchange rates will not be affected by the acquisition. Neither Citizens nor Frontier are projecting any quantifiable change in the operating statements of the Frontier Subsidiaries, positive or negative, as a result of the transaction. As such, the stock transfer will not result in requests for local rate increases in Florida. The books and records of the Frontier Subsidiaries will continue to be maintained in conformance with the Commission's relevant rules and regulations. Following the proposed transaction, the Frontier Subsidiaries will continue to be subject to the Commission's jurisdiction and to Florida's utility regulatory laws.

The proposed transaction will enhance competition in Florida. Citizens is committed to meeting the needs and telecommunications requirements of small and medium-sized communities and to ensuring that these communities become part of the information superhighway. The purchase will enable the combined entity to offer advanced services and new technology to additional rural markets as a result of the increased size and depth of expertise of the combined entity. The combined companies will thereby enhance the range of telecommunications services and choices available to their customers more rapidly than either company could do so independently.

The proposed transaction will enhance growth, economic activity and local economies in Florida. The combined size and depth of expertise of the companies will help create a "critical mass" of employees, customers and technology. Citizens and Frontier expect their operations to

grow significantly beyond the current size of their separate operations. The companies' increased size will provide them with an increased ability to focus on expanding their customer base through new business opportunities.

IV. REQUEST FOR WAIVER OF HEARING

Inasmuch as time is of the essence, the parties respectfully request expeditious approval of the Joint Application and waiver of any requirements of notice and hearing.

V. CONCLUSION

For all of the reasons stated herein, the parties respectfully request that the Commission:

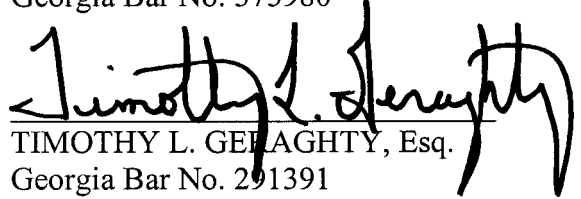
- (i) issue an Order approving the transfer of all of the stock of Frontier to Citizens as described herein and in the attached Exhibits; and
- (ii) grant any other and additional relief the Commission may deem just and proper.

Respectfully submitted this 22nd day of August, 2000.

GERRY, FRIEND & SAPRONOV, LLP



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COUNSEL FOR CITIZENS COMMUNICATIONS COMPANY,
FRONTIER COMMUNICATIONS OF THE SOUTH, INC.
AND FRONTIER COMMUNICATIONS OF AMERICA, INC.

EXHIBITS

DIAGRAM OF TRANSACTIONA

CITIZENS' FORM 10K.....B

STOCK PURCHASE AGREEMENTC

CITIZENS' SENIOR MANAGEMENT TEAMD

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EXHIBIT "A"

DIAGRAM OF TRANSACTION

Citizens Communications Company

After Proposed Frontier Acquisition

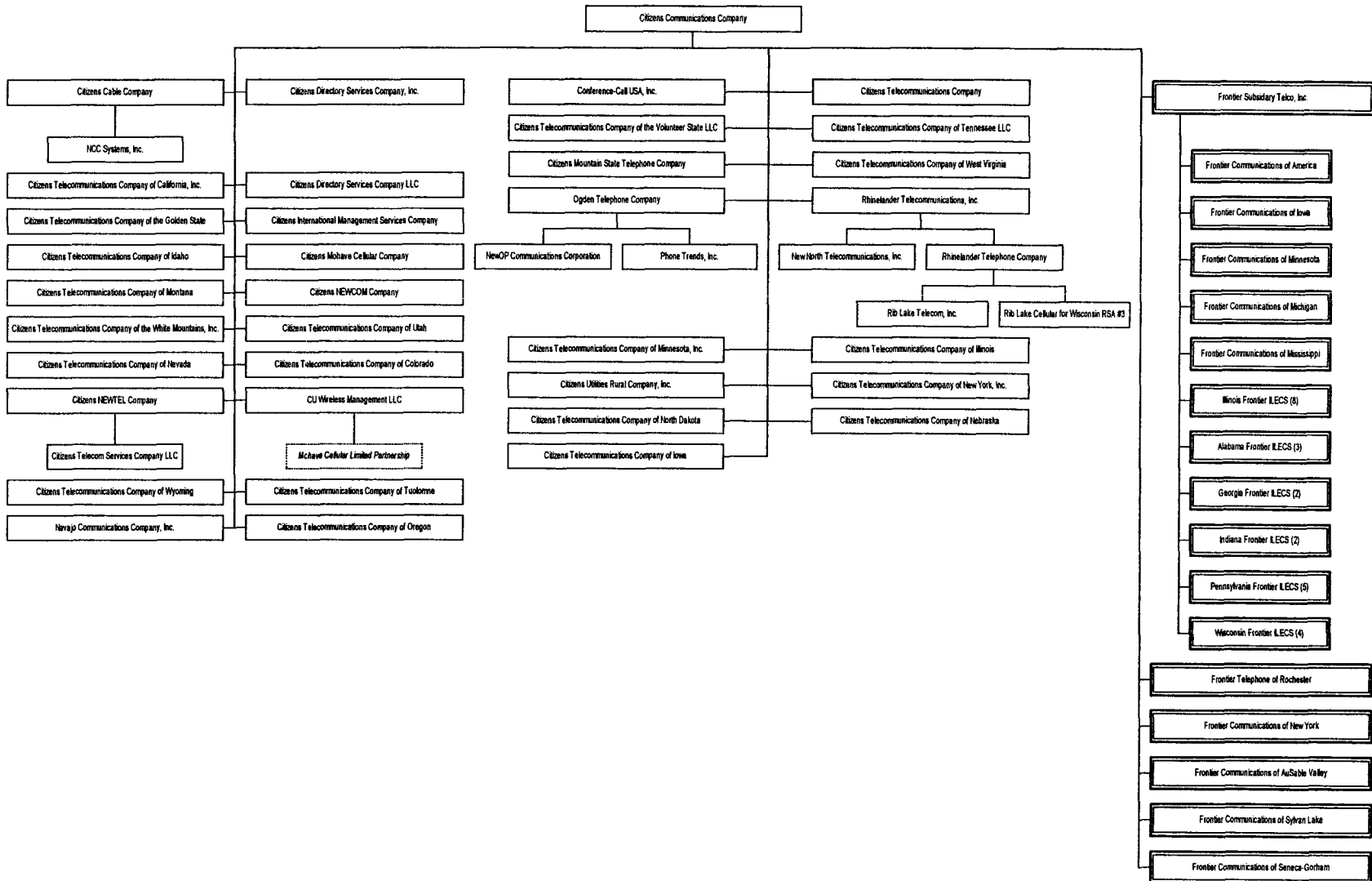


EXHIBIT "B"
CITIZENS' FORM 10-K

just connect.
it's what we do
every day.

CITIZENS MAKES CONNECTIONS — WE CONNECT OUR SHAREHOLDERS TO

LONG-TERM VALUE AND GROWTH OF THEIR INVESTMENT, OUR CUSTOMERS

TO FAMILY, FRIENDS AND BUSINESS ASSOCIATES AROUND THE WORLD,

AND OUR EMPLOYEES TO ENRICHING AND REWARDING OPPORTUNITIES.

10341-00



“We are now positioned in the right industry at the right time with the right strategy — and with the right people in place to execute that strategy.”

to our shareholders

D.R. LEONARD TOW Chairman and Chief Executive Officer

Fellow Shareholders,

During the first three months of 2000 I met with many of our growth and value-oriented institutional investors who, I am pleased to report, now hold the great majority of Citizens shares. The extremely positive tone of these meetings was responsive to the extraordinary changes that occurred at Citizens in 1999.

In 1999 we set out to become one of the nation's leading telecommunications companies, dramatically increasing our operational footprint through acquisitions while simultaneously proceeding with the sale of our water, gas and electric operations. To ensure that the execution of this program yields the highest value possible, we brought on a new, experienced and aggressive senior management team with a great performance record. We are now positioned in the right industry at the right time with the right strategy — and with the right people in place to execute that strategy. Effective May 18, the company's name will be changed to Citizens Communications to reflect our new commitment and focus.

We began 1999 with a plan to separate Citizens into two stand-alone, publicly traded entities. Our goal was to unlock the intrinsic value of the company, which was going unrecognized in the public market. The market's reaction to the plan was tepid and our stock price declined following the plan's announcement.

A short while later, two important changes in the market landscape occurred. The first was a sea change in the prices offered for public services properties in private transactions: Double-digit multiples of cash flow in contrast to the single-digit multiples of cash flow utility companies traded at in public markets.

Second, approximately 2 million telephone access lines in the rural and suburban areas that are Citizens' market focus came available for acquisition. It appeared possible to sell our public services properties — for double-digit multiples of cash flow — to fund the purchase of access lines for single-digit multiples of cash flow, thereby enabling us to redeploy capital to generate substantially larger cash flows. In addition, as a pure telecommunications company, there was good reason to believe that we would enjoy higher public market multiples than as a combined telecom/utility company.

During the second half of 1999, we announced agreements to purchase nearly 1 million access lines from GTE and U S WEST and engaged investment bankers to assist us in the sale of our public services properties.

In October 1999, we announced the sale of our water and wastewater treatment businesses for \$835 million. In February 2000, we announced the sale of our electric operations for \$535 million. Both transactions were made at double-digit multiples of cash flow. The process for the sale of our gas distribution businesses is proceeding on track.

The after-tax proceeds from the sale of our public services businesses, along with contributions from our cash and investment portfolio, will be used to permanently fund the contracted access line acquisitions. Thus, with minimal addition to outstanding equity or indebtedness, we will be able to add dramatically to our cash flow.

CITIZENS' NEW MANAGEMENT TEAM.

From left to right: LEONARD TOW, SCOTT SCHNEIDER, STEVE WARD, RUDY GRAF, BOB BRADEN, JAKE CASEY and MIKE HARRIS.



During the fourth quarter of 1999 we made some important management changes and additions. In October, Rudy Graf was appointed president and chief operating officer. Rudy is no newcomer to Citizens; he brings to us many years of experience and outstanding performance in both wireline and wireless telecommunications, most recently as president and chief operating officer of our own Centennial Cellular Corp.

"Our prime objective now is to unlock the values that we have been building these many years."

Adding much-needed additional talent, experience and depth to our operating management, Citizens appointed Scott Schneider, formerly senior vice president and chief financial officer of Century Communications Corp. and Centennial Cellular Corp., as executive vice president of Citizens and as president of Citizens Capital Ventures. Citizens Capital Ventures is a new investment subsidiary aimed at capturing opportunities in e-commerce and the Internet that will enhance our portfolio of telecommunications business lines and services.

John "Jake" Casey also joined us from Centennial Cellular where he was a principal operating officer. Jake has assumed the position of chief operating officer of Citizens' telephone businesses. Other important additions to staff from Centennial and Century include Michael Harris, appointed to fill the key position of vice president, engineering and new technology; Bob Braden, vice president, business development; and Steve Ward, vice president, information technology.

We began the year 2000 with a new plan and a new team that has worked together for many years and that promises to transform our company into a telecommunications leader with a razor-sharp competitive focus — which brings me back to the institutional investor meetings mentioned at the beginning of this letter.

“The year 2000 will be the year of the CLEC.... We can rest assured that we invested early and wisely in an industry whose time has come.”

One question these investors asked again and again was, "Since the value of Citizens' assets and strategy has now gained some recognition in the financial markets, why should we expect the company to continue to add value for its shareholders?"

All of us in management are substantial shareholders of Citizens and therefore have a common interest with every other investor in realizing significant appreciation in Citizens' market value. Your management looks to the future with tremendous optimism. We are confident that we will produce continued and accelerating growth in cash flow for the company over the coming years as we re-energize our legacy properties, integrate our new acquisitions, and work to grow our portfolio of telephone access lines to 3 million over the next two years and 5 million lines over the next five years.

We are on track to produce significant increases in operating cash flow from substantial internal access line growth and the provision of services such as DSL (digital subscriber line) technology, while making significant reductions in operating costs. During 2000, while we add nearly 1 million access lines to our primary business, we expect to achieve double-digit improvements in operating cash flow in our core systems. From 2001 onward, we expect the consolidated company to deliver double-digit annual increases in cash flow from both our legacy properties and our newly acquired exchanges, assuring that Citizens will be an ever more valuable enterprise.

“I have seen few opportunities...
that are as exciting as those
presented by Citizens and
Electric Lightwave today.”

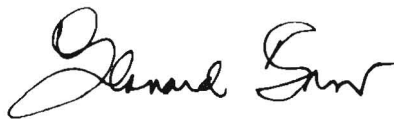
During the past few years, we have written enthusiastically about our CLEC (competitive local exchange company) subsidiary, Electric Lightwave, Inc. (ELI), and its exciting prospects and potential. I am pleased to report that 1999 was a turning point for ELI, one that saw the company move firmly in the direction of generating positive operating cash flow. By mid-year 2000 we expect to see ELI's first positive cash flow quarter, with quarterly improvements in performance expected from then on. Increasingly, we are focusing upon the synergistic opportunities between ELI and Citizens Communications and finding many mutually profitable possibilities.

One thing is certain: The year 2000 will be the year of the CLEC. During 1999, many large new investments were made in CLECs by financial players like Goldman Sachs, Kohlberg Kravis Roberts, Thomas Lee, Forstmann Little and Microsoft co-founder Paul Allen. We expect to see further endorsements of the wisdom of Citizens' CLEC investment and undoubtedly the beginnings of a consolidation of the industry. Whatever the eventuality, we can rest assured that we invested early and wisely in an industry whose time has come.

to our shareholders

Our prime objective now is to unlock the values that we have been building these many years through Citizens' transformation. It is my firm belief that the 77 percent rise in our stock price in 1999 and the continuing appreciation in 2000 still only hint at Citizens' true value.

Over my long career, I have been the builder of a number of extremely successful telecommunications businesses that have paid handsome rewards to investors. I have seen few opportunities over that time that are as exciting as those presented by Citizens and Electric Lightwave today. As a fellow shareholder, I invite you to join me in savoring our company's extraordinary future and the values that will be created.

A handwritten signature in black ink, appearing to read "Leonard Tow". The signature is fluid and cursive, with a large initial "L" and "T".

LEONARD TOW
Chairman and Chief Executive Officer

March 24, 2000



"Our guiding light is maximizing company value for our shareholders."

message from the president

RUDY J. GRAF President and Chief Operating Officer

I took my position at Citizens because I believe in Len Tow's vision for this company. His decision to focus Citizens totally upon telecommunications is the right choice at the right time. Citizens' remarkable telecommunications asset base gives it the potential to be a spectacularly successful total communications provider of voice, data, text and image services.

The telecommunications industry is the fastest-growing and most exciting business in the world, and the Internet is its catalyst for even more explosive growth. In combination, Citizens' and Electric Lightwave's networks permit us to provide our customers with 24-hour, seven-day-a-week access to the world and will continue to produce important new streams of revenue for the company. Teachers have begun to interact with students over the Internet as homework becomes "network" and remote hospitals are accessing diagnostic assistance via telemedicine applications that link them with the best doctors in the world.

The speed of change in the telecommunications business that is creating so much opportunity is a two-edged sword because it requires continuing hard-nosed review of our product lines, services, prices and customer satisfaction. Potential competition requires us to do more every day to make this company the supplier of choice for our customers. Our every act and our every decision must contribute to the satisfaction of the customer yet still make financial sense for Citizens.

message from the president

"WE ARE PROVIDING CUSTOMERS WITH SECOND LINES, INTERNET TECHNOLOGY,
AND A FULL SUITE OF VOICE AND DATA SERVICES."

Our priorities are clear: Our company must perform smoothly as a fully integrated unit, not as a collection of parts competing with one another at company expense. Our guiding light is maximizing company value for our shareholders.

Substantial incremental value has been created through judicious staffing additions that have dramatically increased the strength of our senior management team. Our aggressive new team is skilled in wireline, wireless, cable television and Internet technology, with lifetimes of experience in highly competitive environments. Already they are bringing new energy to Citizens.

During the past few months, our new team has met with nearly all of our employees, many of whom voiced the same question: "Why has Citizens, for so long, only reacted to change rather than creating it, and what are you going to do about it?" Our employees are champing at the bit to be ready to give any potential competitors a run for their money. These employees are fine, talented people who love their business, their company and their communities. Over 90 percent of our employees are shareholders and have a vested interest in Citizens' continued success. I have pledged to listen to their recommendations and to support their efforts not only to get the job done, but also to put them on the cutting edge of the business.

A black and white photograph featuring a transparent computer mouse with a keyboard and a bundle of fiber optic cables. The mouse is positioned in the lower half of the frame, showing its internal components and a coiled cord. Above it, a dense bundle of fiber optic cables is shown, with several RJ45 connectors visible. The word "technology" is overlaid in the center in a white, sans-serif font.

technology



regions



message from the president

“FOR 65 YEARS, A STRONG LOCAL PRESENCE AROUND THE COUNTRY HAS GIVEN CITIZENS A HOME FIELD ADVANTAGE, A BENEFIT THAT IS NOW OUR CRITICAL COMPETITIVE ASSET.”

We are investing to dramatically increase the quality of our service and the variety of products offered, and to expand our activities beyond the borders of our established service areas. We are joining forces with ELI to offer a full suite of state-of-the-art voice and data products. Our goal is to provide everyone we serve with levels of customer service and product selection that are beyond their greatest expectations.

Edging out of our traditional service areas into adjacent territories is a critical part of our growth strategy. By deploying fiber-optic cable to communications-intensive businesses adjacent to our franchised exchanges, we can provide new customers with broadband capacity at affordable prices and develop substantial new revenue streams.

But to grow at the pace we have set for ourselves, Citizens Communications and ELI must not only have “edge-out” strategies; each must also have “edge-in” strategies aimed at increasing revenues and profits by offering new and competitively priced products, services and communications solutions to customers we already serve within our franchise territories.

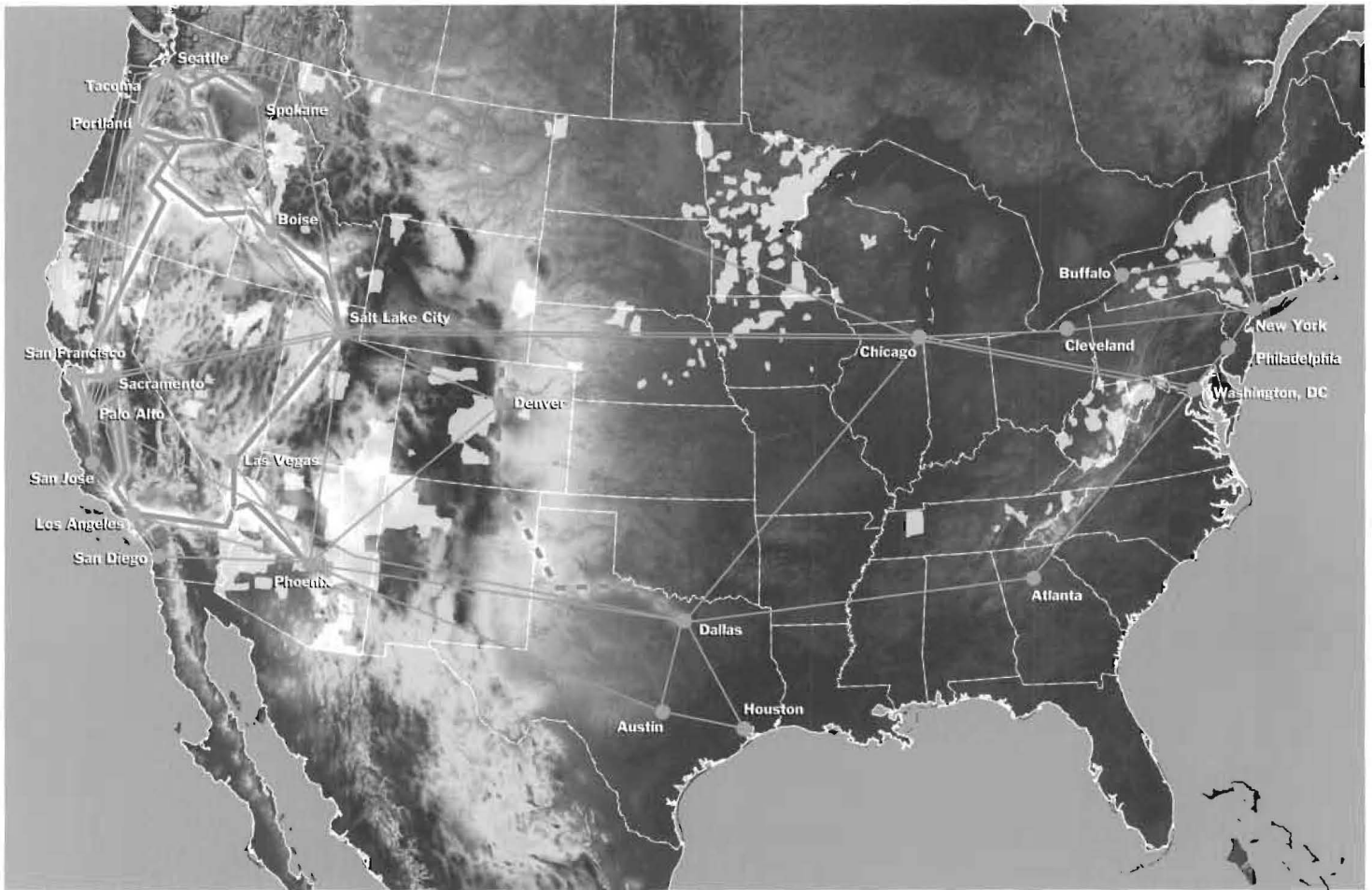
Building a culture of responsibility and accountability is vital to the success of our company. It requires that each employee embrace the company’s financial objectives, mission and values. New regional managers are now responsible for ensuring that the resources required to provide the best possible services to our customers are available. Our regional operations, in contrast to our formerly centralized structure,

“OUR DIGITAL NETWORKS ALLOW US TO PROVIDE CUSTOMERS WITH A PRODUCT MIX THAT INCLUDES LOCAL AND LONG-DISTANCE VOICE AND DATA SERVICES WITH HIGH-SPEED TRANSPORT FOR BANDWIDTH-INTENSIVE SERVICES.”

put resources closer to the customer, connect operating personnel to senior management, and solidify our commitment to the communities we serve. For 65 years, a strong local presence around the country has given Citizens a home field advantage, a benefit that is now our critical competitive asset.

Growth fueled by acquisitions gives us more customers to whom we can sell more products. An aggressive, fiscally responsible acquisition strategy is an important part of Citizens' growth plan. In 1999 alone we agreed to acquire nearly 1 million additional telephone access lines from GTE and U S WEST. After these lines are integrated into our systems, Citizens will serve nearly 2 million communications customers. Citizens is already the 10th largest telephone company in the United States. Even greater size will provide us with the scale to be more efficient, cost effective and profitable. Our second million access lines will make possible profit margins higher than could be achieved with only 1 million access lines.

Our digital networks will allow us to provide customers with a product mix that includes local and long-distance voice and data services with high-speed transport for bandwidth-intensive services. Staying connected to our customers' increasingly sophisticated communications needs is key to both customer retention and new revenue generation. Combining our telecommunications customer base and Electric Lightwave's backbone network gives us a powerful tool that can satisfy the needs of the most demanding business and residential customers.



CITIZENS COMMUNICATIONS' AND ELECTRIC LIGHTWAVE'S (ELI) COMBINED NETWORKS PROVIDE OUR CUSTOMERS WITH POWERFUL INFORMATION PIPELINES SERVING THE ENTIRE NATION. THIS MAP SHOWS THE INTEGRATION OF CITIZENS' SWITCHED COMMUNICATIONS NETWORK WITH ITS LOCAL EXCHANGE OPERATIONS (YELLOW AREAS) AND THE FIBER-OPTIC FACILITIES OF ELI, INCLUDING ITS DATA BROADBAND NETWORK (ORANGE LINES). ELI'S LONG-HAUL FIBER-OPTIC ROUTES SPAN 2,200 MILES AND INCLUDE ONE OF THE LARGEST RINGED OC-192 SYNCHRONOUS OPTICAL NETWORKS (SONET) IN THE UNITED STATES (SOLID RED LINE). WHEN COMPLETED LATER THIS YEAR, THE SALT LAKE CITY TO DENVER AND DALLAS SEGMENTS (BROKEN RED LINE) WILL ALLOW US TO MOVE CUSTOMER TRAFFIC NOW CARRIED OVER THE LINES OF OTHER CARRIERS TO OUR OWN SEGMENTS OF THE SONET RING, LOWERING COSTS, INCREASING SERVICE QUALITY AND IMPROVING PROVISIONING TIME. THE COMBINED CITIZENS COMMUNICATIONS/ELI NETWORK PERMITS US TO TRANSMIT BROADBAND VOICE, VIDEO AND DATA TRANSMISSION SERVICES LOCALLY, REGIONALLY AND NATIONALLY.

More and more, our customers — like everyone else in the world — are regularly accessing the vast resources of the Internet. Citizens Capital Ventures is a new company we have created to invest in Internet and e-commerce ventures that are synergistic with the systems and content sides of our business. We must become more than a basic transporter of information. Citizens Capital Ventures is already exploring opportunities to build and support total communications solutions, and its successes will benefit Citizens' customers, shareholders and employees.

The credo for the new Citizens is based on a few simple principles: Adherence to a clearly communicated and shared vision; common, measurable objectives; absolute dedication to customer satisfaction; accountability and authority for employees; disdain for bureaucratic behavior; and compensation tied to achievement. If we steadfastly adhere to these basics, we will enjoy success beyond our imagination.

A handwritten signature in black ink, appearing to read "Rudy J. Graf". The signature is fluid and cursive, with a large loop at the end of the last name.

RUDY J. GRAF
President and Chief Operating Officer

March 24, 2000

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LEADERSHIP FORM 10-K

SELECTED FINANCIAL INFORMATION

SHAREHOLDER INFORMATION PROFILE MISSION AND VALUES

shareholder and corporate information

BOARD OF DIRECTORS

Norman I. Botwinik ^{3,4,5}

*Director Emeritus of the Board of Governors
University of New Haven
New Haven, CT
Director since 1968*

Aaron I. Fleischman ^{1,4}

*Senior Partner, Fleischman and Walsh, LLP
Washington, DC
Director since 1989*

Stanley Harfenist ^{1,3,4,6}

*Former President and Chief Executive Officer
Adesso, Inc.
Santa Barbara, CA
Director since 1992*

Andrew N. Heine ²

*Attorney
Mount Kisco, NY
Director since 1975*

John L. Schroeder ^{2,5}

*Director, Morgan Stanley Dean Witter Funds
New York, NY
Director since 1980*

Robert D. Siff ^{2,6}

*Former Executive Vice President
Chittenden Bank
Concord, NH
Director since 1989*

Robert A. Stanger ^{1,2,3}

*Chairman, Robert A. Stanger & Co., Inc.
Shrewsbury, NJ
Director since 1992*

Charles H. Symington, Jr. ^{2,3,5}

*Director, NASDAQ Stock Market
Education Foundation
Spring Island, SC
Director since 1995*

Edwin Tornberg ^{3,5}

*President, Edwin Tornberg & Co., Inc.
Potomac, MD
Director since 1992*

Claire Tow ^{5,6}

*President, Tow Foundation
Stamford, CT
Director since 1993*

Leonard Tow ¹

*Chairman and Chief Executive Officer
Stamford, CT
Director since 1989*

¹ Executive Committee

² Audit Committee

³ Compensation Committee

⁴ Nominating Committee

⁵ Retirement Committee

⁶ Management Oversight Committee

OFFICERS

Leonard Tow

Chairman and Chief Executive Officer

Rudy J. Graf

President and Chief Operating Officer

Scott N. Schneider

*Executive Vice President
President, Citizens Capital Ventures*

John H. Casey, III

*Vice President and
Chief Operating Officer,
Citizens Communications*

David B. Sharkey

*Vice President
President and Chief Operating Officer,
Electric Lightwave, Inc.*

J. Michael Love

*Vice President
President, Citizens Public Services*

Michael G. Harris

*Vice President, Engineering and
New Technology*

Robert E. Braden

Vice President, Business Development

Steven D. Ward

Vice President, Information Technology

John P. Wolff

Vice President, Sales and Marketing

Robert J. DeSantis

Chief Financial Officer and Vice President

Edward O. Kipperman

Vice President and Treasurer

Livingston E. Ross

Vice President and Chief Accounting Officer

Kenneth L. Cohen

Vice President and Controller

Laura L. DiPreta

*Assistant Vice President and
Assistant Controller*

Kenneth C. Dering

*Assistant Treasurer and
Assistant Vice President*

Frank E. Plumley

Assistant Vice President

L. Russell Mitten, II

Vice President and General Counsel

F. Wayne Lafferty

Vice President, Regulatory Affairs

Alan H. Oshiki

Assistant Vice President, Investor Relations

Brigid M. Smith

*Assistant Vice President, Corporate
Communications*

Charles J. Weiss

Secretary and Assistant Vice President

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1999

Commission file number 001-11001

OR

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

CITIZENS UTILITIES COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

06-0619596

(I.R.S. Employer Identification No.)

3 High Ridge Park

P.O. Box 3801

Stamford, Connecticut 06905

(Address, zip code of principal executive offices)

Registrant's telephone number, including area code: (203) 614-5600

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.25 per share

Guarantee of Convertible Preferred Securities of Citizens Utilities Trust

Citizens Convertible Debentures

Guarantee of Partnership Preferred Securities of Citizens Utilities Capital L.P.

(Title of each class)

New York Stock Exchange

New York Stock Exchange

N/A

N/A

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 29, 2000 was \$3,895,575,671.

The number of shares outstanding of the registrant's Common Stock as of February 29, 2000 was 262,924,506.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the registrant's 2000 Annual Meeting of Stockholders to be held on May 18, 2000 is incorporated by reference into Part III of this Form 10-K.

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Part I

ITEM 1. Description of Business

This annual report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ materially from those expressed or implied in the statements. Further discussion regarding forward-looking statements, including the factors which may cause actual results to differ from such statements, is located in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

(a) General Development of Business

The "Company" includes Citizens Utilities Company and its subsidiaries except where the context or statement indicates otherwise. The Company provides, through subsidiaries, communications services primarily to rural and suburban customers throughout the United States, and competitive local exchange carrier (CLEC) services to retail business customers and to other communications carriers through its 82% owned subsidiary, Electric Lightwave Inc. (ELI).

The Company was incorporated in Delaware in 1935 to acquire the assets and business of a predecessor public utility corporation. Since then, the Company has grown as a result of investment in owned operations and from numerous acquisitions of additional communications and public utility operations.

During 1998, the Company announced its intent to separate its telecommunications and public utility operations into two stand-alone publicly traded companies. This separation was being made in recognition of the different investment features, performance criteria, capital structures, dividend policies, customer requirements and regulatory designs of each business, and would allow each business to pursue its own strategy and compete more effectively in its respective markets. During 1999, opportunities became available to acquire telephone access lines that meet the Company's investment criteria while the private market valuations for public utility operations increased. Accordingly, the Company abandoned its separation strategy and announced its intention to acquire telephone access lines and divest its public utility operations by sale.

The Company continues to expand through internal investment in its telephone and CLEC operations and acquisition of additional communications operations. The Company's new subsidiary, Citizens Capital Ventures will explore opportunities to build and support internet based communications solutions to achieve synergies with the systems and content sides of our business. To enable the strategy, the Company has assembled a management team skilled in wireline, wireless, cable and Internet technology and marketing skills.

Between May and December 1999, the Company announced that it had entered into agreements to purchase approximately 911,000 telephone access lines for \$2.8 billion (See Acquisitions and Investments in section (c) below). In October 1999, the Company announced the sale of its water and wastewater treatment businesses for \$835 million and in February 2000 announced the sale of its electric businesses for \$535 million. The proceeds from these sales, along with the planned sale of the Company's gas businesses, will be used to permanently fund telephone access line purchases. The Company's financial resources and operating performance enable it to make the investments and conduct the operations necessary to serve growing areas and to expand through acquisitions.

(b) Financial Information about Industry Segments

The Company traditionally measured its segments by service (Communications, ELI, Gas, Electric, Water and Wastewater). The Gas, Electric, Water and Wastewater segments have been discontinued and are no longer presented. As the Company becomes solely a telecommunications provider, the measurement of segments will evolve to be more representative of the Company's business activities.

Note 16 of the Notes to Consolidated Financial Statements included herein sets forth financial information about industry segments of the Company for the last three fiscal years.

(c) Narrative Description of Business

COMMUNICATIONS

Through its subsidiaries, collectively known as Citizens Communications, the Company provides both regulated and competitive communications services to residential, business and wholesale customers. Communications services consist of local network services, network access services, long distance services, directory advertising, centrex, custom calling and caller ID services, paging, cellular, Internet access, voice mail and conference calling and cable television services. The Company provides local network services to the following approximate number of access lines in the following states:

<u>State</u>	<u>Local Network Access Lines</u>
New York	330,500
West Virginia	152,200
Arizona	147,900
California	136,500
Tennessee	101,800
Nevada	27,300
Wisconsin	25,700
Utah	22,800
Idaho	21,100
Oregon	14,800
Montana	8,600
New Mexico	6,200
Pennsylvania	1,400
Total	<u>996,800</u>

The Company provides network access services and billing and collections services primarily to AT&T Corporation, MCI WorldCom, Inc. and Sprint Corporation. The Company is also enhancing its network support systems to offer local resale capabilities in its local exchange franchise serving areas to emerging CLECs.

The Company owns a one-third interest and is general managing partner of Mohave Cellular, a cellular limited partnership, currently operating twelve cell sites in Arizona. By year-end 2000 the partnership expects to be operating seven additional sites.

Strategy

The Company's traditional telephone operations and those of ELI will be operated in close conjunction with each other to become a total communications provider of voice, data, text and image services to enable our communities to have 24-hour access to the world, with the Company having the ability to satisfy all of its customer's communications needs. The Company is increasing service levels, product availability and adding customers through customer growth, acquisitions and the planned expanded use of ELI's national broadband network (see ELI discussion). To better serve our expanding customer base, the Company is migrating to a regional operational structure. This will put management and operating resources closer to the customer and solidify commitments to communities served.

Regulatory Environment

Local Exchange Competition

The Telecommunications Act of 1996 (the 1996 Act), which became law in February 1996, is dramatically changing the telecommunications marketplace, including the rural areas served by the Company. The

Federal Communications Commission (FCC) and many state regulatory agencies are conducting extensive rule-making proceedings to implement the Act. New and proposed FCC and state rules have impacted, and will continue to impact, the Company's operations.

The primary thrust of the 1996 Act was to open local telecommunications markets to competition while preserving universal telecommunications service. The 1996 Act and subsequent FCC interconnection decisions established the relationships between Incumbent Local Exchange Carriers (ILECs), such as the Company and Competitive Local Exchange Carriers (CLECs), such as the Company's subsidiary ELI, and the mechanisms for competitive market entry. Though smaller carriers like Citizens, who serve predominantly rural markets, did receive a qualified exemption from some of the technical requirements imposed upon all ILECs for interconnection arrangements, the Company did not receive an exemption from interconnection or local exchange competition in general. The exemption, which is known as the rural telephone company exemption, continues until a bona fide request for interconnection is received from a CLEC, and a state regulatory commission with jurisdiction determines that discontinuance of the exemption is warranted. The state commission must determine that discontinuing the exemption will not adversely impact the availability of universal service in the state nor impose an undue economic hardship on the Company, and that the requested interconnection is technically feasible.

Under the 1996 Act and subsequent FCC rules, a CLEC can compete using one or more of three mechanisms. The first is by construction of its own local exchange facilities, in which case the ILEC's sole obligation is interconnection for purposes of traffic interchange. The second allows CLECs to purchase unbundled network elements (UNEs) at cost from the ILEC and assemble them into local exchange services and/or supplement the facilities it already owns. The third is by resale of the ILEC's retail services purchased at wholesale rates from the ILEC. Since passage of the 1996 Act, Citizens has received over 172 requests for interconnection. Over 50 individual competitors are operating in the Company's markets. These competitors are mainly serving internet service providers and a few large business customers. Some competitors have taken advantage of the ILEC's requirement to pay the CLEC reciprocal compensation for traffic delivered to the CLEC. The explosion of the internet has provided CLECs with an immediate mechanism to build traffic and reciprocal compensation revenues. The Company's rural markets have limited the impact of reciprocal compensation, but additional threats are expected as CLECs begin to move into second and third tier markets. In 1999, the Company paid approximately \$160,000 in reciprocal compensation. However, the Company has signed additional reciprocal compensation agreements and has several pending that will increase reciprocal compensation in 2000. While Citizens Communications is a reciprocal compensation payor, ELI is a reciprocal compensation receiver. The Company expects the impact of reciprocal compensation in the future to be somewhat mitigated by lower interconnection rates and the spread of Digital Subscriber Line (DSL) and other network services that allow customers to obtain a direct link to the internet at a lower cost. These types of non-switch arrangements are not expected to be subject to reciprocal compensation.

After being overturned by the United States Court of Appeals for the Eighth Circuit, the FCC's rules providing guidance to the states on the minimum required UNEs and the pricing of interconnection services were reinstated by the United States Supreme Court (the Court) in 1999. The Court's decision also remanded to the FCC for further consideration the articulation of the minimum required UNEs. Late in 1999, the FCC issued its order on the remand. That order designated almost all of the earlier designated UNEs as a minimum requirement and promulgated several new ones. Of the newly designated UNEs, the one that could have the greatest impact upon the Company is known as line sharing. Line sharing requires the Company to make the necessary arrangements to allow competitive DSL providers to access the data portion of each of the Company's local dial tone lines. What this means is that competitors could provide DSL service to Company's customers without having to also provide voice grade services.

Universal Service Reform

Under the 1996 Act, the FCC was charged with the task of transforming the historical implicit subsidy mechanisms into an explicit arrangement, which would be funded in a nondiscriminatory manner by all telecommunications providers. Historically, ILEC rates for non-basic services were set high to offset below

cost rates for basic services, predominantly local residential services. However, regulatory and legislative mandates combined with competitive pressures dictate that prices for all telecommunications services become more aligned with their cost. In October 1999, the FCC established a new universal service mechanism for non-rural carriers. As a rural carrier, the Company is not subject to the new mechanism, and will continue to receive universal service funds under the current embedded cost based universal service fund. In 2000, the FCC is expected to begin reviewing alternatives for a new universal service program for rural carriers.

Price Cap Reform

Price cap regulation is a form of rate regulation in which the interstate rates of affected ILECs are subject to maximums that are periodically adjusted according to a mechanism contained in the FCC's rules. The mechanism adjusts rates each year by the inflation rate less a productivity factor known as the X-factor. The FCC last set the X-factor at 6.5% effective on July 1, 1996 by the Price Cap Reform Order issued in May 1997. Price cap carriers are allowed to retain all earnings generated by operating at or below the capped rates. In this manner, affected ILECs are rewarded for achieving operating efficiencies. The Company has elected to be subject to price cap regulation.

In 1999 the Court, in a decision that will take effect on April 1, 2000, vacated the FCC's May 1997 Price Cap Reform Order. The Court found that the FCC had not properly supported their calculation of the 6.5% X-factor and then remanded the calculation of the X-factor to the FCC for further consideration and articulation. The FCC is currently reviewing this matter and is expected to issue an order before April 1, 2000 establishing a revised X-factor. The revised factor should become effective on July 1, 2000. It is possible, but unlikely that, the new factor will be retroactively applied to July 1, 1996.

Regional Bell Operating Company Long Distance Entry

Under the 1996 Act the Regional Bell Operating Companies (RBOCs) were precluded from competing in most long distance markets until they satisfied the state regulatory authority with jurisdiction and the FCC that their markets had been sufficiently opened to local exchange competition. In October 1999, the New York Public Service Commission (NYPSC) determined that Bell Atlantic's markets in the state were sufficiently open to local exchange competition, and recommended to the FCC that Bell Atlantic be granted approval to enter all long distance markets in the state. In December 1999, the FCC concurred and allowed Bell Atlantic to begin offering all long distance services to its customers in New York. Since the Company currently offers long distance service in New York, it is possible that the entry of Bell Atlantic into this market could impact the Company's operations. The FCC and other states may take similar actions for other RBOCs and states during 2000.

Competition

As discussed more fully in Regulatory Environment, in each of the Company's markets, there is the potential for competition from several sources including, but not limited to, other ILECs for local network services; CLECs for enhanced data and Internet services; Long distance providers including AT&T Corporation, MCI WorldCom and Sprint Corporation, as well as, other communications businesses who provide an array of other communications services including cable television companies (CATVs), electric utilities, international carriers, satellite carriers, teleports, microwave carriers, wireless telephone system operators and private networks built by large end users. Although the potential for competition exists in many forms, the Company is the dominant ILEC in all of its service territories, and believes itself to be well positioned to manage competitive threats.

ELECTRIC LIGHTWAVE

ELI is a facilities-based integrated communications provider providing a broad range of communications services to businesses. ELI provides the full range of products and services, including switched local and long distance voice services, enhanced data communications services and dedicated point-to-point services, in the western United States. ELI markets in the western United States to retail business customers, who are primarily communications-intensive organizations, and nationally to wholesale customers, who are communications carriers themselves.

ELI currently provides the full range of its services in seven major cities and their surrounding areas, including:

Boise, Idaho
Portland, Oregon
Salt Lake City, Utah
Spokane, Washington

Phoenix, Arizona
Sacramento, California
Seattle, Washington

The major cities include an extensive network of approximately 1,871 route miles of fiber optic cable installed to create a series of Synchronous Optical Network (SONET) rings, which provide a higher degree of stability and dependability. Switched service, including local dial tone, is provided from 8 Nortel DMS 500 switches in the primary major cities. ELI also has transmission equipment colocated with switches of the ILEC at 55 locations.

ELI has broadband data points of presence in its major cities as well as other strategic cities across the United States, including:

Atlanta, Georgia
Chicago, Illinois
Dallas, Texas
Houston, Texas
Los Angeles, California
Philadelphia, Pennsylvania
San Francisco, California

Austin, Texas
Cleveland, Ohio
Denver, Colorado
Las Vegas, Nevada
New York, New York
San Diego, California
Washington, D.C.

ELI has developed an Internet backbone network with 42 routers providing Internet connectivity in each of its markets, including presence at all major network access points and over 125 "peering arrangements" with other Internet backbone service providers. A peering arrangement is an agreement where Internet backbone service providers agree to allow each other direct access to Internet data contained on their networks. In addition, ELI's broadband network consists of 32 frame relay switches, 23 Asynchronous Transfer Mode (ATM) switches and 77 network-to-network interfaces. National and international coverage is provided through strategic relationships with other communications providers.

ELI owns or leases broadband long-haul fiber optic network connections between its major cities in the west and its strategic markets across the nation. By carrying traffic on ELI's own facilities, ELI is able to maximize the utilization of its network facilities and minimize network access and certain interconnection costs. As of December 31, 1999, ELI operated long-haul networks with a total route mileage of 2,181 miles, including routes between Phoenix and Las Vegas; Portland and Seattle; Portland and Spokane; Portland and Eugene; Portland and Boise and Boise and Salt Lake City. During 1998, ELI began construction of what it believes will be the largest ringed SONET in the western United States. The approximately 3,200 mile self-healing ring is expected to be completed in 2000 and will connect Portland, Sacramento, San Francisco, Los Angeles, Las Vegas, Salt Lake City and Boise and will include Dense Wave Division Multiplexing (DWDM) equipment. DWDM is a technique for transmitting 16 or more different light-wave frequencies on a single fiber to increase transmission capacity.

In the development of ELI's long-haul facilities, ELI has formed strategic relationships with utility companies that enable ELI to (i) utilize existing rights-of-way and fiber optic facilities, (ii) leverage their construction expertise and local permitting experience and (iii) minimize capital requirements in order for ELI to extend its network infrastructure more quickly and economically. In addition to the long-haul agreements, another agreement provides for a fiber optic network in the Phoenix, Arizona metropolitan area.

ELI entered into a fiber-swap agreement during 1999 which exchanges unused fiber on its network for unused fiber on another carrier's network. This exchange will provide ELI with a fiber route from Salt Lake City to Denver and continuing on to Dallas. ELI anticipates incorporating the other carrier's fiber into its network during 2000.

US West Communications, Inc. (US West) accounted for approximately 19% of ELI's revenue in 1999. The revenue from US West consisted primarily of reciprocal compensation relating to the transport and termination of traffic between US West's network and ELI's network and an 18 month take-or-pay agreement.

The following table represents certain operating information relating to ELI:

	1999	1998	1997
Route miles*	4,052	3,091	2,494
Fiber miles*	214,864	181,368	140,812
Buildings connected	824	766	610
Access line equivalents	161,555	74,924	34,328
Switches and routers installed:			
Voice	8	7	5
Frame Relay	32	23	20
Internet	42	24	17
ATM	23	14	8
Customers	2,371	1,644	1,165

* Route miles and fiber miles also include those to which ELI has exclusive use pursuant to license and lease arrangements.

Strategy

While ELI expects additional network growth in 2000, especially with the completion of its long-haul routes, the primary focus in the next year is targeted at increasing the use of its installed asset base. ELI expects a substantial portion of its growth to come from increased penetration of existing on-net buildings, a focus on sales to customers that are connected to the network and an increase in market share in ELI's seven major cities and surrounding areas. ELI anticipates a higher volume of sales to other carriers with the completion of its long-haul routes.

Regulatory Environment

As a common carrier, ELI is subject to federal, state and local regulation. The FCC exercises jurisdiction over all interstate communications services. State commissions retain jurisdiction over all intrastate communications services. Local governments may require ELI to obtain licenses or franchises regulating the use of public rights-of-way necessary to install and operate its networks.

Telecommunications Act of 1996

With the passage of the Telecommunications Act of 1996, the increase in customer demand for enhanced broadband data services and the development of competitive public data and voice networks, ELI has substantially expanded the breadth of its product offering and its geographic reach in the last five years. This includes expanding the number of local fiber networks from two to seven cities in the west and development of the data and Internet network across the U.S. (See additional information related to Telecommunications Act of 1996 in Communications section above).

ELI has various interconnection agreements in the states in which it operates. These agreements govern reciprocal compensation relating to the transport and termination of traffic between the ILEC's and ELI's networks. On February 25, 1999, the FCC issued a Declaratory Ruling and Notice of Proposed Rulemaking that categorized calls terminated to Internet Service Providers (ISPs) as "largely" interstate in nature, which could have the effect of precluding these calls from reciprocal compensation charges. However, the ruling stated that ILECs are bound by the existing interconnection agreements and the state decisions that have

defined them. The FCC gave the states authority to interpret existing interconnection agreements. Since the FCC order, Oregon, Washington, California and Arizona have ruled that calls terminated to ISPs should be included in the calculation to determine reciprocal compensation.

State Regulation

Most state public utilities commissions require communications providers, such as ELI, to obtain operating authority prior to initiating intrastate services. Most states also require the filing of tariffs or price lists and/or customer-specific contracts. In the states in which ELI currently operates, ELI is not subject to rate-of-return or price regulation. ELI is subject, however, to state-specific quality of service, universal service, periodic reporting and other regulatory requirements, although the extent of such requirements is generally less than that applicable to ILECs.

Competition

ILEC Competition

ELI faces significant competition from the ILECs in each of its facilities-based markets. The ILECs currently dominate the local exchange market and are a de facto monopoly provider of local switched voice services. Primary ILEC competitors are US West, PacBell and GTE Corp. (GTE). ILECs have long-standing relationships with their customers and have financial and technical resources substantially greater than those available to ELI.

CLEC Competition

Facility-based operational CLEC competitors in ELI's markets include, among others: AT&T Local Services, GST Telecommunications, MCI WorldCom, Inc. and NEXTLINK Communications. In each of the markets in which ELI operates, at least one other CLEC, and in some cases several other CLECs, offer many of the same local communications services, generally at similar prices.

Competition From Others

Potential and actual new market entrants in the local communications services business include RBOCs entering new geographic markets, Inter Exchange Carriers (IXCs), CATVs, electric utilities, international carriers, satellite carriers, teleports, microwave carriers, wireless telephone system operators and private networks built by large end users. In addition, the current trend of business combinations and alliances in the communications industry, including mergers between RBOCs, may increase competition for ELI. With the passage of the 1996 Act and the entry of RBOCs into the long distance market, IXCs may be motivated to construct their own local facilities or otherwise acquire the right to use local facilities and/or resell the local services of ELI's competitors.

Network Services

Competition for network services is based on price, quality, network reliability, customer service, service features and responsiveness to the customer's needs. ELI's fiber optic networks provide both diverse access routing and redundant electronics, which affords ELI a competitive advantage.

High-Speed Data Service

Competitors for high-speed data services include major IXCs, other CLECs and various providers of niche services (e.g., Internet access providers, router management services and systems integrators). The interconnectivity of ELI's markets may create additional competitive advantages over other data service providers that must obtain local access from the ILEC or another CLEC in each market or that cannot obtain intercity transport rates on terms as favorable as those available to ELI.

Internet Services

The market for Internet access and related services in the United States is extremely competitive, with barriers to entry related to capital costs, bandwidth capacity and internal provisioning and operations processes. Competition is expected to intensify as existing services and network providers and new entrants compete for customers. In addition, new enhanced Internet services such as managed router service and web

hosting are constantly under development in the market, and additional innovation in this market is expected by a range of competitors. ELI's current and future competitors include communications companies, including the RBOCs, IXCs, CLECs and CATVs, and other Internet access providers.

ACQUISITIONS AND INVESTMENTS

In January 1999, Centennial Cellular Corp. was merged into a corporation created by Welsh, Carson, Anderson & Stowe. The Company received approximately \$205,600,000 in cash for all its Common Stock interests and approximately \$17,500,000 related to accrued dividends on the preferred stock.

On May 27, September 21 and December 16, 1999, the Company announced that it had entered into definitive agreements with GTE to purchase approximately 366,000 (as of December 31, 1999) access lines located in Arizona, California, Illinois, Minnesota and Nebraska. The aggregate purchase price is expected to be approximately \$1,171,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis and will begin closing in the third quarter 2000.

On June 16, 1999, the Company announced that it had entered into definitive agreements with US West providing for the purchase of approximately 545,000 (as of December 31, 1999) telephone access lines located in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately \$1,650,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis and will begin closing in the third quarter 2000.

In October 1999, Century Communications Corporation (Century) was merged into Adelphia Communication Corporation (Adelphia). The Company received approximately \$213,000,000 of proceeds, including approximately \$39,000,000 in cash and \$174,000,000 in shares of Adelphia Class A Common Stock, for the Company's interest in Century and for the Company's interest in a cable joint venture with Century.

GENERAL

Order backlog is not a significant consideration in the Company's businesses and the Company has no contracts or subcontracts which may be subject to renegotiation of profits or termination at the election of the Federal government. The Company holds franchises from local governmental bodies which are of varying duration. The Company also holds Certificates granted by various state commissions which are generally of indefinite duration. The Company has no special working capital practices, and the Company's research and development activities are not material. The Company holds no patents, trademarks, licenses or concessions that are material.

The Company had approximately 6,700 employees, of which 4,900 were associated with continuing operations and 1,800 were associated with discontinued operations, at December 31, 1999.

(d) Financial Information about Foreign and Domestic Operations and Export Sales

In 1995, the Company made an initial investment in and entered into definitive agreements with Hungarian Telephone and Cable Corp. (HTCC). The investment in HTCC had declined in value during 1998 and in the fourth quarter of 1998 management determined that the decline was other than temporary. As a result, the Company recognized a loss of \$31,900,000 in the HTCC investment in Other income (loss), net in the 1998 statements of income and comprehensive income.

In May 1999, in connection with HTCC's debt restructuring, the Company cancelled a note obligation from HTCC to the Company and a seven-year consulting services agreement in exchange for the issuance by HTCC to the Company of 1,300,000 shares of HTCC Common Stock and 30,000 shares of HTCC's 5% convertible preferred stock. Each share of HTCC convertible preferred stock has a liquidation value of \$70 and is convertible at the option of the Company into 10 shares of HTCC Common Stock. To the extent the 1,300,000 HTCC common shares and the 300,000 HTCC common shares underlying the HTCC

convertible preferred stock do not achieve an average market closing price of at least \$7 per share for the twenty trading days ending March 31, 2000, HTCC has agreed to issue additional HTCC convertible preferred shares with a value equal to any such shortfall. As of March 15, 2000, the stock was trading at \$8¹³/₁₆ per share.

At December 31, 1999, the Company owns approximately 19% of the HTCC shares presently outstanding. The Company's investment in HTCC is classified as an available for sale security and accounted for using the cost method of accounting. Additionally, the Company has exercised its right to nominate one member of the Board of Directors of HTCC.

ITEM 2. Description of Property

The Administrative Office of the Company is located at 3 High Ridge Park, Stamford, CT 06905 and is leased. The operations support office for Citizens Communications relocated from a leased facility in Dallas, Texas in November 1999 to a new 250,000 square foot owned facility located in Legacy Park at 5600 Headquarters Drive, Plano, TX 75024. The new facility accommodates approximately 1,100 employees and has the acreage necessary for phased expansion up to 750,000 square feet. Citizens Communications is expanding its Call Center operations to meet the needs arising from the integration of access lines being purchased from US West and GTE. New leased call center facilities are currently under construction in Elk Grove, CA and Gloversville, NY. Also under renovation is an 81,700 square foot facility that was purchased in Kingman, AZ for call center expansion. The Company is evaluating an additional call center facility in the Midwest region of the country.

The operations support office for ELI is located at 4400 NE 77th Avenue, Vancouver, WA 98662 in an approximately 98,000 square foot office building which is owned. This building is fully utilized, and ELI leases an additional 93,000 square feet of office space in Vancouver. In addition, ELI has leased local office space in various markets throughout the United States, and also maintains a warehouse facility in Portland, Oregon. ELI leases network hub and network equipment installation sites in various locations throughout the areas in which ELI provides services. The office, warehouse and other facilities leases expire on various dates through October 2008.

Citizens Communications and ELI own property including: telecommunications outside plant, central office, fiber-optic and microwave radio facilities. (See description of business for listing of locations).

ITEM 3. Legal Proceedings

In November 1995, the Company's Vermont electric division was permitted an 8.5% rate increase. Subsequently, the Vermont Public Service Board (VPSB) called into question the level of rates awarded the Company in connection with its formal review of allegations made by the Department of Public Service (the DPS), the consumer advocate in Vermont and a former Citizens employee. The major issues in this proceeding involved classification of certain costs to property, plant and equipment accounts and the Company's Demand Side Management program. In addition, the DPS believed that the Company should have sought and received regulatory approvals prior to construction of certain facilities in prior years. On June 16, 1997, the VPSB ordered the Company to reduce its rates for Vermont electric service by 14.65% retroactive to November 1, 1995 and to refund to customers, with interest, all amounts collected since that time in excess of the rates authorized by the VPSB. In addition, the VPSB assessed statutory penalties totaling \$60,000 and placed the Company on regulatory probation for a period of at least five years. During this probationary period, the Company could lose its franchise to operate in Vermont if it violates the terms of probation prescribed by the VPSB. The VPSB prescribed final terms of probation in its final order issued September 15, 1998. In October 1998, the Company filed an appeal in the Vermont Supreme Court challenging certain of the penalties imposed by the VPSB. The appeal has been fully briefed and argued and the Company is awaiting the Court's decision.

In August 1997, a lawsuit was filed in the United States District Court for the District of Connecticut (Leventhal vs. Tow, et al.) against the Company and five of its officers, one of whom is also a director, on behalf of all persons who purchased or otherwise acquired Series A and Series B shares of Common Stock of

the Company between September 5, 1996 and July 11, 1997, inclusive. On February 9, 1998, the plaintiffs filed an amended complaint. The complaint alleged that Citizens and the individual defendants, during such period, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based upon certain public statements made by the Company, which are alleged to be materially false or misleading, or are alleged to have failed to disclose information necessary to make the statements made not false or misleading. The plaintiffs sought to recover unspecified compensatory damages. The Company and the individual defendants believed the allegations are unfounded and filed a motion to dismiss on March 27, 1998 and on March 30, 1999 the Court dismissed the action. On April 29, 1999 the plaintiffs filed a notice of appeal with the Court of Appeals for the Second Circuit. The parties have entered into a settlement stipulation which is subject to the District Court's approval.

In March 1998, a lawsuit was filed in the United States District Court for the District of Connecticut (Ganino vs. Citizens Utilities Company, et al.), against the Company and three of its officers, one of whom is also a director, on behalf of all purchasers of the Company's Common Stock between May 6, 1996 and August 7, 1997, inclusive. The complaint alleges that the Company and the individual defendants, during such period, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by making materially false and misleading public statements concerning the Company's relationship with a purported affiliate, Hungarian Telephone and Cable Corp. (HTCC), and by failing to disclose material information necessary to render prior statements not misleading. The plaintiff seeks to recover unspecified compensatory damages. The Company and the individual defendants believe that the allegations are unfounded and filed a motion to dismiss. The plaintiff requested leave to file an amended complaint and an amended complaint was served on the Company on July 24, 1998. The Company's motion to dismiss the amended complaint was filed on October 13, 1998 and the Court dismissed the action with prejudice on June 28, 1999. The Plaintiffs filed a notice of appeal with the Court of Appeals for the Second Circuit, briefing has been completed and oral argument has been scheduled for April 10, 2000.

In November 1998, a class action lawsuit was filed in state District Court for Jefferson Parish, Louisiana, against the Company and three of its subsidiaries: LGS Natural Gas Company, LGS Intrastate, Inc. and Louisiana General Service Company. The lawsuit alleges that the Company and the other named defendants passed through in rates charged to Louisiana customers certain costs that plaintiffs contend were unlawful. The lawsuit seeks compensatory damages in the amount of the alleged overcharges and punitive damages equal to three times the amount of any compensatory damages, as allowed under Louisiana law. In addition, the Louisiana Public Service Commission has opened an investigation into the allegations raised in the lawsuit. The Company and its subsidiaries believe that the allegations made in the lawsuit are unfounded and the Company will vigorously defend its interests in both the lawsuit and the related Commission investigation.

In addition, the Company is party to various other legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters, including those discussed above, after considering insurance coverages, will not have a material adverse effect on the Company's financial position, results of operations, or its cash flows.

ITEM 4. **Submission of Matters to Vote of Security Holders**
None in fourth quarter 1999.

Executive Officers

Information as to Executive Officers of the Company as of March 1, 2000 follows:

<u>Name</u>	<u>Age</u>	<u>Current Position and Office</u>
Leonard Tow	71	Chairman of the Board and Chief Executive Officer
Rudy J. Graf	50	President and Chief Operating Officer
Robert Braden	54	Vice President, Business Development
John H. Casey, III	43	Vice President and Chief Operating Officer, Communications Sector
Robert J. DeSantis	44	Vice President and Chief Financial Officer
Michael G. Harris	53	Vice President, Engineering and New Technology
F. Wayne Lafferty	39	Vice President, Regulatory Affairs
J. Michael Love	48	Vice President and President, Citizens Public Services Sector
L. Russell Mitten	48	Vice President, General Counsel and Assistant Secretary
Livingston E. Ross	51	Vice President and Chief Accounting Officer
Scott N. Schneider	42	Executive Vice President and President, Citizens Capital Ventures
David B. Sharkey	50	Vice President and Chief Operating Officer, Electric Lightwave Sector
Steven D. Ward	33	Vice President, Information Technology

There is no family relationship between any of the officers of the Registrant. The term of office of each of the foregoing officers of the Registrant will continue until the next annual meeting of the Board of Directors and until a successor has been elected and qualified.

LEONARD TOW has been associated with the Registrant since April 1989 as a Director. In June 1990, he was elected Chairman of the Board and Chief Executive Officer. He was also Chief Financial Officer from October 1991 through November 1997. He was a Director and Chief Executive Officer of Century Communications Corp. from its incorporation in 1973 and Chairman of its Board of Directors from October 1989 until October 1999. He is Director of Hungarian Telephone and Cable Corp., Chairman of the Board of Electric Lightwave, Inc. and is a Director of the United States Telephone Association.

RUDY J. GRAF has been associated with the Registrant since September 1999. He is currently President and Chief Operating Officer of the Registrant. He is also Director and Chief Executive Officer of Electric Lightwave, Inc. Prior to joining the Registrant, he was Director, President and Chief Operating Officer of Centennial Cellular Corp. and Chief Executive Officer of Centennial DE Puerto Rico from November 1990 to August 1999.

ROBERT BRADEN has been associated with the Registrant since November 1999. He was elected as Vice President, Business Development in February 2000. Prior to joining the Registrant, he was Vice President, Business Development at Century Communications Corp. from January 1999 to October 1999. He was Senior Vice President, Business Development at Centennial Cellular Corp. from June 1996 to January 1999 and held other officer positions with Centennial since November 1993.

JOHN H. CASEY, III has been associated with the Registrant since November 1999. He is currently Vice President of the Company and Chief Operating Officer of the Communications Sector. Prior to joining the Registrant, he was Vice President, Operations from January 1995 to January 1997 and then Senior Vice President, Administration of Centennial Cellular until November 1999.

ROBERT J. DESANTIS has been associated with the Registrant since January 1986. He was Vice President and Treasurer since October 1991, and Vice President and Chief Financial Officer since November 1997. He is currently Chief Financial Officer, Vice President and Treasurer of Electric Lightwave, Inc.

MICHAEL G. HARRIS has been associated with the Registrant since December 1999. He is currently Vice President, Engineering and New Technology. Prior to joining the Registrant, he was Senior Vice President, Engineering of Centennial Cellular from August 1991 to December 1999. He was also Senior Vice President, Engineering of Century Communications Corp. from June 1991 to October 1999.

F. WAYNE LAFFERTY has been associated with the Registrant since 1994. He was elected Vice President, Regulatory Affairs in February 2000. Prior to that date, he served as Vice President of the Communications subsidiaries since January 1998. Since 1995, he has held senior positions overseeing regulatory affairs of the Communications subsidiaries of the Registrant.

J. MICHAEL LOVE has been associated with the Registrant since May 1990 and from November 1984 through January 1988. He was Vice President, Corporate Planning from March 1991 through January 1997. He was appointed Vice President, Public Services in January 1997. In January 1999, he was also appointed President, Citizens Public Services Sector.

L. RUSSELL MITTEN has been associated with the Registrant since June 1990. He was General Counsel until June 1991. He has been Vice President, General Counsel and Assistant Secretary since June 1991.

LIVINGSTON E. ROSS has been associated with the Registrant since August 1977. He was Vice President and Controller from December 1991 through December 1999. He is currently Vice President and Chief Accounting Officer.

SCOTT N. SCHNEIDER has been associated with the Registrant since October 1999. He is currently Executive Vice President and President, Citizens Capital Ventures, a wholly owned subsidiary of Citizens. He has been a Director of Electric Lightwave, Inc. since December 1999. Prior to joining the Registrant, he was Director (from October 1994 to October 1999), Chief Financial Officer (from December 1996 to October 1999), Senior Vice President and Treasurer (from June 1991 to October 1999) of Century Communications Corp. He also served as Director, Chief Financial Officer, Senior Vice President and Treasurer of Centennial Cellular from August 1991 to October 1999.

DAVID B. SHARKEY has been associated with the Registrant since August 1994 as President of Electric Lightwave, Inc. He has been President and Chief Operating Officer of Electric Lightwave, Inc. since October 1997 and is Director of Electric Lightwave, Inc. Additionally, he has been Vice President and Chief Operating Officer, Electric Lightwave Sector of the Registrant since February 2000. Prior to joining Electric Lightwave, Inc., he was Vice President and General Manager of Metromedia Paging, a wireless company headquartered in New Jersey, from August 1989 through July 1994.

STEVEN D. WARD has been associated with the Registrant since January 2000 and was elected Vice President, Information Technology in February 2000. Prior to joining the Registrant, he was Vice President, Information Systems for Century Communications Corp. from June 1996 to December 1999 and Director, Information Services from March 1991 to June 1996.

Part II

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Price Range of Common Stock

The Company's Common Stock is traded on the New York Stock Exchange under the symbol CZN. The following table indicates the high and low prices per share as taken from the daily quotations published in "The Wall Street Journal" during the periods indicated. Prior year prices have been adjusted for stock dividends declared through December 31, 1998, rounded to the nearest $\frac{1}{16}$ th. (See Note 9 of Notes to Consolidated Financial Statements.)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1999:								
CZN	\$ 8 $\frac{1}{2}$	\$7 $\frac{1}{4}$	\$11 $\frac{1}{2}$	\$7 $\frac{11}{16}$	\$12 $\frac{7}{16}$	\$10 $\frac{7}{8}$	\$14 $\frac{5}{16}$	\$10 $\frac{15}{16}$
1998:								
CZN	\$10 $\frac{7}{8}$	\$8 $\frac{7}{8}$	\$11 $\frac{3}{16}$	\$9 $\frac{1}{2}$	\$10	\$ 6 $\frac{7}{8}$	\$ 9 $\frac{1}{16}$	\$ 7 $\frac{1}{4}$

As of February 29, 2000, the approximate number of record security holders of the Company's Common Stock was 41,020. This information was obtained from the Company's transfer agent.

Dividends

The amount and timing of dividends payable on Common Stock are within the sole discretion of the Company's Board of Directors. The Board of Directors had undertaken an extensive review of the Company's dividend policy in conjunction with its strategic plans to become a telecommunications company. Resulting from this review, the Board concluded that the Company discontinue dividends after the payment of the December 1998 stock dividend. Quarterly stock dividends declared and issued on Common Stock were .75% for each quarter of 1998.

Recent Sales of Unregistered Securities, Use of Proceeds from Registered Securities

None

ITEM 6. Selected Financial Data (\$ in thousands, except for per-share amounts)

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Revenues (1)	\$ 1,087,428	\$ 932,858	\$ 860,332	\$ 786,307	\$ 616,747
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	\$ 117,127	\$ 22,866	\$ (3,923)	\$ 150,300	\$ 117,501
Basic income (loss) per-share of Common Stock before discontinued operations and cumulative effect of change in accounting principle (2)	\$.45	\$.09	\$ (.02)	\$.58	\$.47
Net income	\$ 144,486	\$ 57,060	\$ 10,100	\$ 178,660	\$ 159,536
Basic net income per common share (2)	\$.55	\$.22	\$.04	\$.68	\$.64
Stock dividends declared on Common Stock (3)	—	3.03%	5.30%	6.56%	6.35%

	As of December 31,				
	1999	1998	1997	1996	1995
Total assets	\$5,771,745	\$5,292,932	\$4,872,852	\$4,523,148	\$3,918,187
Long-term debt	\$2,107,460	\$1,775,338	\$1,583,902	\$1,409,512	\$1,095,211
Equity (4)	\$2,121,185	\$1,994,021	\$1,880,461	\$1,879,433	\$1,559,913

- (1) Represents revenues from continuing operations.
- (2) 1997, 1996 and 1995 are adjusted for subsequent stock dividends.
- (3) Compounded annual rate of quarterly stock dividends.
- (4) Includes Company Obligated Mandatorily Redeemable Convertible Preferred Securities.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This annual report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ materially from those expressed or implied in the statements. All forward-looking statements (including oral representations) are only predictions or statements of current plans, which are constantly under review by the Company. All forward-looking statements may differ from actual future results due to, but not limited to, changes in the economy of the Company's markets, the nature and pace of technological changes, the number and effectiveness of competitors in the Company's markets, changes in legal and regulatory policy, success in overall strategy, the Company's ability to identify future markets and successfully expand existing ones, the mix of products and services offered in the Company's target markets, remaining Y2K issues, the effects of acquisitions and dispositions and the ability to effectively integrate businesses acquired. Readers should consider these important factors in evaluating any statement in this Form 10-K or otherwise made by the Company or on its behalf. The following information should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included in this report. The Company has no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

(a) Liquidity and Capital Resources

The Company considers its operating cash flows and its ability to raise debt and equity capital as the principal indicators of its liquidity. For the twelve months ended December 31, 1999, the Company used cash flow from operations and proceeds from net financings and advances from parties desiring utility services to fund capital expenditures. Funds requisitioned from the Industrial Development Revenue Bond construction fund trust accounts were used to partially fund the construction of utility plant.

In October 1999, the Company arranged for a committed \$3,000,000,000 revolving bank credit facility. This credit facility is in addition to credit commitments under which the Company may borrow up to \$400,000,000. There were no amounts outstanding under these commitments at December 31, 1999. ELI has committed revolving lines of credit with commercial banks under which it may borrow up to \$400,000,000. The Company has guaranteed all of ELI's obligations under these revolving lines of credit. As of December 31, 1999, \$260,000,000 was outstanding under ELI's revolving lines of credit.

In April 1999, ELI completed an offering of \$325,000,000 of five-year senior unsecured notes. The notes have an interest rate of 6.05% and mature on May 15, 2004. The Company has guaranteed the payment of principal and any premium and interest on the notes when due.

Net capital expenditures, by sector, have been and are budgeted as follows:

	Budget 2000	Actual		
		1999	1998	1997
		(\$ in thousands)		
Communications (1)	\$396,800	\$227,200	\$201,400	\$263,000
ELI (2)	200,000	245,700	200,000	124,500
General	3,000	6,700	25,100	33,300
	\$599,800	\$479,600	\$426,500	\$420,800
Discontinued operations (3)	\$169,900	\$135,800	\$ 95,500	\$103,700
	<u>\$769,700</u>	<u>\$615,400</u>	<u>\$522,000</u>	<u>\$524,500</u>

(1) Includes approximately \$30,500,000 and \$7,700,000 in 1999 and 1998, respectively, for the construction of an operations support office. Includes \$176,000,000 in 2000 for the properties to be acquired from GTE and US West.

(2) Includes approximately \$38,000,000 and \$60,000,000 in 2000 and 1999, respectively, of non-cash capital lease additions.

(3) The 2000 budget assumes full year ownership of discontinued operations and includes approximately \$41,900,000 for a special water pipeline project.

The Company anticipates that the funds necessary for its 2000 capital expenditures will be provided from operations; from advances of Rural Utilities Service loan contracts; from commercial paper notes payable; from debt, equity and other financing at appropriate times and from short-term borrowings under bank credit facilities. Until disposed, the Company's discontinued operations capital expenditures will also be funded through requisitions of Industrial Development Revenue Bond construction fund trust accounts and from parties desiring utility service. Upon disposition, the Company will receive reimbursement of certain 1999 actual and all 2000 budgeted water and wastewater and electric sector capital expenditures pursuant to the terms of the respective sales agreements for these businesses.

Acquisitions

On May 27, September 21, and December 16, 1999, the Company announced that it had entered into definitive agreements to purchase from GTE Corp. (GTE) approximately 366,000 telephone access lines (as of December 31, 1999) in Arizona, California, Illinois, Minnesota and Nebraska for approximately \$1,171,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis and will begin closing in the third quarter 2000.

On June 16, 1999, the Company announced that it had entered into definitive agreements to purchase from US West Communications, Inc. (US West) approximately 545,000 telephone access lines (as of December 31, 1999) in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately \$1,650,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis and will begin closing in the third quarter 2000.

The Company expects to temporarily fund these telephone access line purchases with cash and investment balances and proceeds from commercial paper issuances, backed by the committed bank credit facilities. Permanent funding is expected to be from cash and investment balances and the proceeds from the divestiture of the Company's public services businesses.

Divestiture

On August 24, 1999, the Company's Board of Directors approved a plan of divestiture for the Company's public services properties, which include gas, electric and water and wastewater businesses. The proceeds from the sales of the public services properties will be used to fund the telephone access line purchases. The Company has accounted for the planned divestiture of the public services properties as a discontinued operation. Discontinued operations in the consolidated statements of income and comprehensive income reflect the results of operations of the public services properties including allocated interest expense for the periods presented. Interest expense was allocated to the discontinued operations based on the outstanding debt specifically identified with these businesses.

On October 18, 1999, the Company announced that it had agreed to sell its water and wastewater operations to American Water Works, Inc. for an aggregate purchase price of \$835,000,000. The transaction is expected to close in 2000 following regulatory approvals.

On February 15, 2000, the Company announced that it had agreed to sell its electric utility operations. The Arizona and Vermont electric divisions will be sold to Cap Rock Energy Corp. and the Kauai (Hawaii) Electric Division will be sold to Kauai Island Electric Co-op for an aggregate purchase price of \$535,000,000. The transactions are expected to close in 2000 following regulatory approvals.

Sale of Investments

In January 1999, Centennial Cellular Corp. (Centennial) was merged with CCW Acquisition Corp., a company organized at the direction of Welsh, Carson, Anderson & Stowe. The Company was a holder of 1,982,294 shares of Centennial Class B Common Stock. In addition, as a holder of 102,187 shares of Mandatorily Redeemable Convertible Preferred Stock of Centennial, the Company was required to convert the preferred stock into approximately 2,972,000 shares of Class B Common Stock. The Company received approximately \$205,600,000 in cash for all of its Common Stock interests and approximately \$17,500,000 related to accrued dividends on the preferred stock. The Company realized and reported a pre-tax gain of approximately \$69,500,000 in the first quarter 1999 in Investment income.

On October 1, 1999, Adelphia Communication Corp. (Adelphia) was merged with Century Communications Corp. (Century). The Company owned 1,807,095 shares of Century Class A Common Stock. Pursuant to this merger agreement, Century Class A Common shares were exchanged for \$10,832,000 in cash and 1,206,705 shares of Adelphia Class A Common Stock (for a total market value of \$79,600,000 based on Adelphia's October 1, 1999 closing price of \$57.00). The Company realized and reported a pre-tax gain of approximately \$67,600,000 in the fourth quarter of 1999 in Investment income.

A subsidiary of the Company, in a joint venture with a subsidiary of Century, owned and operated four cable television systems in southern California serving over 90,000 basic subscribers. In July 1999, the Company entered into a separate agreement with Adelphia to sell its interest in the joint venture. Pursuant to this agreement on October 1, 1999, the Company received approximately \$27,700,000 in cash and 1,852,302 shares of Adelphia Class A Common Stock (for a total market value of \$133,300,000 based on Adelphia's October 1, 1999 closing price of \$57.00). The Company realized and reported a pre-tax gain of approximately \$83,900,000 in the fourth quarter of 1999 in Investment income.

Hungarian Telephone and Cable Corp.

In May 1999, in connection with HTCC's debt restructuring, the Company cancelled a note obligation from HTCC to the Company and a seven-year consulting services agreement in exchange for the issuance by HTCC to the Company of 1,300,000 shares of HTCC Common Stock and 30,000 shares of HTCC's 5% convertible preferred stock. Each share of HTCC convertible preferred stock has a liquidation value of \$70

and is convertible at the option of the Company into 10 shares of HTCC Common Stock. To the extent the 1,300,000 HTCC common shares and the 300,000 HTCC common shares underlying the HTCC convertible preferred stock do not achieve an average market closing price of at least \$7 per share for the twenty trading days ending March 31, 2000, HTCC has agreed to issue additional HTCC convertible preferred shares with a value equal to any such shortfall. As of March 15, 2000, the stock was trading at \$8¹³/₁₆ per share.

Regulatory Environment

In December 1999, the Company entered into an agreement (the Agreement) with the Staff and Consumer Advocate Division of the West Virginia Public Service Commission (WVPSC) to continue the Company's incentive regulation Plan (IRP) through 2002. Under the Agreement the Company will reduce access and other service rates by \$3.5 million annually beginning in February 2000. In return the Company will be free of earnings regulation for three years and have some pricing flexibility for non-basic services.

Impact of Year 2000

The Y2K issue resulted from computer programs using a two-digit format, as opposed to four, to indicate the year. Such computer systems were unable to interpret dates beyond the year 1999, which could have caused system failures or other computer errors. In late 1997, the Company developed a program to address the Y2K issue. The program was designed to protect the safety and continuity of the Company's service delivery and support capabilities, computer systems and other critical functions. The Company's Y2K program addressed problems that could arise: (1) in Information Technology (IT) areas including information systems and technologies; (2) in non-IT areas such as communications networks and switches, utility control and monitoring systems, premises, facilities and general business equipment; and (3) due to suppliers of products and services not being Y2K compliant. Each of the Company's sectors had a program office that managed the progress of the Y2K efforts. The Company had determined priorities for taking corrective actions on mission critical systems and products so as to ensure continued delivery of core business activities.

The Company's systems, products and services proved Y2K ready, as there were no system or customer impacting failures on mission critical systems. The Company's successful entry into the year 2000 was a culmination of a two-year preparation program. The Y2K plan called for inventory, assessment, renovation and testing to ensure that the impact to our business would be minimal and manageable. The Company will continue to monitor Y2K related exposures both internally and with its suppliers, customers and other business partners. The Company's Y2K efforts were essentially complete by the end of the third quarter of 1999. The completion of the Company's Y2K efforts coupled with its contingency plans ensured that the established and expected levels of customer service were maintained without interruption during the millennium transition.

For the twelve months ended December 31, 1999, the Company spent approximately \$23,495,000 on its Y2K efforts of which \$16,089,000 related to continuing operations and \$7,406,000 related to discontinued operations. For the twelve months ended December 31, 1999, continuing operations Y2K efforts include approximately \$15,628,000 on IT efforts and \$461,000 on non-IT efforts. For the twelve months ended December 31, 1999, discontinued operations Y2K efforts include approximately \$2,835,000 on IT efforts and \$4,571,000 on non-IT efforts. The Company expects to spend an additional \$1,600,000 in 2000 on its remaining Y2K efforts.

Certain state regulatory commissions where the Company operates have issued orders allowing the deferral of Y2K costs for consideration in future rate proceedings. In accordance with these orders, the Company has deferred approximately \$5,767,000 of the \$23,495,000 1999 Y2K expenses, of which \$3,000,000 are related to its continuing operations and \$2,767,000 are related to its discontinued operations.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).

SFAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. In May 1999, the FASB issued SFAS 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," which deferred the effective date of SFAS 133 by one year. This statement makes SFAS 133 effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company has not fully evaluated the impact of the adoption of SFAS 133.

(b) Results of Operations

REVENUES

Telecommunications revenues increased \$154.6 million, or 17%, in 1999 and \$72.5 million, or 8%, in 1998. The increase in 1999 was primarily due to increased communications network access services revenues and ELI revenues. The increase in 1998 was primarily due to increased communications network access services revenues and ELI local telephone services revenues.

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Communications revenues					
Network access services	\$503,365	17%	\$432,018	7%	\$403,990
Local network services	287,616	10%	262,239	5%	250,521
Long distance and data services	76,495	(21%)	96,584	6%	90,747
Directory services	33,449	6%	31,691	(1%)	31,982
Other	48,343	8%	44,914	(8%)	48,922
Eliminations	(46,031)	42%	(32,407)	37%	(23,573)
Total	<u>\$903,237</u>	8%	<u>\$835,039</u>	4%	<u>\$802,589</u>

Network access services revenues increased \$71.3 million, or 17%, in 1999 primarily due to increased minutes of use, increased special access revenues, a universal service fund settlement and the acquisition of Rhinelander Telecommunications, Inc. (RTI) in November 1998. Network access services revenues increased \$28 million, or 7%, in 1998 primarily due to increased special access revenues resulting from the introduction of the DS3 product, increased circuit demand due to Internet growth and increased minutes of use, partially offset by an FCC mandated interstate switched access rate reduction which became effective July 1, 1997.

Local network services revenues increased \$25.4 million, or 10%, in 1999 primarily due to business and residential access line growth, increased customer calling features and private line sales and the acquisition of RTI. Local network services revenues increased \$11.7 million, or 5%, in 1998 primarily due to business and residential access line growth and increased custom calling features and private line sales.

Long distance and data services revenues decreased \$20.1 million, or 21%, in 1999 primarily due to the elimination of long distance product offerings to out-of-territory customers, partially offset by increased long distance minutes of use by in-territory customers. Long distance and data services revenues increased \$5.8 million, or 6%, in 1998 primarily due to the curtailment of certain communications sector long distance service operations in adjacent markets beginning in 1997.

The directory services revenues increased \$1.8 million, or 6%, in 1999 primarily due to the acquisition of RTI and increased advertising revenue.

Other revenues increased \$3.4 million, or 8%, in 1999 primarily due to increased billing and collections revenues, partially offset by the phasing out of certain surcharges resulting from rate case decisions in California and New York. Other revenues decreased \$4 million, or 8%, in 1998 primarily due to the phasing out of certain surcharges resulting from rate case decisions in California and New York.

Eliminations represent network access revenues received by the Company's local exchange operations from its long distance operations and ELI.

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
ELI revenues					
Network services	\$ 53,249	46%	\$36,589	9%	\$33,522
Local telephone services	77,591	103%	38,169	261%	10,565
Long distance services	26,698	117%	12,309	51%	8,140
Data services	29,470	113%	13,813	56%	8,857
Eliminations	(2,817)	(8%)	(3,061)	(8%)	(3,341)
Total	<u>\$184,191</u>	88%	<u>\$97,819</u>	69%	<u>\$57,743</u>

Network services revenues increased \$16.7 million, or 46%, in 1999 primarily due to network expansion and sales of additional circuits to new and existing customers. Network services revenues increased \$3.1 million, or 9%, in 1998 primarily due to sales of additional circuits to new and existing customers, partially offset by the expiration of a short-term contract with a significant customer.

Local telephone services revenues increased \$39.4 million, or 103%, in 1999 primarily due to increased reciprocal compensation revenues resulting from the establishment of interconnection agreements in several new states and increased traffic. In addition, increased sales of the integrated service digital network (ISDN) product to the ISPs and increased access line equivalents contributed to the increase. Local telephone services revenues increased \$27.6 million, or 261%, in 1998 primarily due to increased reciprocal compensation revenues, increased access line equivalents and increased sales of the ISDN product.

Long distance services revenues increased \$14.4 million, or 117%, in 1999 primarily due to increased revenues resulting from the bundling of sales of long distance with other products, the addition of new customers and increased prepaid services revenue. The Company exited the prepaid services market in the third quarter of 1999, a result of the decision to focus on higher margin products. Long distance services revenues increased \$4.2 million, or 51%, in 1998 primarily due to increased prepaid services minutes processed resulting from new customers and increased revenues resulting from bundling of sales of long distance with other products. The increase in retail long-distance revenues were partially offset by a decrease in wholesale long distance revenues primarily due to the elimination of a large customer with credit problems.

Data services revenues increased \$15.7 million, or 113%, in 1999 primarily due to increased sales of Internet and frame relay services in new and existing markets. Data services revenues increased \$5 million, or 56%, in 1998 primarily due to increased sales of Internet and frame relay services in new and existing markets, and the introduction of new products such as ATM and RSVP.

Eliminations reflect revenues received by ELI from the Company's communications operations.

NETWORK ACCESS EXPENSE

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Network access	\$160,267	14%	\$140,471	3%	\$136,971
Eliminations	(48,848)	38%	(35,468)	32%	(26,914)
Total	<u>\$111,419</u>	6%	<u>\$105,003</u>	(5%)	<u>\$110,057</u>

Network access expense increased \$19.8 million, or 14%, in 1999 primarily due to expenses related to the ELI national data expansion, partially offset by decreased communications sector long distance minutes of use from out-of-territory long distance customers. Network access expense increased \$3.5 million, or 3%, in 1998 primarily due to ELI revenue growth, ELI national data expansion efforts, and significant growth in ELI long distance services, partially offset by lease terminations as a result of the curtailment of certain communications sector long distance service operations in 1997.

Eliminations represent network access expense incurred by the Company's long distance operation for services provided by its local exchange operations and expense incurred by the Company's communications operations for services provided by ELI.

DEPRECIATION AND AMORTIZATION EXPENSE

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Depreciation and amortization	\$262,430	32%	\$198,658	7%	\$186,530

Depreciation and amortization expense increased \$63.8 million, or 32%, in 1999 primarily due to increased property, plant and equipment and the acquisition of RTI in November 1998. The increase also includes \$4.8 million of accelerated depreciation related to the change in useful life of an operating system in the communications sector. Depreciation and amortization expense increased \$12.1 million, or 7%, in 1998 primarily due to increased property, plant and equipment balances.

OTHER OPERATING EXPENSES

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Operating expenses	\$569,163	28%	\$444,385	(12%)	\$503,762
Taxes other than income	64,469	15%	55,843	—	55,871
Sales and marketing	71,879	52%	47,325	(14%)	54,893
Total	<u>\$705,511</u>	29%	<u>\$547,553</u>	(11%)	<u>\$614,526</u>

Operating expenses increased \$124.8 million, or 28%, in 1999. Of this increase, \$52.3 million was due to the following items: asset impairment charges of \$36.1 million related to the discontinuation of the development of certain operational systems and certain regulatory assets deemed to be no longer recoverable; restructuring charges allocated to continuing operations of \$4.1 million related to the Company's corporate office; pre-acquisition integration costs of \$3.9 million; separation costs allocated to continuing operations of \$3.5 million and costs associated with an executive retirement agreement allocated to continuing operations of \$4.7 million. The remaining \$72.5 million increase is primarily due to Y2K

costs, the full year impact of RTI and ELI expenses relating to the expansion of data services and product exit costs. Operating expenses decreased \$59.4 million, or 12%, in 1998 primarily due to 1997 pre-tax charges to earnings, partially offset by increased ELI operating costs, Y2K costs and separation costs allocated to continuing operations.

Taxes other than income increased \$8.6 million, or 15%, in 1999 primarily due to increases in payroll and property taxes.

Sales and marketing expenses increased \$24.6 million, or 52%, in 1999 primarily due to increased personnel and product advertising to support the delivery of services in existing and new markets including the expansion of ELI data services and products. Sales and marketing expenses decreased \$7.6 million, or 14%, in 1998 primarily due to the curtailment of certain communications sector long distance service operations in adjacent markets beginning in 1997.

INCOME FROM OPERATIONS

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Communications	\$103,727	(34%)	\$157,567	6,207%	\$ (2,580)
ELI	(95,659)	(26%)	(75,923)	(58%)	(48,201)
Income (loss) from operations	<u>\$ 8,068</u>	(90%)	<u>\$ 81,644</u>	261%	<u>\$(50,781)</u>

Income from operations decreased \$73.6 million, or 90%, in 1999. Of this decrease, \$57.1 million was due to the following items: asset impairment charges of \$36.1 million, restructuring charges allocated to continuing operations of \$4.1 million, pre-acquisition integration costs of \$3.9 million, separation costs allocated to continuing operations of \$3.5 million, costs associated with an executive retirement agreement allocated to continuing operations of \$4.7 million and accelerated depreciation of \$4.8 million. The remaining decrease is primarily due to increased ELI losses and \$9.1 million of increased Y2K costs. Income from operations increased \$132.4 million, or 261%, in 1998 primarily due to 1997 pre-tax charges to earnings, partially offset by increased ELI losses, Y2K costs and separation costs.

INVESTMENT AND OTHER INCOME

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Non operating gain on sale of subsidiary stock	\$ —	N/A	\$ —	N/A	\$ 78,734
Investment income	243,621	660%	32,038	(4%)	33,397
Other income (loss), net	(20)	100%	(26,746)	(434%)	7,999
	<u>\$243,601</u>	4,503%	<u>\$ 5,292</u>	(96%)	<u>\$120,130</u>

The non operating gain on sale of subsidiary stock in 1997 of \$78.7 million represents the pre-tax gain on the ELI initial public offering of 8,000,000 shares of Class A Common Stock at a price of \$16 per share on November 24, 1997.

Investment income increased \$211.6 million, or 660%, in 1999. Of this increase, \$221 million was due to the \$69.5 million gain on the sale of the Company's investment in Centennial in January 1999, the \$67.6 million gain on the sale of the Company's investment in Century in October 1999 and the

\$83.9 million gain on the sale of the Company's investment in the cable joint venture in October 1999. Investment income decreased \$1.4 million, or 4%, in 1998 primarily due to lower average investment balances.

Other income (loss), net increased \$26.7 million, or 100%, in 1999 and decreased \$34.7 million, or 434%, in 1998 primarily due to the recognition of a \$31.9 million loss resulting from the decline in value of the HTCC investment in 1998.

MINORITY INTEREST

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Minority interest	\$23,227	66%	\$14,032	2,076%	\$645

Minority interest is a result of ELI's initial public offering in November 1997 and it represents the minority's share of ELI's loss before income tax.

INTEREST EXPENSE

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Interest expense	\$86,972	28%	\$67,944	3%	\$65,779

Interest expense increased \$19 million, or 28%, in 1999 primarily due to increased ELI net borrowings, partially offset by decreased short-term debt balances. Interest expense increased \$2.2 million, or 3%, in 1998 primarily due to increased ELI net borrowings, partially offset by an increase in the debt component of AFUDC.

INCOME TAXES

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Income taxes	\$64,587	1,536%	\$3,948	105%	\$1,928

Income taxes increased \$60.6 million, or 1,536%, in 1999 primarily due to increased taxable income and an increase in the effective tax rate. The effective tax rate for 1999 reflects the impact of increased pre-tax income resulting from the sale of investments included in Investment income. Income taxes increased \$2 million, or 105%, in 1998 primarily due to an increase in pre-tax income.

DISCONTINUED OPERATIONS

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Revenues	\$613,216	1%	\$609,514	14%	\$533,287
Operating income	\$ 82,179	(15%)	\$ 96,525	45%	\$ 66,623
Net income	\$ 27,359	(25%)	\$ 36,528	160%	\$ 14,023

Revenues from discontinued operations increased \$3.7 million, or 1%, in 1999 primarily due to increased consumption and customer growth in the electric sector, partially offset by lower purchased gas and fuel costs passed on to customers in the gas and electric sectors and a decrease in customer usage due to warmer weather conditions in the gas sector. Revenues from discontinued operations increased \$76.2 million, or 14%, in 1998 primarily due to the acquisition in October 1997 of The Gas Company (TGC) and increased consumption and customer growth in the gas and water/wastewater sectors, partially offset by a decrease in gas revenues resulting from warmer weather conditions and lower purchased gas and fuel costs passed on to customers in the gas and electric sectors.

Operating income from discontinued operations decreased \$14.3 million, or 15%, and net income from discontinued operations decreased \$9.2 million, or 25%, in 1999 primarily due to restructuring charges, separation costs, costs associated with an executive retirement agreement, commission ordered customer refunds in Arizona and increased Y2K costs, partially offset by an increase in gross margins and a decrease in income taxes. Operating income from discontinued operations increased \$29.9 million, or 45%, and net income from discontinued operations increased \$22.5 million, or 160%, in 1998 primarily due to the 1997 charges to earnings, partially offset by Y2K and separation costs.

NET INCOME AND NET INCOME PER COMMON SHARE

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Net Income	\$144,486	153%	\$57,060	465%	\$10,100
Net Income Per Common Share	\$.55	150%	\$.22	450%	\$.04

1999 net income and net income per share were impacted by the following after tax items: gains on the sales of investments of \$136.4 million, or 52¢ per share, asset impairment charges of \$22.3 million, or 9¢ per share, an executive retirement agreement of \$4.1 million, or 2¢ per share, restructuring charges of \$3.6 million, or 1¢ per share, separation costs of \$3.1 million, or 1¢ per share, accelerated depreciation of \$3 million, or 1¢ per share, and pre-acquisition integration costs of \$2.4 million, or 1¢ per share. 1999 net income and net income per share were also impacted by after tax net losses from ELI of \$54.1 million, or 21¢ per share, and after tax Y2K costs of \$12.2 million, or 5¢ per share.

1998 net income and net income per share were impacted by the following after tax items: the non-cash write down of the Company's investment in HTCC of \$19.7 million, or 7¢ per share, the cumulative effect of a change in accounting principle at ELI of \$2.3 million, or 1¢ per share, and separation costs of \$1.3 million, or 1¢ per share. 1998 net income and net income per share were also impacted by after tax net losses from ELI of \$34.8 million, or 14¢ per share, and after tax Y2K costs of \$5.3 million, or 2¢ per share.

1997 net income was impacted by after tax charges to earnings of \$135.1 million of which \$105.1 million related to continuing operations and \$30 million to discontinued operations. For continuing operations, the charges resulted from a re-evaluation of certain business strategies including its out-of-territory long distance aggressive growth strategy, accounting policy changes at ELI in anticipation of its initial public offering and curtailment of certain employee benefit plans. For discontinued operations, the charges resulted from public utility regulatory commission orders and the curtailment of certain employee benefit plans.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to the impact of interest rate and market risks. In the normal course of business, the Company employs established policies, procedures and internal processes to manage its exposure to interest rate and market risks. The Company's objective in managing its interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve these objectives, the Company maintains fixed rate debt on a majority of its borrowings and refinances debt when advantageous. In an effort to reduce interest rate risk ELI issued fixed interest rate \$325 million, five-year senior unsecured notes in April 1999 that are guaranteed by the Company. The net proceeds from the issuance were used to repay outstanding borrowings under ELI's floating rate bank credit facility. The Company maintains a portfolio of investments consisting of both equity and debt financial instruments. The Company's equity portfolio is primarily comprised of investments in communications companies. The Company's bond portfolio consists of government, corporate and municipal fixed-income securities. The Company does not hold or issue derivative or other financial instruments for trading purposes. The Company purchases monthly gas futures contracts to manage well-defined commodity price fluctuations, caused by weather and other unpredictable factors, associated with the Company's commitments to deliver natural gas to certain industrial customers at fixed prices. This derivative financial instrument activity relates to the discontinued operations and is not material to the Company's consolidated financial position, results of operations or cash flows.

ITEM 8. Financial Statements and Supplementary Data

The following documents are filed as part of this Report:

1. Financial Statements, See Index on page F-1.
2. Supplementary Data, Quarterly Financial Data is included in the Financial Statements (see 1. above).

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None

Part III

The Company intends to file with the Commission a definitive proxy statement for the 2000 Annual Meeting of Stockholders pursuant to Regulation 14A not later than 120 days after December 31, 1999. The information called for by this Part III is incorporated by reference to that proxy statement.

Part IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The exhibits listed below are filed as part of this Report:

<u>Exhibit No.</u>	<u>Description</u>
3.200.1	Restated Certificate of Incorporation of Citizens Utilities Company, with all amendments to May 21, 1998, as restated July 2, 1998.
3.200.2	By-laws of the Company, as amended to-date of Citizens Utilities Company, with all amendments to May 20, 1999, (incorporated by reference to Exhibit 3.200.2 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 1999, File No. 001-11001).
4.100.1	Indenture of Securities, dated as of August 15, 1991, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.2	First Supplemental Indenture, dated August 15, 1991, (incorporated by reference to Exhibit 4.100.2 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).

<u>Exhibit No.</u>	<u>Description</u>
4.100.3	Letter of Representations, dated August 20, 1991, from Citizens Utilities Company and Chemical Bank, as Trustee, to Depository Trust Company (DTC) for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.3 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.4	Second Supplemental Indenture, dated January 15, 1992, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.5	Letter of Representations, dated January 29, 1992, from Citizens Utilities Company and Chemical Bank, as Trustee, to DTC, for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.6	Third Supplemental Indenture, dated April 15, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.6 to the Registrant's Form 8-K Current Report filed July 5, 1994, File No. 001-11001).
4.100.7	Fourth Supplemental Indenture, dated October 1, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.7 to Registrant's Form 8-K Current Report filed January 3, 1995, File No. 001-11001).
4.100.8	Fifth Supplemental Indenture, dated as of June 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.8 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-11001).
4.100.9	Sixth Supplemental Indenture, dated as of October 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.9 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-11001).
4.100.11	Seventh Supplemental Indenture, dated as of June 1, 1996, (incorporated by reference to Exhibit 4.100.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-11001).
4.100.12	Eighth Supplemental Indenture, dated as of December 1, 1996, (incorporated by reference to Exhibit 4.100.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-11001).
4.200.1	Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee (incorporated by reference to Exhibit 4.200.1 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.2	First Supplemental Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee, (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.3	5% Convertible Subordinated Debenture due 2036, (contained as Exhibit A to Exhibit 4.200.2), (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.4	Amended and Restated Declaration of Trust dated as of January 15, 1996, of Citizens Utilities Trust, (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.5	Convertible Preferred Security Certificate, (contained as Exhibit A-1 to Exhibit 4.200.4), (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.6	Amended and Restated Limited Partnership Agreement dated as of January 15, 1996 of Citizens Utilities Capital L.P., (incorporated by reference to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.7	Partnership Preferred Security Certificate (contained as Annex A to Exhibit 4.200.6), (incorporated by reference to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).

<u>Exhibit No.</u>	<u>Description</u>
4.200.8	Convertible Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.8 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.9	Partnership Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.9 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.10	Letter of Representations, dated January 18, 1996, from Citizens Utilities Company and Chemical Bank, as trustee, to DTC, for deposit of Convertible Preferred Securities with DTC, (incorporated by reference to Exhibit 4.200.10 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
10.5	Participation Agreement between ELI, Shawmut Bank Connecticut, National Association, the Certificate Purchasers named therein, the Lenders named therein, BA Leasing & Capital Corporation and Citizens Utilities Company dated as of April 28, 1995, and the related operating documents (incorporated by reference to Exhibit 10.5 of ELI's Registration Statement on Form S-1 effective on November 21, 1997, File No. 333-35227).
10.6	Deferred Compensation Plans for Directors, dated November 26, 1984 and December 10, 1984, (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1984, File No. 001-11001).
10.6.2	Non-Employee Directors' Deferred Fee Equity Plan dated as of June 28, 1994, with all amendments to May 5, 1997, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated April 4, 1995 and Exhibit A to the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.16.1	Employment Agreement between Citizens Utilities Company and Leonard Tow, effective July 11, 1996, (incorporated by reference to Exhibit 10.16.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1996, File No. 001-11001).
10.17	1992 Employee Stock Purchase Plan, (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 001-11001).
10.18	Amendments dated May 21, 1993 and May 5, 1997, to the 1992 Employee Stock Purchase Plan, (incorporated by reference to the Registrant's Proxy Statement dated March 31, 1993 and the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.19	Citizens Executive Deferred Savings Plan dated January 1, 1996.
10.20	Citizens Incentive Plan restated as of March 31, 1997.
10.21	1996 Equity Incentive Plan and amendment dated May 5, 1997 to 1996 Equity Incentive Plan, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated March 29, 1996 and Exhibit B to Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.22	Competitive Advance and Revolving Credit Facility Agreement between Citizens Utilities Company and Chase Manhattan Bank dated October 29, 1999.
10.24.1	Indenture from ELI to Citibank, N.A., dated April 15, 1999, with respect to ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.1 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.24.2	First Supplemental Indenture from ELI, Citizens Utilities Company and Citizens Newco Company to Citibank, N.A. dated April 15, 1999, with respect to the 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.2 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).

<u>Exhibit No.</u>	<u>Description</u>
10.24.3	Form of ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.3 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.24.4	Letter of Representations to the Depository Trust Company dated April 28, 1999, with respect to ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.4 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.25	Asset Purchase Agreements between Citizens Utilities Company and GTE Corporation dated May 27 and September 21, 1999.
10.26	Asset Purchase Agreements between Citizens Utilities Company and US West Communications, Inc. dated June 16, 1999.
10.27	Asset Purchase Agreements between Citizens Utilities Company and American Water Works dated October 15, 1999.
12	Computation of ratio of earnings to fixed charges (this item is included herein for the sole purpose of incorporation by reference).
21	Subsidiaries of the Registrant
23	Auditors' Consent
24	Powers of Attorney
27	Financial Data Schedule

Exhibits 10.6, 10.6.2, 10.16.1, 10.17, 10.18, 10.19, 10.20 and 10.21 are management contracts or compensatory plans or arrangements.

The Company agrees to furnish to the Commission upon request copies of the Realty and Chattel Mortgage, dated as of March 1, 1965, made by Citizens Utilities Rural Company, Inc., to the United States of America (the Rural Utilities Services and Rural Telephone Bank) and the Mortgage Notes which that mortgage secures; and the several subsequent supplemental Mortgages and Mortgage Notes; copies of the instruments governing the long-term debt of Louisiana General Services, Inc.; copies of separate loan agreements and indentures governing various Industrial Development Revenue Bonds; copies of documents relating to indebtedness of subsidiaries acquired during 1996, 1997 and 1998, and copies of the credit agreement between Electric Lightwave, Inc. and Citibank, N. A. dated November 21, 1997. The Company agrees to furnish to the Commission upon request copies of schedules and exhibits to items 10.25, 10.26 and 10.27.

(b) Reports on Form 8-K:

The Company filed on Form 8-K dated October 18, 1999, under Item 5 "Other Events" and Item 7 "Exhibits," a press release announcing that it had agreed to sell its water and wastewater operations to American Water Works, Inc.

The Company filed on Form 8-K dated November 10, 1999, under Item 7 "Exhibits," a press release announcing financial results for third quarter ended September 30, 1999 and operating data.

The Company filed on Form 8-K dated December 20, 1999, under Item 5 "Other Events" and Item 7 "Exhibits," a press release announcing a definitive agreement to purchase 106,850 telephone access lines from GTE Corp.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CITIZENS UTILITIES COMPANY
(Registrant)

By: /s/ Leonard Tow

Leonard Tow
Chairman of the Board; Chief Executive
Officer; Member, Executive Committee and
Director

March 22, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 22nd day of March 2000.

<u>Signature</u>	<u>Title</u>
<u>/s/ ROBERT J. DESANTIS</u> (Robert J. DeSantis)	Vice President and Chief Financial Officer
<u>/s/ LIVINGSTON E. ROSS</u> (Livingston E. Ross)	Vice President and Chief Accounting Officer
<u>NORMAN I. BOTWINIK*</u> (Norman I. Botwinik)	Director
<u>AARON I. FLEISCHMAN*</u> (Aaron I. Fleischman)	Member, Executive Committee and Director
<u>STANLEY HARFENIST*</u> (Stanley Harfenist)	Member, Executive Committee and Director
<u>ANDREW N. HEINE*</u> (Andrew N. Heine)	Director
<u>JOHN L. SCHROEDER*</u> (John L. Schroeder)	Director
<u>ROBERT D. SIFF*</u> (Robert D. Siff)	Director
<u>ROBERT A. STANGER*</u> (Robert A. Stanger)	Member, Executive Committee and Director
<u>CHARLES H. SYMINGTON, JR.*</u> (Charles H. Symington, Jr.)	Director
<u>EDWIN TORNBERG*</u> (Edwin Tornberg)	Director
<u>CLAIRE L. TOW*</u> (Claire L. Tow)	Director
<u>*By: /s/ ROBERT J. DESANTIS</u> (Robert J. DeSantis) Attorney-in-Fact	

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Citizens Utilities Company:

We have audited the accompanying consolidated balance sheets of Citizens Utilities Company and subsidiaries as of December 31, 1999, 1998 and 1997, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Utilities Company and subsidiaries as of December 31, 1999, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1(m) to the consolidated financial statements, the Company changed its method of accounting in 1998 to adopt the provisions of the American Institute of Certified Public Accountants Statement of Position (AICPA SOP) 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and AICPA SOP 98-5 "Reporting on the Costs of Start-up Activities."

KPMG LLP

New York, New York
March 14, 2000

Citizens Utilities Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS
December 31, 1999, 1998 and 1997

(\$ in thousands)	1999	1998	1997
Assets			
Current assets:			
Cash	\$ 37,141	\$ 31,922	\$ 35,163
Accounts receivable:			
Customers	213,457	175,074	170,191
Other	56,340	77,009	46,487
Less allowance for doubtful accounts	<u>28,278</u>	<u>18,348</u>	<u>25,254</u>
Net accounts receivable	241,519	233,735	191,424
Materials and supplies	12,624	13,706	11,411
Other current assets	<u>17,340</u>	<u>27,199</u>	<u>43,871</u>
Total current assets	<u>308,624</u>	<u>306,562</u>	<u>281,869</u>
Property, plant and equipment	4,458,654	4,045,752	3,576,434
Less accumulated depreciation	<u>1,569,936</u>	<u>1,340,665</u>	<u>1,181,647</u>
Net property, plant and equipment	<u>2,888,718</u>	<u>2,705,087</u>	<u>2,394,787</u>
Investments	591,386	464,146	447,695
Regulatory assets	184,942	189,866	194,257
Deferred debits and other assets	141,661	113,223	115,038
Assets of discontinued operations	<u>1,656,414</u>	<u>1,514,048</u>	<u>1,439,206</u>
Total assets	<u>\$5,771,745</u>	<u>\$5,292,932</u>	<u>\$4,872,852</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Long-term debt due within one year	\$ 31,156	\$ 7,672	\$ 5,089
Short-term debt	—	110,000	—
Accounts payable	187,984	175,304	214,713
Income taxes accrued	75,161	53,599	45,064
Other taxes accrued	27,823	22,091	21,243
Interest accrued	30,788	27,459	24,841
Customers' deposits	32,842	30,797	19,401
Other current liabilities	<u>81,258</u>	<u>63,676</u>	<u>74,907</u>
Total current liabilities	467,012	490,598	405,258
Deferred income taxes	460,208	442,908	420,708
Customer advances for construction	172,067	187,502	151,307
Deferred credits and other liabilities	87,668	77,967	105,880
Contributions in aid of construction	7,764	7,407	6,604
Regulatory liabilities	27,000	19,120	20,881
Long-term debt	2,107,460	1,775,338	1,583,902
Liabilities of discontinued operations	310,269	268,286	261,225
Minority interest in subsidiary	11,112	29,785	36,626
Company obligated mandatorily redeemable convertible preferred securities*	201,250	201,250	201,250
Shareholders' equity	<u>1,919,935</u>	<u>1,792,771</u>	<u>1,679,211</u>
Total liabilities and shareholders' equity	<u>\$5,771,745</u>	<u>\$5,292,932</u>	<u>\$4,872,852</u>

* Represents securities of a subsidiary trust, the sole assets of which are securities of a subsidiary partnership, substantially all the assets of which are convertible debentures of the Company.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Citizens Utilities Company and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31, 1999, 1998 and 1997

(\$ in thousands, except for per-share amounts)	1999	1998	1997*
Revenues	\$1,087,428	\$932,858	\$860,332
Operating expenses:			
Network access	111,419	105,003	110,057
Depreciation and amortization	262,430	198,658	186,530
Other operating expenses	705,511	547,553	614,526
Total operating expenses	1,079,360	851,214	911,113
Income (loss) from operations	8,068	81,644	(50,781)
Non operating gain on sale of subsidiary stock	—	—	78,734
Investment income	243,621	32,038	33,397
Other income (loss), net	(20)	(26,746)	7,999
Minority interest	23,227	14,032	645
Interest expense	86,972	67,944	65,779
Income before income taxes, dividends on convertible preferred securities, discontinued operations and cumulative effect of change in accounting principle	187,924	33,024	4,215
Income taxes	64,587	3,948	1,928
Income before dividends on convertible preferred securities, discontinued operations and cumulative effect of change in accounting principle	123,337	29,076	2,287
Dividends on convertible preferred securities, net of income tax benefit	6,210	6,210	6,210
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	117,127	22,866	(3,923)
Income from discontinued operations, net of tax	27,359	36,528	14,023
Income before cumulative effect of change in accounting principle	144,486	59,394	10,100
Cumulative effect of change in accounting principle, net of income tax benefit and related minority interest	—	2,334	—
Net income	144,486	57,060	10,100
Other comprehensive income (loss), net of tax and reclassification adjustments	(41,769)	52,872	10,832
Total comprehensive income	\$ 102,717	\$109,932	\$ 20,932
Income (loss) before discontinued operations and cumulative effect of change in accounting principle per common share:			
Basic	\$.45	\$.09	\$ (.02)
Diluted	\$.45	\$.09	\$ (.02)
Income from discontinued operations per common share:			
Basic	\$.10	\$.14	\$.05
Diluted	\$.10	\$.14	\$.05
Income before cumulative effect of change in accounting principle per common share:			
Basic	\$.55	\$.23	\$.04
Diluted	\$.55	\$.23	\$.04
Net income per common share:			
Basic	\$.55	\$.22	\$.04
Diluted	\$.55	\$.22	\$.04

* Adjusted for subsequent stock dividends.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Citizens Utilities Company and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1999, 1998 and 1997

(\$ in thousands, except for per-share amounts)	Common Stock (\$.25)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 1997	\$59,788	\$1,381,341	\$ 244,066	\$ (7,012)	\$1,678,183
Acquisitions	604	2,736	8,318		11,658
Common stock buybacks	(1,226)	(47,326)			(48,552)
Stock plans	188	6,380			6,568
Stock issuances to fund EPPICS dividends	247	10,175			10,422
Net income			10,100		10,100
Other comprehensive income, net of tax and reclassification adjustment				10,832	10,832
Stock dividends in shares of Common Stock	3,148	127,119	(130,267)		—
Balance December 31, 1997	<u>\$62,749</u>	<u>\$1,480,425</u>	<u>\$ 132,217</u>	<u>\$ 3,820</u>	<u>\$1,679,211</u>
Acquisitions	133	2,150			2,283
Common stock buybacks	(453)	(14,370)			(14,823)
Stock plans	171	5,935			6,106
Stock issuances to fund EPPICS dividends	273	9,789			10,062
Net income			57,060		57,060
Other comprehensive income, net of tax and reclassification adjustment				52,872	52,872
Stock dividends in shares of Common Stock	1,914	70,259	(72,173)		—
Balance December 31, 1998	<u>\$64,787</u>	<u>\$1,554,188</u>	<u>\$ 117,104</u>	<u>\$ 56,692</u>	<u>\$1,792,771</u>
Common stock buybacks	(157)	(6,468)			(6,625)
Stock plans	638	20,475			21,113
Stock issuances to fund EPPICS dividends	251	9,708			9,959
Net income			144,486		144,486
Other comprehensive loss, net of tax benefit and reclassification adjustment				(41,769)	(41,769)
Balance December 31, 1999	<u>\$65,519</u>	<u>\$1,577,903</u>	<u>\$ 261,590</u>	<u>\$ 14,923</u>	<u>\$1,919,935</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Citizens Utilities Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1999, 1998 and 1997

(\$ in thousands)	1999	1998	1997
Net cash provided by continuing operating activities . . .	\$ 347,509	\$ 156,098	\$ 139,856
Cash flows used for investing activities:			
Securities matured	7,435	2,000	16,205
Securities sold	1,084,190	992,761	578,322
Securities purchased	(1,068,450)	(952,628)	(434,030)
Construction expenditures	(484,776)	(353,176)	(414,656)
Business acquisitions	—	(89,234)	—
Other	(2,786)	(1,052)	25,686
	<u>(464,387)</u>	<u>(401,329)</u>	<u>(228,473)</u>
Cash flows from financing activities:			
Long-term debt borrowings	341,471	242,647	143,801
Issuance of common stock	21,113	7,101	4,825
Issuance of subsidiary stock	—	—	118,554
Short-term debt borrowings (repayments)	(110,000)	42,000	—
Common stock buybacks to fund stock dividends	(6,625)	(14,823)	(48,552)
Long-term debt principal payments	(45,286)	(4,574)	(3,234)
Other	(2,552)	—	(1,380)
	<u>198,121</u>	<u>272,351</u>	<u>214,014</u>
Cash used for discontinued operations	(76,024)	(30,361)	(114,464)
Increase (decrease) in cash	5,219	(3,241)	10,933
Cash at January 1,	<u>31,922</u>	<u>35,163</u>	<u>24,230</u>
Cash at December 31,	<u>\$ 37,141</u>	<u>\$ 31,922</u>	<u>\$ 35,163</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies:

(a) Description of Business:

The Company provides both regulated and competitive communications services to residential, business and wholesale customers through subsidiaries and Electric Lightwave, Inc. (ELI). ELI is a facilities based integrated communications provider providing a broad range of communications services throughout the United States. The Company is not dependent upon any single geographic area or single customer for its revenues.

In May 1998, the Company announced its plans to separate its communications businesses and public services businesses into two stand-alone publicly traded companies. The Company discontinued its separation plans when opportunities became available in 1999 to acquire telecommunications properties. During 1999, the Company announced that it had entered into various agreements to purchase approximately 911,000 telephone access lines from GTE Corp. (GTE) and US West Communications, Inc. (US West) for approximately \$2,821,000,000 in cash. In August 1999, the Company's Board of Directors approved a plan of divestiture by sale for the Company's public services properties, which include gas, electric and water and wastewater businesses.

On October 18, 1999, the Company announced that it had agreed to sell its water and wastewater operations to American Water Works, Inc. for an aggregate purchase price of \$835,000,000. The transaction is expected to close in 2000 following regulatory approvals.

On February 15, 2000, the Company announced that it had agreed to sell its electric utility operations. The Arizona and Vermont electric divisions will be sold to Cap Rock Energy Corp. and the Kauai (Hawaii) electric division will be sold to Kauai Island Electric Co-op for an aggregate purchase price of \$535,000,000. The transactions are expected to close in 2000 following regulatory approvals.

The Company expects to temporarily fund these telephone access line purchases with cash and investment balances and proceeds from commercial paper issuances, backed by committed bank credit facilities. Permanent funding is expected to be from cash and investment balances and the proceeds from the divestiture of the Company's public services businesses.

(b) Principles of Consolidation and Use of Estimates:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of Citizens Utilities Company and its subsidiaries. Certain reclassifications of balances previously reported have been made to conform to current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Revenues:

The Company records revenues when services are provided. Certain communications revenues are estimated under cost separation procedures that base revenues on current operating costs and investments in facilities to provide such services.

(d) Construction Costs and Maintenance Expense:

Property, plant and equipment are stated at original cost, including general overhead and an allowance for funds used during construction (AFUDC) for regulated businesses and capitalized interest for unregulated businesses. Maintenance and repairs are charged to operating expenses as incurred.

AFUDC represents the borrowing costs and a return on common equity of funds used to finance construction of regulated assets. AFUDC is capitalized as a component of additions to property, plant and equipment and is credited to income. AFUDC does not represent current cash earnings; however, under established regulatory rate-making practices, after the related plant is placed in service, the Company is permitted to include in the rates charged for regulated services a fair return on and depreciation of such AFUDC included in plant in service. The amount of AFUDC relating to equity is included in other income, net (\$2,547,000, \$2,700,000 and \$4,566,000 for 1999, 1998 and 1997, respectively) and the amount relating to borrowings is included as a reduction of interest expense (\$2,330,000, \$1,726,000 and \$1,122,000 for 1999, 1998 and 1997, respectively). The book value, net of salvage, of routine property, plant and equipment dispositions is charged against accumulated depreciation for regulated operations.

Capitalized interest for unregulated construction activities credited to interest expense related to ELI's capital expenditure program amounted to \$8,681,000, \$10,444,000 and \$4,693,000 for 1999, 1998 and 1997, respectively.

(e) Depreciation Expense:

Depreciation expense, calculated using the straight-line method, is based upon the estimated service lives of various classifications of property, plant and equipment and represents approximately 7%, 6% and 6% for 1999, 1998 and 1997, respectively, of the gross depreciable property, plant and equipment.

(f) Regulatory Assets and Liabilities:

The Company's regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires regulated entities to record regulatory assets and liabilities as a result of actions of regulators.

The Company continuously monitors the applicability of SFAS 71 to its regulated operations. SFAS 71 may, at some future date, be deemed inapplicable due to changes in the regulatory and competitive environments and/or a decision by the Company to accelerate deployment of new technology. If the Company were to discontinue the application of SFAS 71 to one or more of its regulated operations, the Company would be required to write off its regulatory assets and regulatory liabilities and would be required to adjust the carrying amount of any other assets, including property, plant and equipment, that would be deemed not recoverable related to those operations. The Company believes its regulated operations continue to meet the criteria for SFAS 71 and that the carrying value of its regulated property, plant and equipment is recoverable in accordance with established rate-making practices.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of:

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceed the fair value. During the fourth quarter of 1999, the Company determined that certain long-lived assets in the Communications sector were impaired. As a result, the Company recorded \$36,136,000 of pre-tax charges as part of other operating expenses, including approximately \$15,369,000 related to a decision made by management to discontinue development of certain operational systems and approximately \$20,767,000 related to certain regulatory assets deemed to be no longer recoverable.

(h) Investments and Short-Term Debt:

Investments include high credit quality, short- and intermediate-term fixed-income securities (primarily state and municipal debt obligations) and equity securities. The Company classifies its investments at purchase as available-for-sale or held-to-maturity. The Company does not maintain a trading portfolio.

Securities classified as available-for-sale are carried at estimated fair market value. These securities are held for an indefinite period of time, but might be sold in the future as changes in market conditions or economic factors occur. Net aggregate unrealized gains and losses related to such securities, net of taxes, are included as a separate component of shareholders' equity. Held-to-maturity securities represented those which the Company had the ability and intent to hold to maturity and were carried at amortized cost, adjusted for amortization of premiums/discounts and accretion over the period to maturity. Interest, dividends and gains and losses realized on sales of securities are reported in Investment income.

The Company evaluates its investments periodically to determine whether any decline in fair value, below the amortized cost basis, is other than temporary. If the Company determines that a decline in fair value is other than temporary, the cost basis of the individual investment is written down to fair value which becomes the new cost basis. The amount of the write down is included in earnings as a loss.

Commercial paper notes payable is classified as long-term debt when it is intended to be refinanced with long-term debt securities. In 1998, short-term debt represented commercial paper notes payable which were repaid in January 1999 with the proceeds from the sale of the Company's investment in Centennial Cellular Corp. (Centennial) (see Note 5).

(i) Income Taxes, Deferred Income Taxes and Investment Tax Credits:

The Company and its subsidiaries are included in a consolidated federal income tax return. The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recorded for the tax effect of temporary differences between the financial statement and the tax bases of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to turn around. Regulatory assets and liabilities (see Note 1(f)) include income tax benefits previously flowed through to customers and from the allowance for funds used during construction, the effects of tax law changes and the tax benefit associated with unamortized deferred investment tax credits. These regulatory assets and liabilities represent the probable net increase in revenues that will be reflected through future ratemaking proceedings. The investment tax credits relating to regulated operations, as defined by applicable regulatory authorities, have been deferred and are being amortized to income over the lives of the related properties.

(j) Employee Stock Plans:

The Company has various employee stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees and non-management exempt and non-exempt employees. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock or other stock based awards. The Company recognizes compensation expense in the financial statements only if the market price of the underlying stock exceeds the exercise price on the date of grant. The Company provides pro forma net income and pro forma net income per common share disclosures for employee stock option grants made in 1995 and future years based on the fair value of the options at the date of grant (see Note 10). Fair value of options granted is computed using the Black Scholes option pricing model.

(k) Non Operating Gain on Subsidiary Stock and Minority Interest:

On November 24, 1997, ELI completed an initial public offering (IPO) of 8,000,000 shares of its Class A Common Stock. The Company's policy is to account for sales of subsidiary stock as income statement transactions and as a result, in 1997, the Company recorded a pre-tax non operating gain of approximately \$78,700,000 resulting from this transaction and continues to consolidate ELI. The Company retains approximately 98% of the voting interest and approximately 82% of the economic ownership in ELI.

Minority interest represents the minority's share of ELI's loss before income tax benefit as of December 31, 1999. The Company will be able to record minority interest income only to the extent of the minority

interest. If ELI becomes profitable, its earnings will be recognized in full by the Company until losses the Company recognized in excess of its economic ownership percentage are recovered. After such recovery, the Company will record minority interest expense on the consolidated statement of income and comprehensive income and will again record minority interest on its balance sheet.

(l) Net Income Per Common Share:

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period being reported on. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock at the beginning of the period being reported on. Both Basic and Diluted net income per common share calculations for 1997 are presented with adjustments for subsequent stock dividends. There were no stock dividends declared in 1999 (see Note 14).

(m) Changes in Accounting Principles:

In March 1998, the Accounting Standards Executive Committee of the AICPA released Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that certain costs for the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software and costs for the preliminary project stage and the post-implementation/operations stage of an internal-use computer software development project be expensed as incurred. Capitalized software costs included in construction work in progress reflect costs for internally developed and purchased software. The impact of the early adoption of SOP 98-1 was to capitalize approximately \$6,100,000 in 1998 that would have been expensed had the Company not early adopted SOP 98-1.

In April 1998, the Accounting Standards Executive Committee of the AICPA released SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires that the unamortized portion of deferred start up costs be written off and reported as a change in accounting principle. Future costs of start-up activities should then be expensed as incurred. Certain third party direct costs incurred by ELI in connection with negotiating and securing initial rights-of-way and developing network design for new market clusters or locations had been capitalized by ELI in previous years and were being amortized over five years. The Company elected to early adopt SOP 98-5 effective January 1, 1998. The net book value of these deferred amounts was \$3,394,000 which has been reported as a cumulative effect of a change in accounting principle in the statement of income and comprehensive income for the year ended December 31, 1998, net of an income tax benefit of \$577,000 and the related minority interest of \$483,000.

(2) Property, Plant and Equipment:

The components of property, plant and equipment at December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
	(\$ in thousands)		
Telephone outside plant	\$2,244,808	\$2,067,566	\$1,963,187
Telephone central office equipment	1,272,647	1,076,030	979,870
Information systems and other administrative assets	619,865	501,870	273,869
Construction work in progress	286,836	372,248	339,305
Other	34,498	28,038	20,203
	<u>\$4,458,654</u>	<u>\$4,045,752</u>	<u>\$3,576,434</u>

(3) Mergers and Acquisitions:

On May 27, September 21, and December 16, 1999, the Company announced that it had entered into definitive agreements to purchase from GTE approximately 366,000 telephone access lines (as of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

December 31, 1999) in Arizona, California, Illinois, Minnesota and Nebraska for approximately \$1,171,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will begin closing in the third quarter 2000.

On June 16, 1999, the Company announced that it had entered into a series of definitive agreements to purchase from US West approximately 545,000 telephone access lines (as of December 31, 1999) in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately \$1,650,000,000 in cash. The Company expects that these acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis and will begin closing in the third quarter 2000.

In November 1998, the Company acquired all of the stock of Rhinelander Telecommunication, Inc. (RTI) for approximately \$84,000,000 in cash. RTI is a diversified telecommunications company engaged in providing local exchange, long distance, Internet access, wireless and cable television services to rural markets in Wisconsin. This transaction was accounted for using the purchase method of accounting and the results of operations of RTI have been included in the accompanying financial statements from the date of acquisition.

In December 1997, the Company acquired Ogden Telephone Company (Ogden) in a stock for stock transaction. In 1997, the Company issued 2,308,262 shares of Common Stock to effect the merger. In 1998, 288,554 additional shares of the Company's Common Stock were issued in connection with this transaction. Ogden was an independent telephone operating company providing services to residential and commercial customers in Monroe County, New York. This transaction was accounted for using the pooling of interests method of accounting and the results of operations of Ogden have been included in the accompanying consolidated financial statements since the beginning of the 1997 year.

The following pro forma financial information presents the combined results of operations of the Company and RTI as if the acquisition had occurred on January 1 of the year preceding the date of acquisition. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and RTI constituted a single entity during such periods.

	1998	1997
	(\$ in thousands, except for per share amounts)	
Revenues	\$950,000	\$878,000
Net income	\$ 56,000	\$ 9,000
Basic net income per common share	\$.22	\$.03
Diluted net income per common share	\$.22	\$.03

(4) Discontinued Operations:

On August 24, 1999, the Company's Board of Directors approved a plan of divestiture by sale of the Company's public services properties, which include gas, electric and water and wastewater businesses. The proceeds from the sales of the public services properties will be used to fund the telephone access line purchases. The Company has accounted for the planned divestiture of the public services properties as a discontinued operation. Discontinued operations in the consolidated statements of income and comprehensive income reflect the results of operations of the public services properties including allocated interest expense for the periods presented. Interest expense was allocated to discontinued operations based on debt issued for these businesses. The debt presented in liabilities of discontinued operations represents only debt to be transferred pursuant to the water and wastewater and electric asset sale agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On October 18, 1999, the Company announced that it had agreed to sell its water and wastewater operations to American Water Works, Inc. for an aggregate purchase price of \$835,000,000. The transaction is expected to close in 2000 following regulatory approvals.

On February 15, 2000, the Company announced that it had agreed to sell its electric utility operations. The Arizona and Vermont electric divisions will be sold to Cap Rock Energy Corp. and the Kauai (Hawaii) electric division will be sold to Kauai Island Electric Co-op for an aggregate purchase price of \$535,000,000. The transactions are expected to close in 2000 following regulatory approvals.

Summarized financial information for the discontinued operations is set forth below:

	1999	1998	1997
		(\$ in thousands)	
Current assets	\$ 109,250	\$ 107,478	\$ 95,410
Net property, plant and equipment	1,459,958	1,343,536	1,273,006
Other assets	87,206	63,034	70,790
Total assets	<u>\$1,656,414</u>	<u>\$1,514,048</u>	<u>\$1,439,206</u>
Current liabilities	\$ 18,040	\$ 17,133	\$ 12,613
Long-term debt	133,817	124,908	122,630
Other liabilities	158,412	126,245	125,982
Total liabilities	<u>\$ 310,269</u>	<u>\$ 268,286</u>	<u>\$ 261,225</u>
Revenues	\$ 613,216	\$ 609,514	\$ 533,287
Operating income	82,179	96,525	66,623
Income taxes	14,230	18,389	5,455
Net income	\$ 27,359	\$ 36,528	\$ 14,023

(5) Investments:

The components of investments at December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
		(\$ in thousands)	
State and municipal securities	\$233,021	\$141,202	\$212,743
Centennial Preferred Security	—	107,679	107,679
Marketable equity securities	243,591	163,661	75,855
Joint Venture with subsidiary of Century	—	49,385	49,196
Other fixed income securities	114,774	2,219	2,222
Total	<u>\$591,386</u>	<u>\$464,146</u>	<u>\$447,695</u>

In January 1999, Centennial was merged with CCW Acquisition Corp., a company organized at the direction of Welsh, Carson, Anderson & Stowe. The Company was a holder of 1,982,294 shares of Centennial Class B Common Stock. In addition, as a holder of 102,187 shares of Mandatorily Redeemable Convertible Preferred Stock of Centennial, the Company was required to convert the preferred stock into approximately 2,972,000 shares of Class B Common Stock. The Company received approximately \$205,600,000 in cash for all of its Common Stock interests and approximately \$17,500,000 related to accrued dividends on the preferred stock. The Company realized and reported a pre-tax gain of approximately \$69,500,000 in the first quarter 1999 in Investment income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On October 1, 1999, Adelphia Communication Corp. (Adelphia) was merged with Century Communications Corp. (Century). The Company owned 1,807,095 shares of Century Class A Common Stock. Pursuant to this merger agreement, Century Class A Common shares were exchanged for \$10,832,000 in cash and 1,206,705 shares of Adelphia Class A Common Stock (for a total market value of \$79,600,000 based on Adelphia's October 1, 1999 closing price of \$57.00). The Company realized and reported a pre-tax gain of approximately \$67,600,000 in the fourth quarter of 1999 in Investment income.

A subsidiary of the Company, in a joint venture with a subsidiary of Century, owned and operated four cable television systems in southern California serving over 90,000 basic subscribers. In July 1999, the Company entered into a separate agreement with Adelphia to sell its interest in the joint venture. Pursuant to this agreement on October 1, 1999, the Company received approximately \$27,700,000 in cash and 1,852,302 shares of Adelphia Class A Common Stock (for a total market value of \$133,300,000 based on Adelphia's October 1, 1999 closing price of \$57.00). The Company realized and reported a pre-tax gain of approximately \$83,900,000 in the fourth quarter of 1999 in Investment income. During 1999, the Company reclassified the cost related to the Company's joint venture with a subsidiary of Century from other assets to investments. Prior year presentations have been restated to conform to the current year presentation.

The Chairman and Chief Executive Officer of the Company was also Chairman and Chief Executive Officer of Century prior to its merger with Adelphia. Centennial was a subsidiary of Century until it was sold.

The following summarizes the amortized cost, gross unrealized holding gains and losses and fair market value for investments.

Investment Classification	Amortized Cost	Unrealized Holding		Aggregate Fair Market Value
		Gains	(Losses)	
(\$ in thousands)				
<u>As of December 31, 1999</u>				
Available-For-Sale	\$567,208	\$ 37,025	\$(12,847)	\$591,386
<u>As of December 31, 1998</u>				
Held-To-Maturity	\$107,679	\$ 15,673	\$ —	\$123,352
Available-For-Sale	215,228	100,329	(8,475)	307,082
Joint Venture with Century	49,385	—	—	49,385
<u>As of December 31, 1997</u>				
Held-To-Maturity	\$107,679	\$ 78,608	\$ —	\$186,287
Available-For-Sale	284,630	19,673	(13,483)	290,820
Joint Venture with Century	49,196	—	—	49,196

The amortized cost of held-to-maturity securities plus the aggregate fair market value of available-for-sale securities for each year presented above equals the total of investments presented in the foregoing investments table.

Marketable equity securities for 1999, 1998 and 1997 include the Company's investment in Hungarian Telephone and Cable Corp. (HTCC). The Chairman and Chief Executive Officer of the Company is also a member of the Board of Directors of HTCC.

In 1995, the Company made an initial investment in and entered into definitive agreements with HTCC. The investment in HTCC had declined in value during 1998 and in the fourth quarter of 1998 management determined that the decline was other than temporary. As a result, the Company recognized a loss of \$31,900,000 in the HTCC investment in Other income (loss), net in 1998.

In May 1999, in connection with HTCC's debt restructuring, the Company cancelled a note obligation from HTCC to the Company and a seven-year consulting services agreement in exchange for the issuance by HTCC to the Company of 1,300,000 shares of HTCC Common Stock and 30,000 shares of HTCC's 5% convertible preferred stock. Each share of HTCC convertible preferred stock has a liquidation value of \$70 and is convertible at the option of the Company into 10 shares of HTCC Common Stock. To the extent the 1,300,000 HTCC common shares and the 300,000 HTCC common shares underlying the HTCC convertible preferred stock do not achieve an average market closing price of at least \$7 per share for the twenty trading days ending March 31, 2000, HTCC has agreed to issue additional HTCC convertible preferred shares with a value equal to any such shortfall.

At December 31, 1999, the Company owns approximately 19% of the HTCC shares presently outstanding. The Company's investment in HTCC is classified as an available for sale security and accounted for using the cost method of accounting. Additionally, the Company has exercised its right to nominate one member of the Board of Directors of HTCC.

(6) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for certain of the Company's financial instruments at December 31, 1999, 1998 and 1997. For the other financial instruments, representing cash, accounts and notes receivables, short-term debt, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments.

	1999		1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(\$ in thousands)					
Investments	\$ 591,386	\$ 591,386	\$ 464,146	\$ 479,819	\$ 447,695	\$ 526,303
Long-term debt . .	2,107,460	2,046,541	1,775,338	1,884,631	1,583,902	1,665,897
EPPICS	201,250	226,909	201,250	171,566	201,250	192,194

The fair value of the above financial instruments are based on quoted prices at the reporting date for those financial instruments except for the investment in the Centennial Preferred Security and the Joint Venture with Century. The fair value of the Centennial Preferred Security was estimated to be its accreted value at December 31, 1997 and its conversion value at December 31, 1998. The fair value of the Joint Venture with Century was estimated to be its book value (see Note 5).

(7) Long-term Debt:

	Weighted average interest rate at December 31, 1999	Maturities	December 31,		
			1999	1998	1997
			(\$ in thousands)		
Debentures	7.34%	2001-2046	\$1,000,000	\$1,000,000	\$1,000,000
Industrial development revenue bonds	5.39%	2015-2033	353,494	337,922	320,281
Senior unsecured notes	6.25%	2004-2012	361,000	36,000	36,000
ELI bank credit facility	6.63%	2002	260,000	284,000	60,000
Rural Utilities Service Loan Contracts	5.85%	2001-2027	87,100	91,078	87,053
Other long-term debt	8.86%	2000-2027	45,866	26,338	12,568
Commercial paper notes payable			—	—	68,000
Total long-term debt			<u>\$2,107,460</u>	<u>\$1,775,338</u>	<u>\$1,583,902</u>

The total principal amounts of industrial development revenue bonds were \$369,935,000 in 1999 and 1998 and \$349,935,000 in 1997. Funds from industrial development revenue bond issuances are held by a trustee until qualifying construction expenditures are made at which time the funds are released. The amounts presented in the table above represent funds that have been used for construction through December 31, 1999, 1998 and 1997, respectively.

On December 31, 1997, certain commercial paper notes payable were classified as long-term debt because the obligations were refinanced with long-term debt securities.

The Company has available lines of credit with financial institutions in the amounts of \$3,000,000,000, with associated facility fees of 0.06% per annum and \$200,000,000 with no associated facility fees, which expire on October 27, 2000, and another \$200,000,000 with associated facility fees of 0.07625% per annum which expires on December 16, 2003. The terms of the latter line of credit provide the Company with extension options. There were no amounts outstanding under these commitments at December 31, 1999. ELI has committed lines of credit with commercial banks under which it may borrow up to \$400,000,000 which are guaranteed by the Company and expire November 21, 2002. The ELI credit facility has an associated facility fee of 0.05% per annum. As of December 31, 1999, \$260,000,000 was outstanding under ELI's lines of credit.

In April 1999, ELI completed an offering of \$325,000,000 of five-year senior unsecured notes. The notes have an interest rate of 6.05% and mature on May 15, 2004. The Company has guaranteed the payment of principal and any premium and interest on the notes when due.

The Company's installment principal payments, capital leases and maturities of long-term debt for the next five years are as follows:

	2000	2001	2002	2003	2004
	(\$ in thousands)				
Installment principal payments	\$ 5,258	\$ 4,839	\$ 4,953	\$5,051	\$ 5,107
Capital leases	25,898	22,707	442	477	515
Maturities	—	50,000	260,000	—	425,000
	<u>\$31,156</u>	<u>\$77,546</u>	<u>\$265,395</u>	<u>\$5,528</u>	<u>\$430,622</u>

Holders of certain industrial development revenue bonds may tender at par prior to maturity. The next tender date is April 1, 2001 for \$14,400,000 of principal amount of bonds. The Company expects to remarket all such bonds which are tendered. In the years 1999, 1998 and 1997, interest payments on short- and long-term debt were \$93,017,000, \$77,038,000 and \$69,566,000, respectively.

(8) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

During the first quarter of 1996, a consolidated wholly-owned subsidiary of the Company, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (Trust Convertible Preferred Securities or EPPICS), representing preferred undivided interests in the assets of the Trust, with a liquidation preference of \$50 per security (for a total liquidation amount of \$201,250,000). The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase \$207,475,000 aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly owned consolidated subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from the Company \$211,756,050 aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities, and the Company's Convertible Subordinated Debentures are substantially all the assets of the Partnership. The Company's obligations under the agreements related to the issuances of such securities, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities. The \$196,722,000 of net proceeds from the issuances was used to permanently fund a portion of previous acquisitions of telecommunications properties.

In accordance with the terms of the issuances, the Company paid the 5% interest on the Convertible Subordinated Debentures in Citizens' Common Stock. During 1999, 1,004,961 shares of Common Stock were issued to the Partnership in payment of interest of which 976,464 shares were sold by the Partnership to satisfy cash dividend payment elections by the holders of the EPPICS. The sales proceeds and the remaining 28,497 shares of Common Stock were distributed by the Partnership to the Trust. During 1998, 1,093,274 shares of Common Stock were issued to the Partnership in payment of interest of which 1,009,231 shares were sold by the Partnership to satisfy cash dividend payment elections by the holders of the EPPICS. The sales proceeds and the remaining 84,043 shares of Common Stock were distributed by the Partnership to the Trust. During 1997, 986,579 shares of Common Stock were issued to the Partnership in payment of interest of which 952,007 shares were sold by the Partnership to satisfy cash dividend payment elections by the holders of the EPPICS. The sales proceeds and the remaining 34,572 shares of Common Stock were distributed by the Partnership to the Trust. The Trust distributed the cash and shares as dividends to the holders of the EPPICS in 1999, 1998 and 1997.

(9) Capital Stock:

The Company is authorized to issue up to 600,000,000 shares of Common Stock. Quarterly stock dividends had been declared and issued on Common Stock and shareholders had the option of enrolling in the "Common Stock Dividend Sale Plan." The plan offered shareholders the opportunity to have their stock dividends sold by the plan broker and the net cash proceeds of the sale distributed to them quarterly.

The amount and timing of dividends payable on Common Stock are within the sole discretion of the Company's Board of Directors. The Board of Directors had undertaken an extensive review of the Company's dividend policy in conjunction with its review of strategic options for the Company in 1998. Resulting from this review, the Board concluded that the Company discontinue dividends after the payment of the December 1998 stock dividend.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Quarterly and annual stock dividend rates declared and annual stock dividend cash equivalents (adjusted for all stock dividends declared through December 31, 1998, and rounded to the nearest 1/16th) considered by the Board have been as follows:

	Dividend Rates	
	1998	1997
First quarter . . . . .	.75%	1.6%
Second quarter . . . . .	.75%	1.6%
Third quarter . . . . .	.75%	1.0%
Fourth quarter . . . . .	.75%	1.0%
Total	<u>3.0%</u>	<u>5.2%</u>
Compounded Total	<u>3.03%</u>	<u>5.30%</u>
Cash Equivalent	<u>28⁵/₁₆¢</u>	<u>51¹/₄¢</u>

The Company purchased 631,000 shares at a cost of \$6,625,000 in 1999. The Company purchased 1,811,000 shares at a cost of \$14,826,000 in 1998 and 4,904,000 shares at a cost of \$48,552,000 in 1997 to pay common stock dividends.

In December 1999, the Company's Board of Directors authorized the purchase, from time to time, of up to \$100,000,000 worth of shares of the Company's common stock.

The activity in shares of outstanding common stock during 1999, 1998 and 1997 is summarized as follows:

	Number of Shares
Balance at January 1, 1997	239,148,000
Acquisitions	2,417,000
Common stock dividends	12,591,000
Common stock buybacks	(4,904,000)
Common stock issued to fund EPPICS dividends	986,000
Stock plans	756,000
Balance at December 31, 1997	250,994,000
Acquisitions	532,000
Common stock dividends	7,657,000
Common stock buybacks	(1,811,000)
Common stock issued to fund EPPICS dividends	1,093,000
Stock plans	684,000
Balance at December 31, 1998	259,149,000
Common stock buybacks	(631,000)
Common stock issued to fund EPPICS dividends	1,005,000
Stock plans	2,553,000
Balance at December 31, 1999	<u>262,076,000</u>

The Company has 50,000,000 authorized but unissued shares of preferred stock (\$.01 par).

(10) Stock Plans:

At December 31, 1999, the Company had four stock based compensation plans and ELI had two stock based plans which are described below. The Company applies APB Opinion No. 25 and related interpretations in accounting for the employee stock plans. No compensation cost has been recognized in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the financial statements for options issued pursuant to the Management Equity Incentive Plan (MEIP), Equity Incentive Plan (EIP), Employee Stock Purchase Plan (ESPP), ELI Employee Stock Purchase Plan (ELI ESPP) or ELI Equity Incentive Plan (ELI EIP) as the exercise price for such options was equal to the market price of the stock at the time of grant. Compensation cost recognized for the Company's Directors' Deferred Fee Equity Plan was \$481,540, \$463,798 and \$352,017 in 1999, 1998 and 1997, respectively. Had the Company determined compensation cost based on the fair value at the grant date for its MEIP, EIP, ESPP, ELI ESPP and ELI EIP, the Company's pro forma Net income and Net income per common share would have been as follows:

		1999	1998	1997
			(\$ in thousands)	
Net Income	As reported	\$144,486	\$57,060	\$10,100
	Pro forma	130,613	46,005	7,717
Net Income per common share	As reported:			
	Basic	\$.55	\$.22	\$.04
	Diluted	.55	.22	.04
	Pro forma:			
	Basic	\$.50	\$.18	\$.03
	Diluted	.50	.18	.03

The full impact of calculating compensation cost for stock options is not reflected in the pro forma amounts above because pro forma compensation cost only includes costs associated with the vested portion of options granted pursuant to the MEIP, EIP, ESPP, ELI ESPP and ELI EIP on or after January 1, 1995.

In November 1998, the Compensation Committee of the Company's Board of Directors approved a stock option exchange program pursuant to which current employees of the Company (excluding senior executive officers) holding outstanding options, under the MEIP and EIP plans, with an exercise price in excess of \$10.00 had the right to exchange their options for a lesser number of new options with an exercise price of \$7.75. A calculation was prepared using the Black Scholes option pricing model to determine the exchange rate for each eligible grant in order to keep the fair value of options exchanged equal to the fair value of the options reissued. The exchanged options maintain the same vesting and expiration terms. This stock option exchange program had no impact on reported earnings and resulted in an aggregate net reduction in shares subject to option of 2,202,000 for both MEIP and EIP.

In August 1998, the Compensation Committee of ELI's Board of Directors approved a stock option exchange program pursuant to which employees of ELI holding outstanding options with an exercise price in excess of \$15.50 had the right to exchange all or half of their options for a lesser number of new options with an exercise price of \$8.75. A calculation was prepared using the Black Scholes option pricing model to determine the exchange rate for each eligible grant in order to keep the fair value of options exchanged equal to the fair value of the options reissued. The repriced options maintain the same vesting and expiration terms. This stock option exchange program had no impact on reported earnings and resulted in a net reduction in shares subject to option of 546,000.

Both ELI and the Company repriced these employee stock options in an effort to retain employees at a time when a significant percentage of employee stock options had exercise prices that were above fair market value. No compensation costs have been recognized in the financial statements as the exercise price was equal to the market value of the stock at the date of repricing.

Management Equity Incentive Plan

Under the MEIP, awards of the Company's Common Stock may be granted to eligible officers, management employees and non-management exempt employees of the Company and its subsidiaries in the form of incentive stock options, non-qualified stock options, stock appreciation rights (SARs), restricted stock or other stock-based awards. The MEIP is administered by the Compensation Committee of the Board of Directors.

The maximum number of shares of common stock which may be issued pursuant to awards at any time is 5% (13,103,812 as of December 31, 1999) of the Company's common stock outstanding. No awards will be granted more than 10 years after the effective date (June 22, 1990) of the MEIP. The exercise price of stock options and SARs shall be equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are generally not exercisable on the date of grant but vest over a period of time.

Under the terms of the MEIP, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decreases the average exercise price of outstanding options.

The following is a summary of share activity subject to option under the MEIP adjusted for subsequent stock dividends for 1997. There were no stock dividends declared in 1999.

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1997	10,800,000	\$11.02
Options granted	1,641,000	8.53
Options exercised	(106,000)	10.81
Options canceled, forfeited or lapsed	<u>(631,000)</u>	11.03
Balance at December 31, 1997	11,704,000	10.72
Options granted	1,869,000	7.75
Options exercised	(29,000)	10.56
Options canceled, forfeited or lapsed	<u>(4,109,000)</u>	11.09
Balance at December 31, 1998	9,435,000	9.91
Options granted	1,844,000	8.00
Options exercised	(602,000)	8.20
Options canceled, forfeited or lapsed	<u>(396,000)</u>	8.08
Balance at December 31, 1999	<u>10,281,000</u>	\$ 9.73

In 1998, as a result of the stock option exchange program approved by the Compensation Committee of the Board of Directors, a total of 3,801,000 options were eligible for exchange, of which 3,554,000 options were canceled in exchange for 1,869,000 new options with an exercise price of \$7.75.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about shares subject to options under the MEIP at December 31, 1999.

Options Outstanding				Options Exercisable	
Number Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number Exercisable	Weighted Average Exercise Price
14,000	\$ 4 – 5	\$ 4	5	14,000	\$ 4
3,601,000	7 – 8	8	6	1,889,000	8
1,330,000	8 – 10	9	8	866,000	9
2,199,000	10 – 11	11	5	1,960,000	11
2,578,000	11 – 14	12	4	2,343,000	12
559,000	14 – 15	14	4	559,000	14
<u>10,281,000</u>	\$ 4 – 15	\$10	5	<u>7,631,000</u>	\$10

The weighted average fair value of options granted during 1999, 1998 and 1997 were \$3.17, \$2.27 and \$4.23, respectively. For purposes of the pro forma calculation, the fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997:

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	29%	26%	32%
Risk-free interest rate	5.32%	4.43%	6.13%
Expected life	6 years	4 years	7 years

During 1996, the Company granted 566,694 shares (adjusted for subsequent stock dividends) of restricted stock awards to key employees in the form of the Company's Common Stock. None of the restricted stock may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse in January 2001. At December 31, 1999, 559,974 shares of restricted stock were outstanding. Compensation expense of \$1,268,000, \$1,288,000 and \$1,302,000 for the years ended December 31, 1999, 1998 and 1997, respectively, has been recorded in connection with these grants.

Equity Incentive Plan

In May 1996, the shareholders of the Company approved the EIP. Under the EIP, awards of the Company's Common Stock may be granted to eligible officers, management employees and non-management employees of the Company and its subsidiaries in the form of incentive stock options, non-qualified stock options, stock appreciation rights (SARs), restricted stock or other stock-based awards. The EIP is administered by the Compensation Committee of the Board of Directors.

The maximum number of shares of common stock which may be issued pursuant to awards at any time is 12,858,000 shares, which has been adjusted for subsequent stock dividends for 1997. There were no stock dividends declared in 1999. No awards will be granted more than 10 years after the effective date (May 23, 1996) of the EIP. The exercise price of stock options and SARs shall be equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are generally not exercisable on the date of grant but vest over a period of time.

Under the terms of the EIP, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decrease the average exercise price of outstanding options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of share activity subject to option under the EIP adjusted for subsequent stock dividends for 1997. There were no stock dividends declared in 1999.

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1997	—	\$ —
Options granted	2,197,000	8.55
Options canceled, forfeited or lapsed	(3,000)	8.53
Balance at December 31, 1997	2,194,000	8.55
Options granted	4,683,000	9.34
Options canceled, forfeited or lapsed	(2,745,000)	10.14
Balance at December 31, 1998	4,132,000	8.51
Options granted	3,487,000	8.64
Options exercised	(361,000)	8.46
Options canceled, forfeited or lapsed	(679,000)	8.40
Balance at December 31, 1999	<u>6,579,000</u>	\$ 8.59

As a result of the stock option exchange program approved by the Compensation Committee of the Board of Directors, a total of 2,453,000 options were eligible for exchange, of which 2,123,000 options were canceled in exchange for 1,606,000 new options with an exercise price of \$7.75.

The following table summarizes information about shares subject to options under the EIP at December 31, 1999.

Options Outstanding				Options Exercisable	
Number Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number Exercisable	Weighted Average Exercise Price
3,625,000	\$ 7 – 8	\$ 8	9	635,000	\$ 8
1,504,000	8 – 9	9	8	1,026,000	9
133,000	9 – 10	9	8	35,000	9
417,000	10 – 11	10	8	136,000	10
900,000	11 – 13	12	10	—	—
<u>6,579,000</u>	\$ 7 – 13	\$ 9	9	<u>1,832,000</u>	\$ 8

The weighted average fair value of options granted during 1999, 1998 and 1997 was \$3.46, \$3.54 and \$4.25, respectively. For purposes of the pro forma calculation, the fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997:

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	29%	26%	32%
Risk-free interest rate	5.47%	5.15%	6.14%
Expected life	6 years	6 years	7 years

During 1999, 1998 and 1997, the Company granted restricted stock awards to key employees in the form of the Company's Common Stock. The number of shares issued as restricted stock awards during 1999, 1998

and 1997 were 901,200, 464,409 and 23,018, respectively (adjusted for subsequent stock dividends in 1997). None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse. The restrictions are both time and performance based. At December 31, 1999, 946,976 shares of restricted stock were outstanding. Compensation expense of \$1,305,652, \$808,000 and \$27,000 for the years ended December 31, 1999, 1998 and 1997, respectively, has been recorded in connection with these grants.

Employee Stock Purchase Plan

The Company's ESPP was approved by shareholders on June 12, 1992 and amended on May 22, 1997. Under the ESPP, eligible employees of the Company and its subsidiaries have the right to subscribe to purchase shares of Common Stock at the lesser of 85% of the mean between the high and low market prices on the first day of the purchase period or on the last day of the purchase period. An employee may elect to have up to 20% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of an employee's subscription may not exceed \$25,000 in any one calendar year. An employee may not participate in the ESPP if such employee owns stock possessing 5% or more of the total combined voting power or value of the Company's capital stock. As of December 31, 1999, there were 6,407,195 shares of Common Stock reserved for issuance under the ESPP. These shares may be adjusted for any future stock dividends or stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The ESPP is administered by the Compensation Committee of the Board of Directors. As of December 31, 1999, the number of employees enrolled and participating in the ESPP was 2,066 and the total number of shares purchased under the ESPP was 3,201,887. For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 1999, 1998 and 1997:

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	29%	26%	32%
Risk-free interest rate	5.28%	4.91%	5.45%
Expected life	6 months	6 months	6 months

The weighted average fair value of those purchase rights granted in 1999, 1998 and 1997 was \$2.52, \$2.05 and \$2.28, respectively.

ELI Employee Stock Purchase Plan

The ELI ESPP was approved by shareholders on May 21, 1998. Under the ELI ESPP, eligible employees of ELI may subscribe to purchase shares of ELI Class A Common Stock at the lesser of 85% of the average of the high and low market prices on the first day of the purchase period or on the last day of the purchase period. An employee may elect to have up to 20% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of an employee's subscription may not exceed \$25,000 in any one calendar year. An employee may not participate in the ELI ESPP if such employee owns stock possessing 5% or more of the total combined voting power or value of all classes of capital stock of ELI. As of December 31, 1999, there were 1,950,000 shares of ELI Class A Common Stock reserved for issuance under the ELI ESPP. These shares may be adjusted for any future stock dividends or stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The ELI ESPP is administered by the Compensation Committee of ELI's Board of Directors. As of December 31, 1999, the number of employees enrolled and participating in the ELI ESPP was 691 and the total number of shares purchased

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

under the ELI ESPP was 328,664. For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 1999 and 1998:

	1999	1998
Dividend yield	—	—
Expected volatility	66%	71%
Risk-free interest rate	5.25%	4.92%
Expected life	6 months	6 months

The weighted average fair value of those purchase rights granted in 1999 and 1998 was \$4.97 and \$3.82, respectively.

ELI Equity Incentive Plan

In October 1997, the Board of Directors of ELI approved the ELI EIP. Under the ELI EIP, awards of ELI's Class A Common Stock may be granted to eligible directors, officers, management employees, non-management employees and consultants of ELI in the form of incentive stock options, non-qualified stock options, SARs, restricted stock or other stock-based awards. The ELI EIP is administered by the Compensation Committee of the ELI Board of Directors. The exercise price for such awards shall not be less than 85% or more than 110% of the average of the high and low stock prices on the date of grant. The exercise period for such awards is generally 10 years from the date of grant. ELI has reserved 6,670,600 shares for issuance under the terms of this plan.

The following is a summary of share activity subject to option under the ELI EIP.

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1997	—	\$ —
Options granted	<u>2,326,000</u>	16.00
Balance at December 31, 1997	2,326,000	16.00
Options granted	1,654,000	10.77
Options canceled, forfeited or lapsed	<u>(1,649,000)</u>	16.21
Balance at December 31, 1998	2,331,000	12.14
Options granted	1,989,000	9.51
Options exercised	(116,000)	9.73
Options canceled, forfeited or lapsed	<u>(680,000)</u>	10.12
Balance at December 31, 1999	<u>3,524,000</u>	\$10.96

As a result of the stock option exchange program approved by the ELI Compensation Committee of the Board of Directors, a total of 2,212,000 options were eligible for exchange, of which 1,426,000 options were canceled in exchange for 880,000 new options in August 1998.

The following table summarizes information about shares subject to options under the EIP at December 31, 1999.

Options Outstanding				Options Exercisable	
Number Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Weighted-Average Remaining Life in Years	Number Exercisable	Weighted Average Exercise Price
41,000	\$ 5 – 8	\$ 7	9	12,000	\$ 7
2,309,000	8 – 9	9	9	675,000	9
311,000	10 – 15	13	9	58,000	13
863,000	15 – 18	16	8	594,000	16
<u>3,524,000</u>	\$ 5 – 18	\$11	9	<u>1,339,000</u>	\$12

For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 1999, 1998 and 1997:

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	66%	71%	13%
Risk-free interest rate	5.34%	5.44%	5.87%
Expected life	6 years	6 years	7 years

The weighted-average fair value of those options granted in 1999, 1998 and 1997 were \$6.16, \$6.94 and \$5.13, respectively.

ELI has granted 610,000 restricted stock awards to key employees in the form of Class A Common Stock since its IPO. These restrictions lapse based on meeting specific performance targets. At December 31, 1999, 581,000 shares of this stock were outstanding, of which 259,000 shares are no longer restricted. Compensation expense was recorded in connection with these grants in the amounts of \$2,559,000, \$4,666,000 and \$219,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Directors' Deferred Fee Equity Plan

The Company's Non-Employee Directors' Deferred Fee Equity Plan (the Directors' Plan) was approved by shareholders on May 19, 1995 and subsequently amended. The Directors' Plan includes an Option Plan, a Stock Plan and a Formula Plan. Through the Option Plan, an eligible director may elect to receive up to \$30,000 per annum of his or her director's fees for a period of up to five years in the form of options to purchase Company common stock, the number of such options being equal to such fees divided by 20% of the fair market value of Company common stock on the effective date of the options and are exercisable at 90% of the fair market value of Company common stock on the effective date of the options. Through the Stock Plan, an eligible director may elect to receive all or a portion of his or her director's fees in the form of Plan Units, the number of such Plan Units being equal to such fees divided by the fair market value of Company common stock on certain specified dates. The Formula Plan provides each Director of the Company options to purchase 5,000 shares of common stock on the first day of each year beginning in 1997 and continuing through 2002 regardless of whether the Director is participating in the Option Plan or Stock Plan. In addition, on September 1, 1996, options to purchase 2,500 shares of common stock were granted to each Director. The exercise price of the options are 100% of the fair market value on the date of grant and the options are exercisable six months after the grant date and remain exercisable for ten years after the grant date. In the event of termination of Directorship, a Stock Plan participant will receive the value of such Plan Units in either stock or cash or installments of cash as selected by the Participant at the time of the

related Stock Plan election. As of any date, the maximum number of shares of common stock which the Plan may be obligated to deliver pursuant to the Stock Plan and the maximum number of shares of common stock which shall have been purchased by Participants pursuant to the Option Plan and which may be issued pursuant to outstanding options under the Option Plan shall not be more than one percent (1%) of the total outstanding shares of Common Stock of the Company as of such date, subject to adjustment in the event of changes in the corporate structure of the Company affecting capital stock. There were 10 directors participating in the Directors' Plan in 1999. In 1999, the total Options and Plan Units earned were 153,969 and 15,027, respectively. In 1998, the total Options and Plan Units earned were 185,090 and 16,661, respectively. In 1997, the total Options and Plan Units earned were 188,838 and 18,817, respectively (adjusted for subsequent stock dividends). At December 31, 1999, 671,477 options were exercisable at a weighted average exercise price of \$9.66.

On December 31, 1999, the Option Plan and the Stock Plan of the Deferred Fee Equity Plan expired in accordance with the plan's terms. In replacement of these plans, the non-employee directors now have the choice to receive 50% or 100% of their future fees in either stock or stock units. If stock is elected, the stock will be purchased at the average of the high and low on the first trading date of the year (Initial Market Value). If the average price is lower on the last trading day of November (Final Market Value), an adjustment will be made by payment of additional stock to bring the shares paid up to the number of shares purchasable at the Final Market Price. If stock units are elected, they will be purchased at 85% of the Initial Market Value. In the event of a lower Final Market Value, an adjustment will be made by payment of additional stock to bring the shares paid up to the number of shares purchasable at the Final Market Price. Stock units (except in an event of hardship) are held by the Company until retirement or death.

The Company had also maintained a Non-Employee Directors' Retirement Plan providing for the payment of specified sums annually to non-employee directors of the Company, or their designated beneficiaries, starting at their retirement, death or termination of directorship of each individual director. In 1999, the Company terminated this Plan. In connection with the termination, the value as of May 31, 1999, of the vested benefit of each non-employee director was credited to him/her in the form of stock units. Such benefit will be payable upon retirement, death or termination of the directorship. Each participant had until July 15, 1999 to elect whether the value of the stock units awarded would be payable in common stock of the Company (convertible on a one for one basis) or in cash. As of December 31, 1999, the liability for such payments was \$3.7 million of which \$1.6 million will be payable in stock (based on the July 15, 1999 stock price) and \$2.1 million will be payable in cash. While the number of shares of stock payable to those directors electing to be paid in stock was fixed, the amount of cash payable to those directors electing to be paid in cash will be based on the number of stock units awarded times the stock price at the payment date.

(11) 1999 Restructuring Charges:

In the fourth quarter of 1999, the Company approved a plan to restructure the Company's corporate office activities. In connection with this plan, the Company recorded a pre-tax charge of \$5,760,000 in other operating expenses. The restructuring results in the reduction of 49 corporate employees. As part of this process, certain job functions are being outsourced and others eliminated. All affected employees were communicated to in the early part of November 1999.

As of December 31, 1999, approximately \$221,000 of the costs had been paid and 17 employees were terminated. The remaining accrual of approximately \$5,539,000 is recorded in other current liabilities. These costs are expected to be paid in 2000 and the remaining employees will be terminated in 2000.

(12) 1997 Charges to Earnings:

During the second quarter of 1997, the Company recorded approximately \$197,300,000 of pre-tax charges to earnings of which \$153,500,000 related to continuing operations and \$43,800,000 to discontinued operations. For continuing operations, the charges resulted from a re-evaluation of certain business

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

strategies including its out-of-territory long distance aggressive growth strategy, accounting policy changes at ELI in anticipation of its initial public offering and curtailment of certain employee benefit plans. For discontinued operations, the charges resulted from public utility regulatory commission orders and the curtailment of certain employee benefit plans.

(13) Income Taxes:

The following is a reconciliation of the provision for income taxes computed at federal statutory rates to the actual amount:

	1999	1998	1997
	(\$ in thousands)		
Consolidated tax provision at federal statutory rate	\$65,773	\$11,558	\$ 1,475
State income tax provisions (benefit), net of federal income tax	1,266	(495)	1,352
Allowance for funds used during construction	(1,072)	(1,322)	(1,441)
Nontaxable investment income	(2,609)	(2,932)	(4,726)
Amortization of investment tax credits	(613)	(548)	(657)
Flow through depreciation	5,706	4,870	3,946
Tax reserve adjustment	1,455	(4,760)	564
Company owned life insurance	2,599	561	1,290
Minority interest	(8,290)	(2,433)	—
All other, net	372	(551)	125
	<u>\$64,587</u>	<u>\$ 3,948</u>	<u>\$ 1,928</u>

As of December 31, 1999, 1998 and 1997, accumulated deferred income taxes amounted to \$450,903,000, \$432,299,000 and \$408,310,000, respectively, and the unamortized deferred investment tax credits amounted to \$9,305,000, \$10,609,000 and \$12,398,000, respectively. Income taxes paid during the year were \$885,000, \$5,434,000 and \$17,765,000 for 1999, 1998 and 1997, respectively.

The components of the net deferred income tax liability at December 31, are as follows:

	1999	1998	1997
	(\$ in thousands)		
Deferred income tax liabilities:			
Property, plant and equipment basis differences	\$381,278	\$334,296	\$338,170
Regulatory assets	69,757	73,724	76,504
Other, net	20,523	47,572	20,101
	<u>471,558</u>	<u>455,592</u>	<u>434,775</u>
Deferred income tax assets:			
Regulatory liabilities	7,663	8,431	9,236
Deferred investment tax credits	3,687	4,253	4,831
	<u>11,350</u>	<u>12,684</u>	<u>14,067</u>
Net deferred income tax liability	<u>\$460,208</u>	<u>\$442,908</u>	<u>\$420,708</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision for federal and state income taxes, as well as the taxes charged or credited to shareholders' equity, includes amounts both payable currently and deferred for payment in future periods as indicated below:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(\$ in thousands)		
Income taxes charged (credited) to the income statement for continuing operations:			
Current:			
Federal	\$39,735	\$(17,866)	\$ 11,081
State	<u>1,394</u>	<u>(2,171)</u>	<u>(353)</u>
Total current	<u>41,129</u>	<u>(20,037)</u>	<u>10,728</u>
Deferred:			
Federal	23,517	23,124	(10,576)
Investment tax credits	(613)	(547)	(657)
State	<u>554</u>	<u>1,408</u>	<u>2,433</u>
Total deferred	<u>23,458</u>	<u>23,985</u>	<u>(8,800)</u>
Subtotal	<u>64,587</u>	<u>3,948</u>	<u>1,928</u>
Income taxes charged (credited) to the income statement for discontinued operations:			
Current:			
Federal	6,170	16,222	2,577
State	<u>937</u>	<u>2,464</u>	<u>391</u>
Total current	<u>7,107</u>	<u>18,686</u>	<u>2,968</u>
Deferred:			
Federal	6,662	676	2,902
Investment tax credits	(1,073)	(1,079)	(1,083)
State	<u>1,534</u>	<u>106</u>	<u>668</u>
Total deferred	<u>7,123</u>	<u>(297)</u>	<u>2,487</u>
Subtotal	<u>14,230</u>	<u>18,389</u>	<u>5,455</u>
Income tax benefit on dividends on convertible preferred securities:			
Current:			
Federal	(3,344)	(3,344)	(3,344)
State	<u>(508)</u>	<u>(508)</u>	<u>(508)</u>
Subtotal	<u>(3,852)</u>	<u>(3,852)</u>	<u>(3,852)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(\$ in thousands)		
Income tax benefit on cumulative effect of change in accounting principle:			
Current:			
Federal	—	(478)	—
State	—	—	—
Subtotal	<u>—</u>	<u>(478)</u>	<u>—</u>
Total Income taxes charged to the income statement (a)	<u>74,965</u>	<u>18,007</u>	<u>3,531</u>
Income taxes charged (credited) to shareholders' equity:			
Deferred income taxes (benefits) on unrealized gains or losses on securities classified as available-for-sale	(25,906)	32,792	6,718
Current benefit arising from stock options exercised	<u>(1,262)</u>	<u>(35)</u>	<u>(164)</u>
Income taxes charged (credited) to shareholders' equity (b)	<u>(27,168)</u>	<u>32,757</u>	<u>6,554</u>
Total income taxes: (a) plus (b)	<u>\$47,797</u>	<u>\$ 50,764</u>	<u>\$ 10,085</u>

The Company's alternative minimum tax credit as of December 31, 1999 is \$92,114,000, which can be carried forward indefinitely to reduce future regular tax liability. This benefit is included as a debit against accrued income taxes.

(14) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the years ended December 31, 1999, 1998 and 1997 is as follows:

	<u>1999</u>			<u>1998</u>			<u>1997</u>		
	(\$ in thousands, except for per share amounts)								
	<u>Income</u>	<u>Shares</u>	<u>Per Share</u>	<u>Income</u>	<u>Shares</u>	<u>Per Share</u>	<u>Income</u>	<u>Shares</u>	<u>Per Share</u>
Net income per common share:									
Basic	\$144,486	260,613	\$.55	\$57,060	258,879	\$.22	\$10,100	260,226	\$.04
Effect of dilutive options	—	1,779	—	—	742	—	—	598	—
Diluted	\$144,486	262,392	\$.55	\$57,060	259,621	\$.22	\$10,100	260,824	\$.04

All share amounts represent weighted average shares outstanding for each respective period. All per share amounts have been adjusted for subsequent stock dividends for 1997. There were no stock dividends declared in 1999. The diluted net income per common share calculation excludes the effect of potentially dilutive shares when their exercise price exceeds the average market price over the period. The Company has 4,025,000 shares of potentially dilutive Mandatorily Redeemable Convertible Preferred Securities which are convertible into common stock at a 3.76 to 1 ratio at an exercise price of \$13.30 per share and 7,756,406 potentially dilutive stock options at a range of \$10.54 to \$14.24 per share. These items were adjusted for subsequent stock dividends and were not included in the diluted net income per common share calculation for any of the above periods as their effect was antidilutive.

(15) Comprehensive Income (Loss):

The Company's other comprehensive income (loss) for the years ended December 31, 1999 and 1998 is as follows:

	Year Ended December 31, 1999		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
	(\$ in thousands)		
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	\$ 56,746	\$ 21,722	\$ 35,024
Less: Reclassification adjustment for net gains realized in net income	<u>124,421</u>	<u>47,628</u>	<u>76,793</u>
Other comprehensive loss	<u>\$ (67,675)</u>	<u>\$ (25,906)</u>	<u>\$ (41,769)</u>
	Year Ended December 31, 1998		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
	(\$ in thousands)		
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	\$ 56,497	\$ 21,627	\$ 34,870
Add: Reclassification adjustment for net losses realized in net income	<u>29,167</u>	<u>11,165</u>	<u>18,002</u>
Other comprehensive income	<u>\$ 85,664</u>	<u>\$ 32,792</u>	<u>\$ 52,872</u>

(16) Segment Information:

The Company is segmented into communications and ELI. The communications segment provides both regulated and competitive communications services to residential, business and wholesale customers. ELI is a facilities based integrated communications provider providing a broad range of communications services throughout the United States.

EBITDA for each segment consists of segment operating income plus depreciation, all excluding special items. EBITDA is a measure commonly used to analyze companies on the basis of operating performance. It is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity and may not be comparable to similarly titled measures of other companies. Special items for 1999 include the following: gains on the sales of investments, asset impairment charges, accelerated depreciation related to the change in useful life of an operating system, costs associated with an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

executive retirement agreement, restructuring charges, pre-acquisition integration costs and separation costs. Special items for 1998 include separation costs and the HTCC investment write-off. Special items for 1997 include the 1997 charges to earnings.

	Year Ended December 31,		
	1999	1998	1997
	(\$ in thousands)		
Communications:			
Revenues excluding special items	\$ 949,268	\$ 867,446	\$ 840,329*
Inter-segment revenues	(46,031)	(32,407)	(23,573)
Revenues as reported	903,237	835,039	802,589
Depreciation	226,141	181,656	175,363
Operating income (loss)	103,727	157,567	(2,580)
EBITDA	380,465	340,642	315,506
Capital expenditures, net	227,176	201,453	263,011
Total segment assets	2,422,572	2,438,978	2,313,535

* Excludes \$14,167,000 of the 1997 charges to earnings.

	Year Ended December 31,		
	1999	1998	1997
	(\$ in thousands)		
ELI:			
Revenues	\$ 187,008	\$ 100,880	\$ 61,084
Inter-segment revenues	(2,817)	(3,061)	(3,341)
Revenues as reported	184,191	97,819	57,743
Depreciation	36,289	17,002	11,167
Operating loss	(95,659)	(75,923)	(48,201)
EBITDA	(57,698)	(58,921)	(26,269)
Capital expenditures, net	245,695*	200,000	124,549
Total segment assets	775,234	532,309	359,962

* Includes \$60,000,000 in non-cash capital lease additions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table is a reconciliation of certain segment items to the total consolidated amount.

	Year Ended December 31,		
	1999	1998	1997
	(\$ in thousands)		
EBITDA			
Total segment EBITDA	\$ 322,767	\$ 281,721	\$ 289,237
Investment and other income	22,513	37,197	41,396
Non operating gain on sale of subsidiary stock	—	—	78,734
Special items	168,819	(33,324)	(153,488)
Discontinued operations	148,190	158,399	112,310
Consolidated EBITDA	<u>\$ 662,289</u>	<u>\$ 443,993</u>	<u>\$ 368,189</u>
Capital expenditures			
Total segment capital expenditures	\$ 472,871	\$ 401,453	\$ 387,560
General capital expenditures	6,741	25,123	33,334
Discontinued operations capital expenditures	135,804	95,456	103,595
Consolidated reported capital expenditures	<u>\$ 615,416</u>	<u>\$ 522,032</u>	<u>\$ 524,489</u>
Assets			
Total segment assets	\$3,197,806	\$2,971,287	\$2,673,497
General assets	917,525	807,597	760,149
Discontinued operations assets	1,656,414	1,514,048	1,439,206
Consolidated reported assets	<u>\$5,771,745</u>	<u>\$5,292,932</u>	<u>\$4,872,852</u>

(17) Quarterly Financial Data (unaudited):

	Revenues	Net Income	Net Income Per Common Share	
			Basic	Dilutive
	(\$ in thousands)			
1999				
First quarter	\$264,750	\$54,625	\$.21	\$.21
Second quarter	273,946	7,753	.03	.03
Third quarter	271,517	11,908	.05	.05
Fourth quarter	277,215	70,200	.27	.26

	Revenues	Net Income	Net Income Per Common Share	
			Basic	Dilutive
	(\$ in thousands)			
1998				
First quarter	\$224,540	\$26,779	\$.10	\$.10
Second quarter	224,511	14,462	.06	.06
Third quarter	236,324	14,461	.06	.06
Fourth quarter	247,483	1,358	.01	.01

First quarter 1999 results include an after tax gain of approximately \$42,900,000 on the sale of Centennial Cellular stock (see Note 5). Fourth quarter 1999 results include an after tax gain of approximately \$41,700,000 on the sale of Century stock and an after tax gain of approximately \$51,800,000 on the sale of the Company's interest in a cable joint venture (see Note 5), offset by after tax asset impairment charges of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

approximately \$22,300,000 (see Note 1(g)), after tax costs of an executive retirement agreement of \$4,100,000, after tax restructuring charges of approximately \$3,600,000 (see Note 11), after tax impact of accelerated depreciation of approximately \$3,000,000 related to the change in useful life of an operating system and after tax pre-acquisition integration costs of approximately \$2,400,000 (see Note 3).

First quarter 1998 results include an after tax cumulative effect of change in accounting principle, net of related minority interest of approximately \$2,334,000 (see Note 1(k)). Fourth quarter 1998 results include an after tax write-off of the HTCC investment of approximately \$19,700,000 (see Note 5).

The quarterly net income per common share amounts are rounded to the nearest cent. Annual net income per common share may vary depending on the effect of such rounding.

(18) Supplemental Cash Flow Information:

The following is a schedule of net cash provided by operating activities for the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
		(\$ in thousands)	
Income (Loss) from continuing operations	\$ 117,127	\$ 20,532	\$ (3,923)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	262,430	198,658	186,530
Non cash charges to earnings	36,136	—	122,735
Investment gains	(221,088)	—	—
Non cash HTCC investment write off	—	31,905	—
Cumulative effect of change in accounting principle	—	3,394	—
Gain on sale of subsidiary stock	—	—	(78,734)
Allowance for equity funds used during construction	(2,547)	(2,700)	(4,566)
Deferred income tax and investment tax credit	30,581	23,687	(6,373)
Change in operating accounts receivable	(7,783)	(40,770)	(41,745)
Change in accounts payable and other	91,088	(112,809)	(27,982)
Change in accrued taxes and interest	30,624	17,996	(4,458)
Change in other assets	10,941	16,205	(1,628)
Net cash provided by continuing operating activities	<u>\$ 347,509</u>	<u>\$ 156,098</u>	<u>\$ 139,856</u>

In conjunction with the acquisitions described in Note 3 the Company assumed debt of \$13,800,000 and \$8,400,000 in 1998 and 1997, respectively, at weighted average interest rates of 5.6% and 6.2%, respectively.

(19) Retirement Plans:**Pension Plan**

The Company and its subsidiaries have a noncontributory pension plan covering all employees who have met certain service and age requirements. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to fund the plan's net periodic pension cost while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables set forth the plan's benefit obligations and fair values of plan assets as of December 31, 1999 and 1998.

	<u>1999</u>	<u>1998</u>
	(\$ in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$252,914	\$208,520
Service cost	13,234	10,747
Interest cost	17,200	15,703
Amendments	(1,877)	(1,487)
Actuarial (gain)/loss	(33,039)	27,941
Acquisitions	—	8,344
Benefits paid	<u>(20,830)</u>	<u>(16,854)</u>
Benefit obligation at end of year	<u>\$227,602</u>	<u>\$252,914</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$232,536	\$201,834
Actual return on plan assets	21,760	24,749
Acquisitions	—	10,875
Employer contribution	5,420	11,932
Benefits paid	<u>(20,830)</u>	<u>(16,854)</u>
Fair value of plan assets at end of year	<u>\$238,886</u>	<u>\$232,536</u>
(Accrued)/Prepaid benefit cost		
Funded status	\$ 11,284	\$ (20,378)
Unrecognized net liability	146	189
Unrecognized prior service cost	1,673	3,682
Unrecognized net actuarial (gain)/loss	<u>(13,911)</u>	<u>21,807</u>
(Accrued)/Prepaid benefit cost	<u>\$ (808)</u>	<u>\$ 5,300</u>
Components of net periodic benefit cost		
Service cost	\$ 13,234	\$ 10,747
Interest cost on projected benefit obligation	17,200	15,703
Return on plan assets	(19,081)	(17,241)
Net amortization and deferral	175	400
Net periodic benefit cost	<u>\$ 11,528</u>	<u>\$ 9,609</u>

Assumptions used in the computation of pension costs/ year-end benefit obligations were as follows:

	<u>1999</u>	<u>1998</u>
Discount rate	7.0%/8.0%	7.5%/7.0%
Expected long-term rate of return on plan assets	8.25%/N/A	8.25%/N/A
Rate of increase in compensation levels	4.0%/4.0%	4.0%/4.0%

In November 1998, the Company acquired Rhinelander Telecommunications, Inc., including its pension benefit plans. The acquisition increased the pension benefit obligation by \$3,974,000 and the fair value of plan assets by \$4,884,000 as of December 31, 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 1998, the Company acquired The Gas Company (TGC), including its non-collectively bargained pension benefit plan. The acquisition increased the pension benefit obligation by \$4,370,000 and the fair value of plan assets by \$5,991,000 as of December 31, 1998.

Postretirement Benefits Other Than Pensions

The Company provides certain medical, dental and life insurance benefits for retired employees and their beneficiaries and covered dependents.

The following table sets forth the plan's benefit obligations and the postretirement benefit liability recognized on the Company's balance sheets at December 31, 1999 and 1998:

	1999	1998
	(\$ in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 51,983	\$ 49,110
Service cost	781	980
Interest cost	3,431	3,523
Plan participants' contributions	629	596
Amendments	—	(4,734)
Actuarial (gain)/loss	(8,590)	4,503
Acquisitions	—	651
Benefits paid	(2,706)	(2,646)
Benefit obligation at end of year	<u>\$ 45,528</u>	<u>\$ 51,983</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 18,710	\$ 6,661
Actual return on plan assets	1,200	677
Benefits paid	(948)	—
Employer contribution	1,498	11,372
Fair value of plan assets at end of year	<u>\$ 20,460</u>	<u>\$ 18,710</u>
Accrued benefit cost		
Funded status	\$(25,068)	\$(33,273)
Unrecognized transition obligation	359	386
Unrecognized prior service cost	—	—
Unrecognized (gain)	(14,953)	(7,562)
Accrued benefit cost	<u>\$(39,662)</u>	<u>\$(40,449)</u>
Components of net periodic postretirement benefit costs		
Service cost	\$ 781	\$ 980
Interest cost on projected benefit obligation	3,431	3,523
Return on plan assets	(1,544)	(549)
Net amortization and deferral	(828)	(947)
Curtailement gain	—	(2,003)
Net periodic postretirement benefit cost	<u>\$ 1,840</u>	<u>\$ 1,004</u>

For purposes of measuring year end benefit obligations, the Company used the same discount rates as were used for the pension plan and a 7% annual rate of increase in the per-capita cost of covered medical benefits, gradually decreasing to 5% in the year 2040 and remaining at that level thereafter. The effect of a 1% increase in the assumed medical cost trend rates for each future year on the aggregate of the service and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

interest cost components of the total postretirement benefit cost would be \$378,000 and the effect on the accumulated postretirement benefit obligation for health benefits would be \$3,845,000. The effect of a 1% decrease in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be \$(338,000) and the effect on the accumulated postretirement benefit obligation for health benefits would be \$(3,486,000).

In August 1999, the Company's Board of Directors approved a plan of divestiture for the public services properties. As such, any pension and/or postretirement gain or loss associated with the divestiture of these properties will be recognized when realized.

401(k) Savings Plans

The Company sponsors employee savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, the Company provides matching contributions in Company stock based on qualified employee contributions. Matching contributions were \$5,850,000, \$5,795,000 and \$4,883,000 for 1999, 1998 and 1997, respectively.

(20) Commitments and Contingencies:

The Company has budgeted capital expenditures in 2000 of approximately \$599,800,000 (including \$38,000,000 of non-cash capital lease additions) for continuing operations and \$169,900,000 for discontinued operations and certain commitments have been entered into in connection therewith.

In December 1999, the Company entered into an agreement with Nortel to outsource elements of DMS central office engineering and commissioning of the Company's network. The Company's commitment under this three year agreement is approximately \$69,000,000 for 2000, \$37,000,000 for 2001 and \$35,000,000 for 2002. The 2000 capital cost of this contract is included in the 2000 budgeted capital expenditures.

The Company conducts certain of its operations in leased premises and also leases certain equipment and other assets pursuant to operating leases. Future minimum rental commitments for all long-term noncancelable operating leases for continuing operations are as follows:

<u>Year</u>	<u>Amount</u>
	(\$ in thousands)
2000	\$ 26,363
2001	25,610
2002	17,237
2003	12,342
2004	9,219
thereafter	<u>13,972</u>
Total	<u>\$104,743</u>

Total rental expense included in the Company's results of operations for the years ended December 31, 1999, 1998 and 1997 was \$30,855,000, \$27,964,000 and \$19,076,000, respectively. The Company subleases, on a month to month basis, certain office space in its corporate office to a charitable foundation formed by its Chairman.

In 1995, ELI entered into a \$110 million construction agency agreement and an operating lease agreement in connection with the construction of certain communications networks and fiber cable links. ELI served as agent for the construction of these projects and, upon completion of each project, leased the facilities for a three year term, with one year renewals available through April 30, 2002. At December 31, 1999 and 1998,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ELI was leasing assets under this agreement with an original cost of approximately \$108,541,000 and \$87,426,000 at December 31, 1997. ELI has the option to purchase the facilities at the end of the lease terms for the amount of the lessor's average investment in the facilities. Payments under the lease depend on current interest rates, and assuming continuation of current interest rates, payments would approximate \$6.1 million annually through April 30, 2002 and, assuming exercise of the purchase option, a final payment of approximately \$110 million in 2002. In the event ELI chooses not to exercise this option, ELI is obligated to arrange for the sale of the facilities to an unrelated party and is required to pay the lessor any difference between the net sales proceeds and the lessor's investment in the facilities. However, any amount required to be paid to the lessor is subject generally to a maximum of 80% (approximately \$88 million) of the lessor's investment. The Company has guaranteed all obligations of ELI under this operating lease.

ELI has entered into various capital and operating leases for fiber optic cable to interconnect ELI's local networks with long-haul fiber optic routes. The terms of the various agreements covering these routes range from 20 to 25 years, with varying optional renewal periods. For certain contracts, rental payments are based on a percentage of ELI's leased traffic, and are exclusive, subject to certain minimums. For other contracts, certain minimum payments are required.

ELI has also entered into certain operating and capital leases in order to develop ELI's local networks, including an operating lease to develop a local network in Phoenix and a capital lease in San Francisco. The operating lease in Phoenix provides for rental payments based on a percentage of the network's operating income for a period of 15 years. The capital lease in San Francisco is a 30-year indefeasible and exclusive right to use agreement for optical fibers in the San Francisco Bay Area. The Phoenix operating lease network is currently operational, and the San Francisco capital lease network is expected to become operational in 2000.

Minimum payments on operating leases are included in the table above. For payments on capital leases, see Note 7.

The Company is also a party to contracts with several unrelated long distance carriers. The contracts provide fees based on leased traffic subject to minimum monthly fees aggregating as follows:

<u>Year</u>	<u>Amount</u>
	(\$ in thousands)
2000	\$ 36,840
2001	31,490
2002	6,120
2003	5,960
2004	4,200
thereafter	<u>12,600</u>
Total	<u>\$ 97,210</u>

The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including the Company, have entered into a purchase power agreement with Hydro-Quebec. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. As of December 31, 1999 and 1998, the Company's obligation under the agreement is approximately 10% of the total contract. The two largest participants in the VJO represent approximately 46% and 37% of the total contract, respectively. During 1998, these two major participants have each experienced regulatory disallowances that have resulted in credit rating downgrades and stock price declines. Both of these participants are in the process of appealing the regulatory

disallowances; however, both companies have stated that an unfavorable ruling could jeopardize their ability to continue as going concerns. If either or both of these companies default on their obligations under the Hydro-Quebec agreement, the remaining members of the VJO, including the Company, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement. Such a result could have a materially adverse effect on the financial results of the Company. The purchaser of the Company's Vermont Electric Division has agreed at closing to assume the Company's power purchase obligations under the Hydro-Quebec agreement, and the Company has agreed to indemnify that purchaser against losses resulting from the "step-up" provision in that agreement.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering insurance coverages, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Citizens Utilities Company and Subsidiaries

CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Income Statement Data						
Continuing operations (1)						
Revenues	19%	\$1,087,428	\$ 932,858	\$ 860,332	\$ 786,307	\$ 616,747
Network access	78%	111,419	105,003	110,057	64,645	15,626
Depreciation and amortization . .	26%	257,574	198,658	186,530	153,571	120,608
Other operating expenses	24%	653,242	546,134	461,038	361,554	306,317
Operating income	-15%	65,193	83,063	102,707	206,537	174,196
Special items (2)	n/a	(57,125)	(1,419)	(153,488)	—	—
Operating income (loss) including special items	-44%	8,068	81,644	(50,781)	206,537	174,196
Investment and other income . . .	-11%	22,513	37,197	41,396	75,539	51,123
Minority interest	n/a	23,227	14,032	645	—	—
Interest expense	14%	86,972	67,944	65,779	56,616	57,143
Special items (3)	n/a	221,088	(34,239)	78,734	—	—
Income taxes	6%	64,587	3,948	1,928	69,311	50,675
Convertible preferred dividends .	n/a	6,210	6,210	6,210	5,849	—
Income (loss) from continuing operations	4%	117,127	20,532	(3,923)	150,300	117,501
Income from discontinued operations, net of tax	-10%	27,359	36,528	14,023	28,360	42,035
Net income	—	144,486	57,060	10,100	178,660	159,536
EBITDA and Capital Expenditure Data (excludes special items)						
EBITDA from continuing						
operations (4)	5%	\$ 345,280	\$ 318,918	\$ 330,633	\$ 435,647	\$ 345,927
EBITDA from discontinued						
operations (4)	4%	153,375	159,053	154,398	120,227	127,136
Total Company EBITDA (4)	5%	498,655	477,971	485,031	555,874	473,063
Capital expenditures from						
continuing operations (5)	17%	419,612	426,576	420,894	244,433	151,267
Capital expenditures from						
discontinued operations	10%	135,804	95,456	103,595	73,330	89,466
Total Company capital expenditures (5)	15%	555,416	522,032	524,489	317,763	240,733
Select Balance Sheet Data						
Cash and investments	11%	\$ 628,527	\$ 496,068	\$ 482,858	\$ 610,950	\$ 393,806
Total assets	10%	5,771,745	5,292,932	4,872,852	4,523,148	3,918,187
Net plant (continuing operations) .	13%	2,888,718	2,705,087	2,394,787	2,037,193	1,854,873
Long-term debt (continuing						
operations)	18%	2,107,460	1,775,338	1,583,902	1,409,512	1,095,211
Equity (6)	13%	2,121,185	1,994,021	1,880,461	1,879,433	1,559,913
Shares of common stock						
outstanding	6%	262,076	259,149	250,994	239,148	227,587
Weighted average shares						
outstanding	2%	260,613	258,879	260,226	261,286	250,484

CONSOLIDATED FINANCIAL DATA—(Continued)

(Dollars in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Per-Share Data						
Basic net income per share of common stock	-2%	\$ 0.55	\$.22	\$.04	\$.68	\$.64
EBITDA per share from continuing operations (4)	3%	\$ 1.32	\$ 1.23	\$ 1.27	\$ 1.67	\$ 1.38
EBITDA per share from discontinued operations (4)	2%	\$.59	\$.62	\$.59	\$.46	\$.51
Total Company EBITDA per share (4)	3%	\$ 1.91	\$ 1.85	\$ 1.86	\$ 2.13	\$ 1.89
Book value per share	9%	\$ 7.37	\$ 6.93	\$ 6.45	\$ 6.42	\$ 6.23
Other Financial Data						
Long-term debt to long-term debt and equity	n/a	50%	47%	46%	43%	41%
Common equity market capitalization (in billions)	n/a	\$ 3.7	\$ 2.1	\$ 2.4	\$ 2.6	\$ 2.9
Equity market capitalization (in billions) (6)	n/a	\$ 4.0	\$ 2.3	\$ 2.6	\$ 2.8	\$ 2.9
Market capitalization (in billions) (7)	n/a	\$ 6.0	\$ 4.2	\$ 4.3	\$ 4.2	\$ 4.0

- (1) The Company's Communications and CLEC (Competitive Local Exchange Carrier) businesses. The Company is reporting its Public Services businesses as discontinued operations.
- (2) For 1999, special items include asset impairment charges, accelerated depreciation related to the change in useful life of an operating system, costs associated with an executive retirement agreement, restructuring charges, pre-acquisition integration costs and separation costs. For 1998, special items include separation costs. For 1997, special items include charges for the curtailment of certain long distance service operations, benefit plan curtailments and related regulatory asset impairments, telecommunications information systems and software impairments, and charges related to certain regulatory commission orders.
- (3) For 1999, special items include a gain of \$69.5 million (\$42.9 million net of tax) on the sale of Centennial Cellular stock, a gain of \$67.6 million (\$41.7 million net of tax) on the disposition of Century Communications Corp. stock and a gain of \$83.9 million (\$51.8 million net of tax) on the disposition of an interest in a cable joint venture. For 1998, special items include the write down of the Company's investment in HTCC and the cumulative effect of a change in accounting principle for ELI. For 1997, special items include the non operating gain on the sale of subsidiary stock (ELI).
- (4) EBITDA is operating income plus depreciation plus investment and other income.
- (5) Excludes non-cash capital lease additions (ELI) of \$60 million in 1999.
- (6) Includes convertible preferred securities.
- (7) Equity market capitalization plus market value of long-term debt.

SECTOR FINANCIAL AND OPERATING DATA

(Dollars in thousands, except operating data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Citizens Communications						
Select Income Statement Data						
Revenues						
Network access services	14%	\$ 503,365	\$ 432,018	\$ 403,990	\$ 391,151	\$ 334,952
Local network services	16%	287,616	262,239	250,521	232,904	197,092
Long distance and data services . . .	n/a	76,495	96,584	104,914	59,072	14,217
Directory services	13%	33,449	31,691	31,982	30,248	24,866
Other	14%	48,343	44,914	48,922	50,084	29,486
Eliminations (1)	n/a	(46,031)	(32,407)	(23,573)	(11,250)	(1,436)
Total revenues	15%	903,237	835,039	816,756	752,209	599,177
Network access	n/a	80,320	89,514	96,303	61,432	10,372
Depreciation and amortization . . .	23%	221,285	181,656	175,363	148,022	114,218
Other operating expenses	18%	491,300	440,351	431,861	323,501	285,428
Eliminations (1)	n/a	(48,848)	(35,468)	(26,914)	(12,569)	(2,151)
Operating income	1%	159,180	158,986	140,143	231,823	191,310
Special items (2)	n/a	(55,453)	(1,419)	(142,723)	—	—
Operating income (loss) including special items	-7%	103,727	157,567	(2,580)	231,823	191,310
EBITDA and Capital Expenditure Data						
EBITDA (3)	10%	\$ 380,465	\$ 340,642	\$ 315,506	\$ 379,845	\$ 305,528
Capital expenditures	14%	227,176	201,453	263,011	184,041	113,657
Free cash flow (4)	7%	153,289	139,189	52,495	195,804	191,871
Select Balance Sheet Data						
Total assets	8%	\$2,422,572	\$2,438,978	\$2,313,535	\$2,204,149	\$1,984,927
Net plant	8%	2,106,299	2,122,858	2,022,176	1,844,050	1,703,740
Operating Data						
Access lines	7%	996,757	951,513	895,880	834,180	776,764
Revenue per access line	7%	\$ 906	\$ 878	\$ 912	\$ 902	\$ 771
Switched access minutes of use (in millions)	n/a	5,224	4,526	4,496	4,251	3,168
Employees	8%	3,634	3,562	3,520	3,290	2,865
Citizens' long distance minutes of use (in millions)						
- in territory	n/a	519	483	435	212	74
- out of territory	n/a	51	221	414	174	11
- total	n/a	570	704	849	386	85
Citizens' long distance customers						
- in territory	n/a	239,037	230,871	236,000	179,133	47,049
- out of territory	n/a	1,722	8,101	22,000	40,003	6,785
- total	n/a	240,759	238,972	258,000	219,136	53,834
Citizens' long distance in territory customer market share	n/a	24%	24%	27%	21%	6%

Note: Where there was no amount in 1994, n/a is presented in the compounded annual growth rate column.

- (1) Eliminations represent activities between the Company's local exchange operations and its long-distance and competitive local exchange operations.
- (2) For 1999, special items include asset impairment charges, accelerated depreciation related to the change in useful life of an operating system, costs associated with an executive retirement agreement, restructuring charges, pre-acquisition integration costs and separation costs. For 1998, special items include separation costs. For 1997, special items include charges for the curtailment of certain long distance service operations, benefit plan curtailments and related regulatory asset impairments, telecommunications information systems and software impairments, and charges related to certain regulatory commission orders.
- (3) Operating income excluding special items plus depreciation.
- (4) EBITDA less capital expenditures.

SECTOR FINANCIAL AND OPERATING DATA

(Dollars in thousands, except operating data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Electric Lightwave, Inc.						
Selected Income Statement Data						
Revenues						
Dedicated services	50%	\$ 53,249	\$ 36,589	\$ 33,522	\$ 19,947	\$ 14,357
Local dial tone services	n/a	77,591	38,169	10,565	2,533	676
Long distance services	n/a	26,698	12,309	8,140	7,232	1,586
Enhanced services	93%	29,470	13,813	8,857	5,705	1,666
Eliminations (1)	n/a	(2,817)	(3,061)	(3,341)	(1,319)	(715)
Total revenues	87%	184,191	97,819	57,743	34,098	17,570
Network access	67%	79,947	50,957	29,546	15,782	7,405
Gross margin	121%	104,244	46,862	28,197	18,316	10,165
Depreciation and amortization	82%	36,289	17,002	11,167	5,549	6,390
Other operating expenses	115%	161,942	105,783	54,466	38,053	20,889
Operating loss	95%	(93,987)	(75,923)	(37,436)	(25,286)	(17,114)
Special items (2)	n/a	(1,672)	—	(10,765)	—	—
Operating loss including special items . .	96%	(95,659)	(75,923)	(48,201)	(25,286)	(17,114)
EBITDA and Capital Expenditure Data						
EBITDA (3)	-107%	\$ (57,698)	\$ (58,921)	\$ (26,269)	\$ (19,737)	\$ (10,724)
Capital expenditures (4)	29%	185,695	200,000	124,549	41,607	27,405
Free cash flow (5)	-35%	(243,393)	(258,921)	(150,818)	(61,344)	(38,129)
Select Balance Sheet Data						
Total assets	47%	\$ 775,234	\$ 532,309	\$ 359,962	\$ 206,290	\$ 124,079
Gross plant - owned	49%	771,947	528,582	328,664	156,738	119,975
- leased	57%	108,541	108,541	87,426	62,485	43,446
- total	50%	880,488	637,123	416,090	219,223	163,421
Operating Data						
Route miles	46%	4,052	3,091	2,494	1,428	780
Fiber miles	42%	214,864	181,368	140,812	97,665	52,013
Customers	61%	2,371	1,644	1,165	763	402
Buildings connected	34%	824	766	610	438	282
Employees	56%	1,167	1,090	573	402	225
Revenue per employee	20%	\$ 157,833	\$ 89,742	\$ 100,773	\$ 84,821	\$ 78,089
ELI public enterprise value (6)	n/a	\$ 1,592,387	\$ 716,098	\$ 817,867	n/a	n/a

Note: Where there was no amount in 1994, n/a is presented in the compounded annual growth rate column.

- (1) Eliminations reflect activity between ELI and the Company's communications operations.
- (2) For 1999, special items include restructuring charges, separation costs and costs associated with an executive retirement agreement. For 1997, special items include the writedown of other assets.
- (3) Operating income excluding special items plus depreciation.
- (4) Excludes non-cash capital lease additions of \$60 million in 1999.
- (5) EBITDA less capital expenditures.
- (6) Common equity market capitalization plus market value of net debt.

Shareholder Information

STOCK MARKET INFORMATION

On February 24, 1992, Citizens Utilities commenced trading on the New York Stock Exchange under the symbols CZNA and CZNB for Series A and Series B, respectively. Effective August 25, 1997, Citizens Common Stock Series A and Citizens Common Stock Series B were combined into a single series common stock trading on the New York Stock Exchange under the symbol CZN. Citizens Equity Providing Preferred Income Convertible Securities (EPPICS) is listed on the New York Stock Exchange under the symbol CZNPr.

On May 18, 2000, at the Annual Meeting of Shareholders, the shareholders of the company will vote on a proposal to change the name of the company from Citizens Utilities Company to Citizens Communications. The approval of this proposal will have no effect upon the company's stock symbols or upon certificates issued by or on behalf of the company.

As of February 29, 2000, the approximate number of registered holders of the company's common stock was 41,020 according to Citizens' transfer agent.

The table below lists the high and low prices per share for the periods shown. These prices were taken from the daily quotations published in *The Wall Street Journal* during the periods indicated. Prices have been adjusted to the nearest $\frac{1}{16}$ th for subsequent stock dividends.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1999:								
CZN	\$8 $\frac{1}{2}$	\$7 $\frac{1}{4}$	\$11 $\frac{1}{2}$	\$7 $\frac{11}{16}$	\$12 $\frac{7}{16}$	\$10 $\frac{7}{8}$	\$14 $\frac{5}{16}$	\$10 $\frac{15}{16}$
EPPICS	\$42 $\frac{1}{2}$	\$38 $\frac{5}{8}$	\$48 $\frac{5}{8}$	\$40 $\frac{1}{4}$	\$52	\$48 $\frac{5}{8}$	\$56 $\frac{3}{8}$	\$48 $\frac{15}{16}$
1998:								
CZN	\$10 $\frac{7}{8}$	\$8 $\frac{7}{8}$	\$11 $\frac{3}{16}$	\$9 $\frac{1}{2}$	\$10	\$6 $\frac{7}{8}$	\$9 $\frac{1}{16}$	\$7 $\frac{1}{4}$
EPPICS	\$49 $\frac{13}{16}$	\$47	\$50 $\frac{1}{4}$	\$47 $\frac{3}{16}$	\$47 $\frac{1}{8}$	\$40 $\frac{1}{2}$	\$44 $\frac{1}{4}$	\$39 $\frac{1}{8}$

The December 31, 1999, prices for Citizens Common Stock were \$14.25 high, \$14 low, and for EPPICS \$56.38 high, \$55.38 low.

COMMON STOCK

Citizens historically declared and issued quarterly stock dividends on its common stock based on the number of whole shares owned on the record date for that dividend. Under current statutes and regulations, stock dividends are not taxable when received and are treated as capital transactions for federal income tax purposes, when and if sold. Gain or loss is based on the difference between sales price and adjusted basis per share.

Effective with the first quarter of 1999, Citizens Utilities discontinued paying dividends on its common stock.

BOOK ENTRY

Book entry provides registered shareholders of Citizens Common Stock with statements reflecting the number of shares credited to their accounts as a result of stock dividends and purchases. A shareholder may receive certificates representing his or her stock dividends and/or purchases by completing the reverse side of the quarterly statement and mailing it, or a written request, to the company's transfer agent, Illinois Stock Transfer Company.

STOCK DIVIDEND SALE PLAN

As a result of the discontinuance of common stock dividends, the Stock Dividend Sale Plan is inactive.

DIRECT STOCK PURCHASE AND SALE PLAN

Registered shareholders may enroll in Citizens' Direct Stock Purchase and Sale Plan. Street name shareholders may participate in the Plan if their brokers or custodial institutions establish procedures permitting them to do so. The Plan provides shareholders with a convenient method for purchasing additional shares of Citizens common stock by making optional cash payments. Under the Plan, the price shareholders pay for Citizens common stock is based on an average market price during the purchase period and includes a commission of two cents per share if the shares are purchased on the open market. There is currently a \$6 transaction fee to purchase stock through the Plan. The Plan also provides shareholders with a way to sell shares of Citizens stock. There is a fee of \$15 and a two cents per share commission for each sales transaction. For information and/or an enrollment form for this Plan, please contact Illinois Stock Transfer Company.

STOCK SAFEKEEPING PROGRAM

The Safekeeping Program, which is voluntary, allows shareholders to mail their stock certificates to Citizens' transfer agent, Illinois Stock Transfer Company. Upon receipt, Illinois Stock Transfer credits the shareholder's account with the appropriate number of book entry shares, cancels the actual certificates, and issues a statement reflecting the transaction. A shareholder requiring certificates for sale or pledge may request them in writing (by mail or fax) at any time from the transfer agent. For information about this Program, please contact Illinois Stock Transfer Company.

CITIZENS EPPICS

Citizens currently declares quarterly distributions on its Equity Providing Preferred Income Convertible Securities (EPPICS), payable in cash. Citizens EPPICS must be purchased through and held by a broker or custodial institution. Please contact your broker, custodial institution or Citizens' Investor Relations department for additional information about this security.

STOCK TRANSFER AGENT

Questions from registered shareholders concerning stock transfers, the Direct Stock Purchase and Sale Plan, the Stock Safekeeping Program, account consolidations, lost certificates, changes of address, receipt of duplicate material, and any other account-related matters should be directed to Illinois Stock Transfer Company by telephoning 800.757.5755 or 312.427.2953, or by faxing to 312.427.2879, or by writing to Citizens c/o Illinois Stock Transfer Company, 209 West Jackson Boulevard, Suite 903, Chicago, IL 60606-6905.

WORLD WIDE WEBSITES

Company information, including quarterly and annual financial publications, press releases, remarks by Citizens' senior management and other materials, may be found at www.czn.net. For information about Citizens Communications' products and services, visit www.citizenscommunications.com.

SHAREHOLDER INQUIRIES

Quarterly and annual financial information is mailed to all shareholders. Questions concerning these materials may be directed to Shareholder Services or Investor Relations at Citizens' Corporate Headquarters by telephoning 800.248.8845. Additional copies of this report, the company's 1999 Form 10-K report filed with the Securities and Exchange Commission, and other written information about the company may be requested by telephoning 800.877.4389, extension 4600; faxing to 203.614.4602; or emailing Citizens@czn.com.

CORPORATE HEADQUARTERS

Citizens Communications
3 High Ridge Park
Stamford, CT 06905-1390
Tel. 203.614.5600
Fax 203.614.4602
Email Citizens@czn.com

EXHIBIT "C"
STOCK PURCHASE AGREEMENT

F. Soule

CONFORMED COPY

STOCK PURCHASE AGREEMENT

by and among

GLOBAL CROSSING LTD.,

GLOBAL CROSSING NORTH AMERICA, INC.

and

CITIZENS COMMUNICATIONS COMPANY

Dated as of July 11, 2000

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this "Agreement") made as of July 11, 2000 by and among Global Crossing Ltd., a company formed under the laws of Bermuda ("Global"), Global Crossing North America, Inc., a New York corporation and a wholly owned subsidiary of Global ("GCNA" and together with Global, the "Sellers"), and Citizens Communications Company, a Delaware corporation (the "Buyer").

WITNESSETH:

WHEREAS, GCNA is the record and beneficial owner of all of the capital stock of certain corporations (the "Companies") that, together with their wholly owned subsidiaries, constitute the Frontier LEC Business (as hereinafter defined); and

WHEREAS, the Sellers desire to sell to the Buyer all of the outstanding capital stock of the Companies (the "Sale") and the Buyer desires to purchase from GCNA at the Closing all of the then outstanding capital stock of the Companies, in each case upon the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the respective Boards of Directors of the Sellers and the Buyer have each approved the Sale, the terms of this Agreement and the transactions contemplated hereby.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties, intending legally to be bound, agree as follows:

[A list of defined terms is provided in Article 10 hereof]

Article 1. Purchase and Sale.

1.1 General. At the Closing (as defined in Section 1.6 hereof), and subject to the terms and conditions of this Agreement, GCNA agrees to, and Global agrees to cause GCNA to, sell, assign, convey and deliver to the Buyer, and the Buyer agrees to purchase, acquire and accept from GCNA, all of the outstanding shares of capital stock of the Companies as set forth in Annex I hereto (the "Shares").

1.2 Delivery of the Shares. At the Closing, and subject to the terms and conditions of this Agreement, GCNA shall deliver to the Buyer certificates representing all of the Shares, duly endorsed in blank for transfer or accompanied by stock powers duly executed, with all necessary stock transfer stamps attached thereto and canceled, and such other instruments as shall reasonably be required to transfer to the Buyer all right, title and interest in and to the Shares, free and clear of any security interests, pledges, liens, charges, encumbrances, adverse claims, restrictions or defects in title. All such certificates, stock powers and instruments shall be in form and substance reasonably satisfactory to the Buyer.

1.3 Purchase Price; Payment. (a) The consideration for the sale of the Shares shall be the aggregate of (i) \$ 3,650,000,000 (Three Billion, Six Hundred Fifty Million Dollars), *minus* (ii) the amount of the Combined Liabilities as of 11:59 p.m., New York City time, on the day immediately preceding the Closing Date (the "Liabilities Adjustment"), *plus* (if greater than or equal to zero) *or minus* (if less than zero) (iii) the amount of the Combined Working Capital as of 11:59 p.m., New York City time, on the day immediately preceding the Closing Date (the "Working Capital Adjustment"), *minus* (iv) the Performance Adjustment set forth in Section 1.3(d), if any, subject to adjustment pursuant to Section 1.4 (the "Purchase Price").

(b) On or before ten days prior to the Closing, the Sellers shall deliver to the Buyer a statement setting forth the amounts estimated in good faith by the Company to be the amounts of the Liabilities Adjustment, the Working Capital Adjustment and the Performance Adjustment, if any, as of the Closing Date (collectively, the "Estimated Adjustment") and the estimated amount of the aggregate Purchase Price based upon the Estimated Adjustment (the "Closing Cash Payment").

(c) At the Closing, and subject to the terms and conditions of this Agreement, the Buyer shall pay to GCNA the Closing Cash Payment by wire transfer in immediately available funds to an account or accounts designated by GCNA not later than three Business Days prior to the Closing.

(d) The "Performance Adjustment," if any, shall be the largest of (x) the Access Line Deficiency, if any, (y) the Revenue Deficiency, if any, and (z) the EBITDA Deficiency, if any. For purposes of this Section 1.3(d),

(i) The "Access Line Deficiency" means (A) the difference between the number of Access Lines billed by the Companies and Company Subsidiaries as of the end of the month most recently completed prior to the Closing Date and 1,071,644 *multiplied by* (B) \$3,294; provided that there shall be no Access Line Deficiency unless the number of Access Lines billed by the Companies and Company Subsidiaries as of such date is less than 1,071,644;

(ii) The "Revenue Deficiency" means (A) the difference between the pro forma revenue for the Frontier LEC Business (calculated as provided in Schedule 1.3 hereto) for the 12 calendar months ending as of the end of the month most recently completed prior to the Closing Date (the "Pre-Closing Pro Forma Revenue") and \$805,204,000 *multiplied by* (B) 4.38; provided that there shall be no Revenue Deficiency unless the Pre-Closing Pro Forma Revenue is less than \$805,204,000; and

(iii) The "EBITDA Deficiency" means (A) the difference between the pro forma earnings before interest, taxes, depreciation and amortization ("EBITDA") for the Frontier LEC Business (excluding non-recurring revenues and expenses resulting from assets and liabilities being put on the balance sheet in the process of determining the amount of Combined Liabilities or Combined Working Capital and calculated as provided in Schedule 1.3 hereto) for the 12 calendar months ending as of the end of the

month most recently completed prior to the Closing Date (the “Pre-Closing Pro Forma EBITDA”) and \$386,769,000 *multiplied* by (B) 9.13; provided that there shall be no EBITDA Deficiency unless the Pre-Closing Pro Forma EBITDA is less than \$386,769,000.

(e) Notwithstanding anything in this Agreement to the contrary, other than with respect to the calculation of the Performance Adjustment (which shall be calculated without consideration of whether any matter reflected in such adjustment also may be reflected in any other adjustment or payment), in no event shall the Buyer be entitled to receive any duplicate decrease to the Purchase Price under any adjustment provision hereof or payment under any other Section of this Agreement relating to any single matter.

1.4 Post-Closing Adjustment. (a) Not later than 75 days after the Closing (or such later date on which such statement reasonably can be prepared and delivered in light of the compliance of the Buyer with its obligations set forth in next two succeeding sentences), the Sellers shall cause to be prepared and shall deliver to the Buyer (i) a statement of the actual amount of the Combined Liabilities as of 11:59 p.m., New York City time, on the day immediately preceding the Closing Date, the actual amount of the Combined Working Capital as of 11:59 p.m., New York City time, on the day immediately preceding the Closing Date, the actual amount of the Performance Adjustment, if any, and the actual amount of the Purchase Price derived thereby (the “Closing Statement”) to be prepared in conformity with GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) and except as specifically required by the definitions of “Combined Liabilities”, “Combined Working Capital” and “Performance Adjustment”, (ii) a determination of the amount (the “Proposed Adjustment”) by which the Purchase Price as then determined by the Sellers is less than or greater than the Closing Cash Payment (the amount of such excess or shortfall, as finally determined, is referred to herein as the “Adjustment”), (iii) a statement of the Probable Liabilities prepared in accordance with Section 9.8 (the “Probable Liabilities Statement”) and (iv) a statement of the Probable Assets prepared in accordance with Section 9.8 (the “Probable Assets Statement”), in each case certified by PricewaterhouseCoopers LLP, or other independent accountants for the Sellers. The Buyer shall provide the Sellers and their independent accountants access at all reasonable times to the relevant personnel, properties, books and records of the Frontier LEC Business in the possession of the Buyer and its Affiliates (including, without limitation, the Companies and Company Subsidiaries) for such purposes and to assist the Sellers and their independent accountants in preparing the Closing Statement, the Probable Liabilities Statement and the Probable Assets Statement. The Buyer's assistance shall include, without limitation, the closing of the books of the Frontier LEC Business as of the Closing, the preparation of schedules supporting the amounts set forth in the general ledger and other books and records of the Frontier LEC Business, and such other assistance as the Sellers or their independent accountants may reasonably request.

(b) During the 75-day period following the delivery by the Sellers of the Closing Statement, the Proposed Adjustment, the Probable Liabilities Statement and the Probable Assets Statement referred to in Section 1.4(a) (or such longer period during which such statement and

adjustment reasonably can be reviewed in light of the compliance of the Sellers with their obligations set forth in next two succeeding sentences), the Buyer and KPMG LLP, independent accountants for the Buyer (or another nationally recognized accounting firm selected by the Buyer that is not also retained by the Sellers), will be permitted to review the working papers of the Sellers and their independent accountants relating to the preparation of the Closing Statement, the Proposed Adjustment, the Probable Liabilities Statement and the Probable Assets Statement. The Sellers shall provide the Buyer and its independent accountants access at all reasonable times to the relevant personnel, properties, books and records of the Frontier LEC Business in the possession of the Sellers and their Affiliates for such purposes and to assist the Buyer and its independent accountants in reviewing the Closing Statement, the Probable Liabilities Statement and the Probable Assets Statement. The Sellers' assistance shall include, without limitation, the preparation of schedules supporting the amounts set forth in the general ledger and other books and records of the Frontier LEC Business, and such other assistance as the Buyer or its independent accountants may reasonably request.

(c) Unless the Buyer delivers written notice to the Sellers of its disagreement with the Closing Statement and the Proposed Adjustment, the Probable Liabilities Statement and/or the Probable Assets Statement within 75 days following delivery by the Sellers of the Closing Statement, the Proposed Adjustment, the Probable Liabilities Statement and the Probable Assets Statement, the Buyer will be deemed to have accepted and agreed to the Closing Statement and Proposed Adjustment, the Probable Liabilities Statement and/or the Probable Assets Statement, and such Adjustment, the Probable Liabilities List and/or the Probable Assets List shall be final and binding. If, within such 75-day period, the Buyer notifies the Sellers that it disagrees with the Closing Statement and the Proposed Adjustment, the Probable Liabilities Statement and/or the Probable Assets Statement, and the Sellers and the Buyer cannot agree with respect to the Closing Statement and the Proposed Adjustment, the Probable Liabilities Statement and/or the Probable Assets Statement within 14 days of the notice of disagreement provided by the Buyer to the Sellers, then the determination shall be submitted for resolution promptly to an independent nationally recognized accounting firm jointly selected by the Sellers and the Buyer (the "Neutral Auditor"), whose determination (the "Neutral Auditor Determination") shall be instructed by the parties to be made within 30 days and be final and binding upon all parties hereto. All fees and expenses relating to the work, if any, to be performed by the Neutral Auditor will be borne (i) by the Buyer in the same proportion that the aggregate amount of all of the objections on the Closing Statement, the Probable Liabilities Statement and/or the Probable Assets Statement that are submitted by the Buyer to the Neutral Auditor and are unsuccessfully disputed by the Buyer, bear to the total amount of all of such objections and (ii) by the Sellers in the same proportion that the aggregate amount of all of the objections on the Closing Statement, the Probable Liabilities Statement and/or the Probable Assets Statement that are submitted by the Buyer to the Neutral Auditor and are successfully disputed by the Buyer, bear to the total amount of all of such objections. The Buyer and the Sellers shall reimburse the other to the extent the other pays more than the amount so required pursuant to the preceding sentence. In the event of a Neutral Auditor Determination, the Neutral Auditor shall deliver a certificate to each of the Sellers and the Buyer setting forth the amount of the Adjustment, the Probable Liabilities List and/or the Probable Assets List.

(d) If the Adjustment provides that the Closing Cash Payment is greater than the Purchase Price as finally determined, then the Purchase Price shall be reduced to the amount as so determined and GCNA shall pay to the Buyer an amount equal to the amount of the Adjustment. If the Adjustment provides that the Closing Cash Payment is less than the Purchase Price as finally determined, then the Purchase Price shall be increased to the amount as so determined and the Buyer shall pay to GCNA an amount equal to the amount of the Adjustment. If the Adjustment provides that the Closing Cash Payment was equal to the Purchase Price as finally determined, then no further payments with respect to the Purchase Price shall be made. Any payment required to be made by GCNA or the Buyer pursuant to this Section 1.4(d) shall bear interest from the Closing Date through the date of payment at a rate of interest equal to the prime rate per annum publicly announced from time to time by The Chase Manhattan Bank, N.A. at its principal office in New York City and shall be made by wire transfer in immediately available funds to an account or accounts designated by the party to receive such payment.

1.5 Resignations. Prior to or at the Closing, the Sellers will, upon the request of the Buyer, obtain the removal or resignation, effective as of the Closing, of each of the directors and officers of the Companies and Company Subsidiaries so requested.

1.6 Closing and Closing Date. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been terminated pursuant to Section 11.1 hereof, the closing (the "Closing") of the transactions herein contemplated shall take place ten days following the satisfaction of the conditions set forth in Sections 5.4(a) and 6.4(a) hereof, and the satisfaction or waiver of the other conditions set forth in Articles 5 and 6 hereof, other than those that are satisfied on the Closing Date, or at such other time and date as the Sellers and the Buyer shall agree (such time and date being referred to herein as the "Closing Date"), at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York, or at such other place as the Sellers and the Buyer shall agree. At the Closing, each of the parties hereto shall take, or cause to be taken, all such actions and deliver, or cause to be delivered, all such documents, instruments, certificates and other items as may be required under this Agreement or otherwise, in order to perform or fulfill all covenants and agreements on its part to be performed at or prior to the Closing Date.

1.7 Taking of Necessary Action: Further Action. Each of the parties shall use its respective reasonable best efforts to take all such action as may be necessary or appropriate in order to effectuate the Closing as promptly as possible. If, on or at any time after the Closing Date, any further reasonable action is necessary or desirable to carry out the purposes of this Agreement and to vest the Buyer with full right, title and possession to all assets, property, rights, privileges, powers, and franchises of the Frontier LEC Business, the Sellers shall take, and shall ensure that the officers of the Companies are fully authorized, in the name of the Companies or otherwise, to take, and shall take, all such lawful and necessary action.

Article 2. Representations and Warranties Relating to the Sellers.

Each of the Sellers represents and warrants to the Buyer as follows:

2.1 Organization and Standing. (a) Each of the Sellers is a company or a corporation duly incorporated, validly existing, and in good standing under the laws of the jurisdiction of its organization, and has all requisite corporate power and authority to own, lease and operate its properties and assets and to conduct its business as it is now being conducted.

(b) Each of the Companies and their respective Subsidiaries (the "Company Subsidiaries") is a corporation duly incorporated, validly existing, and in good standing under the laws of the state of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and assets and to conduct its business as it is now being conducted. Each of the Companies and the Company Subsidiaries is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state in which the operation of its business or ownership of its assets makes such qualification necessary, except where the failure to so qualify or be in good standing would not reasonably be expected to have a Material Adverse Effect.

2.2 Binding Agreement. Each of the Sellers has all requisite corporate power and authority to enter into this Agreement, to execute and deliver this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Sellers and the consummation by the Sellers of their obligations hereunder have been duly and validly authorized by all necessary corporate and stockholder action on the part of the Sellers. This Agreement has been duly executed and delivered on behalf of the Sellers and, assuming the due authorization, execution and delivery by the Buyer, constitutes a legal, valid and binding obligation of each of the Sellers enforceable in accordance with its terms.

2.3 Absence of Violations or Required Consents. Except as set forth in Section 2.3 of the Disclosure Schedule and, in the case of clauses (b), (c) and (d), except for such violations, breaches, defaults, consents, approvals, authorizations, orders, actions, registrations, filings, declarations, notifications and Encumbrances that would not reasonably be expected to have a Material Adverse Effect or materially impair or delay the consummation of the transactions contemplated hereby, the execution, delivery and performance by the Sellers of this Agreement do not and will not (a) violate or result in the breach or default of any provision of Global's memorandum of association or bye-laws or the certificates of incorporation or by-laws of GCNA, the Companies or the Company Subsidiaries, (b) violate any Law or Governmental Order applicable to either Seller or any of the Companies or the Company Subsidiaries or any of their respective properties or assets, (c) except for the Required Consents, require any consent, approval, authorization or other order of, action by, registration or filing with or declaration or notification to any Governmental Authority or any other Person or (d) result in any violation or breach of, constitute a default (or event which with the giving of notice, or lapse of time or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the

creation of any Encumbrance on any of the Sellers', the Companies' or the Company Subsidiaries' respective assets, or result in the imposition or acceleration of any payment, time of payment, vesting or increase in the amount of compensation or benefit payable, pursuant to, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license or permit, or franchise to which either Seller or any Company or Company Subsidiary is a party or by which their respective assets are bound.

2.4 Ownership of Stock. (a) GCNA is the record and beneficial owner of all of the issued and outstanding shares of capital stock of each of the Companies.

(b) One of the Companies, Frontier Subsidiary Telco Inc. ("FSTI"), or one or more of the other Company Subsidiaries wholly owned by FSTI, is the record and beneficial owner of all of the issued and outstanding shares of capital stock of each of the Company Subsidiaries. The issued and outstanding shares of capital stock of each of the Company Subsidiaries, and the record owners thereof, are set forth in Annex II hereto.

(c) Other than this Agreement, the shares of capital stock identified in Annex I and Annex II hereto, and rights or interests created by or suffered to exist by the Buyer, there are no outstanding options, warrants or other rights of any kind relating to the sale, issuance or voting of any shares of capital stock or other ownership interests in any of the Companies or Company Subsidiaries or any securities convertible into or evidencing the right to purchase any shares of capital stock or other ownership interests in any of the Companies or Company Subsidiaries.

(d) Upon the consummation of the Sale at the Closing as contemplated by this Agreement, the Sellers will deliver to the Buyer good title to the Shares free and clear of any security interests, pledges, liens, charges, encumbrances, adverse claims, restrictions or defects in title, other than (i) security interests, pledges, liens, charges, encumbrances, claims or restrictions created by or suffered to exist by the Buyer and (ii) requirements of federal and state securities Laws and utilities, telecommunications and other Laws respecting limitations on the subsequent transfer thereof.

(e) Except as set forth in Section 2.4 of the Disclosure Schedule, other than the Company Subsidiaries, none of the Companies or Company Subsidiaries owns any shares of capital stock or other ownership interests in any other Person or any options, warrants or other securities, or other rights of any kind, convertible into or evidencing the right to purchase any shares of capital stock or other ownership interests in any other Person.

2.5 Entire Business. Except as disclosed in Section 2.5 of the Disclosure Schedule and except for such matters that are not material to the Frontier LEC Business (and, in each case, such exceptions being subject to (i) an obligation of the Sellers to use their reasonable best efforts to effect the actions required by Section 2.5 of the Disclosure Schedule prior to the Closing and (ii) the obligations of the Sellers pursuant to Section 1.7 to the extent that any such required actions have not been effected prior to the Closing), the Sellers' ownership of the Frontier LEC Business is evidenced solely by the Shares and the sale, assignment, conveyance

and delivery of the Shares to the Buyer or its permitted assignee pursuant to this Agreement will transfer all of the Sellers' and their Affiliates' ownership interests comprising the Frontier LEC Business.

2.6 Financial Information. (a) The (i) business segment information for the Frontier LEC Business (identified as "Local Communications Services") (x) for the three fiscal years ended December 31, 1996, 1997 and 1998 included in the audited consolidated financial statements of GCNA (formerly named Frontier Corporation) incorporated by reference in GCNA's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and (y) for the three-month periods and nine-month periods ended September 30, 1998 and 1999 included in the unaudited consolidated financial statements of GCNA included in GCNA's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999; (ii) segment financial data for the Frontier LEC Business (identified as "Incumbent Local Exchange Carrier Services") set forth in Note 19 to the audited consolidated financial statements of Global included in Global's Annual Report on Form 10-K for the fiscal year ended December 31, 1999; and (iii) business segment information for the Frontier LEC Business (identified as "Incumbent Local Exchange Carrier Services") for the three-month period ended March 31, 2000 included in the unaudited consolidated financial statements of Global included in Global's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 (in each case subject to the information set forth in the notes to such financial statements) fairly state in all material respects in relation to the basic financial statements taken as a whole the financial information or data set forth therein (subject, in the case of unaudited interim financial statements, to normal year-end adjustments) and have been prepared in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes to such financial statements).

(b) The Sellers have furnished to the Buyer the financial statements of certain of the Companies and Company Subsidiaries contained in filings with PUCs under applicable regulatory Laws as listed in Section 2.6 of the Disclosure Schedule (the "Regulatory Financial Statements"). The Regulatory Financial Statements have been prepared based on the books and records of the relevant Company or Company Subsidiary in all material respects. Such books and records have been maintained in all material respects in accordance with the Uniform System of Accounts, GAAP and, where required by Law, the applicable regulations of the FCC and relevant PUCs; however, because each such Company or Company Subsidiary represents only a portion of a larger entity, the Regulatory Financial Statements are based on the extensive use of estimates and allocations. The Sellers believe that these estimates and allocations have been performed on a reasonable basis consistent in all material respects with the Uniform System of Accounts, GAAP and, where required by Law, the applicable regulations of the FCC and relevant PUCs.

2.7 Title to Assets; Related Matters. Except for Permitted Exceptions or as disclosed in Section 2.7 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) the Companies and the Company Subsidiaries have good, valid and marketable title (as measured in the context of their current uses) to, or, in the case of leased or subleased assets or other possessory interests, valid and subsisting leasehold or other possessory interests (as measured in the context of their current

uses) in, or otherwise have the right to use, all of the assets of the Frontier LEC Business, free and clear of all Encumbrances (except for any assets sold or otherwise disposed of, or with respect to which the lease, sublease or other right to use such asset has expired or has been terminated, in each case after the date hereof solely to the extent permitted under Section 4.1(a) hereof), (ii) such assets constitute all the assets and rights necessary for the operation of the Frontier LEC Business as currently conducted, including, without limitation, all interoffice network facilities and related electronic equipment used in the Frontier LEC Business, (iii) the Real Property and Equipment are in good operating condition and repair and maintained in accordance with customary procedures of the Frontier LEC Business taking into account the age thereof and (iv) to the knowledge of the Sellers, there are no contractual or legal restrictions to which either Seller or any of the Companies or Company Subsidiaries is a party or by which the Real Property is otherwise bound that preclude or restrict the Companies' or Company Subsidiaries' ability to use the Real Property for the purposes for which it is currently being used.

2.8 Absence of Certain Changes, Events and Conditions. Since December 31, 1999, except as otherwise provided in or contemplated by this Agreement or as disclosed in Section 2.8 of the Disclosure Schedule and, with respect to clauses (a), (b), (d), (f), (g) and (h) (to the extent clause (h) refers to clause (a), (b), (d), (f) or (g)), except for such matters that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect:

(a) other than in the ordinary course of business consistent with past practice, neither Seller nor any Company or Company Subsidiary has sold, transferred, leased, subleased, licensed, encumbered or otherwise disposed of any assets of the Frontier LEC Business, other than the sale of obsolete Equipment and transfers of cash;

(b) (i) neither Seller nor any Company or Company Subsidiary has granted any increase, or announced any increase, in the wages, salaries, compensation, bonuses, incentives, pension or other benefits payable to any of the officers or employees of the Frontier LEC Business, including, without limitation, any increase or change pursuant to any Employee Benefit Plan, or (ii) established, increased or accelerated the payment or vesting of any benefits under any Employee Benefit Plan with respect to officers or employees, in either case except (A) as required by Law, (B) that involve only increases consistent with the past practices of the Frontier LEC Business, (C) that involve only increases in the ordinary course of business, (D) as required under any existing agreement or arrangement or (E) that involve increases related to promotions;

(c) neither Seller nor any Company or Company Subsidiary has made any material change in any method of accounting or accounting practice or policy used by the Sellers, the Companies or the Company Subsidiaries with respect to the Frontier LEC Business, including, without limitation, material changes in assumptions underlying or methods of calculating bad debt, contingency or other reserves, or notes or accounts receivable write-offs, or in corporate allocation methodology, in each case other than changes required by Law or under GAAP;

(d) neither Seller nor any Company or Company Subsidiary has suffered any casualty loss or damage with respect to any assets of the Frontier LEC Business, whether or not covered by insurance;

(e) there has not been any Material Adverse Effect;

(f) the Frontier LEC Business has been conducted only in the ordinary and usual course consistent with past practice;

(g) neither Seller nor any Company or Company Subsidiary has compromised, settled, granted any waiver or release relating to, or otherwise adjusted any Action, Indebtedness or any other claims or rights of the Frontier LEC Business; and

(h) neither Seller nor any Company or Company Subsidiary has entered into any agreement, contract, commitment or arrangement to do any of the foregoing.

2.9 Litigation. Except as disclosed in Section 2.9 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, as of the date hereof, (i) there are no Actions against either Sellers or any Company or Company Subsidiary pending, or, to the knowledge of the Sellers, threatened to be brought by or before any Governmental Authority, in each case with respect to the Frontier LEC Business, (ii) neither Seller nor any Company or Company Subsidiary is subject to any Governmental Order (nor, to the knowledge of the Sellers, are there any such Governmental Orders threatened to be imposed by any Governmental Authority), in each case with respect to the Frontier LEC Business and (iii) there is no Action pending, or, to the knowledge of the Sellers, threatened to be brought before any Governmental Authority, that seeks to question, delay or prevent the consummation of the transactions contemplated hereby.

2.10 Insurance. Except as set forth in either Section 2.10 or Section 2.14 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) all insurance policies to which any Company or Company Subsidiary is a party or under which such Company or Company Subsidiary is covered as an additional named insured or otherwise (or replacement policies therefor) are in full force and effect, and the related Seller or such Company or Company Subsidiary has paid all premiums due and is not in default, (ii) no notice of cancellation or non-renewal with respect to, or disallowance of any claim under, any such policy has been received by the related Seller or such Company or Company Subsidiary and (iii) neither Seller nor any Company or Company Subsidiary has been refused insurance with respect to the Frontier LEC Business, nor has coverage with respect to the Frontier LEC Business been previously canceled or materially limited, by an insurer to which a Seller or such Company or Company Subsidiary has applied for such insurance, or with which a Seller or such Company or Company Subsidiary has held insurance, within the last three years.

2.11 Material Contracts. Except as set forth in Section 2.11 of the Disclosure Schedule and except for such matters which would not reasonably be expected to have a Material Adverse Effect, (i) Section 2.11 of the Disclosure Schedule sets forth all Material Contracts as of

the date hereof, (ii) each agreement, contract, policy, plan, mortgage, understanding, arrangement or commitment of any Company or Company Subsidiary that is intended to be binding upon the parties thereto is legal, valid and binding on the Company or Company Subsidiary party thereto and, to the knowledge of the Sellers, the other parties thereto, enforceable in accordance with the terms thereof, (iii) no Company or Company Subsidiary is in default under any such agreement, contract, policy, plan, mortgage, understanding, arrangement or commitment and (iv) to the knowledge of the Sellers, no other party to any such agreement, contract, policy, plan, mortgage, understanding, arrangement or commitment has breached or is in default thereunder.

2.12 Permits and Licenses; Compliance with Law. (a) Except as disclosed in Section 2.12 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) the Companies and Company Subsidiaries currently hold all the permits, licenses, authorizations, certificates, exemptions and approvals of Governmental Authorities or other Persons including, without limitation, Environmental Permits, necessary for the current operation and the conduct (as it is being conducted prior to the Closing Date) of the Frontier LEC Business (collectively, "Permits"), and all Permits are in full force and effect, (ii) neither Seller nor any Company or Company Subsidiary has received any written notice from any Governmental Authority revoking, canceling, rescinding, materially modifying or refusing to renew any Permit and (iii) the Sellers and the Companies and Company Subsidiaries are in compliance with the requirements of all Permits.

(b) Except as disclosed in Section 2.12 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) the Sellers, the Companies and the Company Subsidiaries are in compliance with all Laws (including, without limitation, with respect to affiliate transactions) and Governmental Orders applicable, to the knowledge of the Sellers, to the conduct of the Frontier LEC Business as it is being conducted prior to the Closing Date and (ii) neither Seller nor any Company or Company Subsidiary has been charged since July 1, 1997 by any Governmental Authority with a violation of any Law or any Governmental Order relating to the conduct of the Frontier LEC Business which charge remains unresolved.

(c) Except as disclosed in Section 2.12 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) each of the Companies and Company Subsidiaries maintains effective tariffs for services that they offer that are subject to tariff requirements, (ii) each of the Companies and Company Subsidiaries offers its tariffed services in a manner consistent with the filed tariff, (iii) other than orders and other requirements of Law applicable generally to local exchange carriers or another subset of carriers, no order or other requirement of Law has been received by a Company or Company Subsidiary concluding that its tariff is unlawful, (iv) other than orders and other requirements of Law applicable generally to local exchange carriers or another subset of carriers, no order or other requirement of Law has been received by a Company or Company Subsidiary since December 31, 1999 suspending a tariff, which suspension remains in effect as of the date hereof and (v) each Company and Company Subsidiary with a tariff in effect has taken steps in the ordinary course of business to maintain the effectiveness of its tariffs and to enforce applicable terms and conditions in a manner that is not unreasonably discriminatory.

2.13 Environmental Matters. Except as disclosed in Section 2.13 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, to the knowledge of the Sellers, (i) Hazardous Materials have not been Released on any Real Property except in compliance with applicable Law; (ii) there have been no events related to the Companies, the Company Subsidiaries or the Real Property that would reasonably be expected to give rise to liability under any Environmental Law; (iii) the Sellers, the Companies and the Company Subsidiaries are now, and have for the past three years been, in compliance with all applicable Environmental Laws relating to the Frontier LEC Business and there are no extant conditions that would reasonably be expected to constitute an impediment to such compliance in the future; (iv) the Sellers, the Companies and the Company Subsidiaries have disposed of all wastes containing Hazardous Materials arising from or otherwise relating to the Frontier LEC Business, in compliance with all applicable Environmental Laws (including the filing of any required reports with respect thereto) and Environmental Permits; (v) there are no pending or threatened Environmental Claims against the Sellers, the Companies or the Company Subsidiaries relating to the Real Property or the operations of the Frontier LEC Business; (vi) there is no environmental remediation or other environmental response occurring on any Real Property (including any easements, rights-of-way or other possessory interests in the real property of others) nor has any Company or Company Subsidiary issued a request for proposal or otherwise requested an environmental contractor to begin plans for any such environmental remediation or other environmental response; and (vii) no Company or Company Subsidiary has received any notice, or has knowledge of any circumstances related to liability, under CERCLA or any analogous state law.

2.14 Employee Benefit Matters. The Sellers have delivered or made available to the Buyer copies of all Employee Benefit Plans, which plans are set forth in Section 2.14 of the Disclosure Schedule. Except as set forth in Section 2.14 of the Disclosure Schedule, all such Employee Benefit Plans are in compliance with the terms of the applicable plan and the requirements prescribed by applicable law currently in effect with respect thereto, and each Seller and each of the Companies and Company Subsidiaries has performed in all respects all obligations required to be performed by it under, where any such noncompliance or nonperformance would be reasonably expected to result in liability that would have a Material Adverse Effect. The pool of Union Employees who are potentially eligible to qualify for Post-Retirement Welfare Benefits is frozen. Neither Seller nor any Company or Company Subsidiary has incurred, and, to the knowledge of the Sellers, no event, transaction or condition has occurred or exists which is reasonably expected to result in the occurrence of, any liability to the Pension Benefit Guaranty Corporation (other than contributions to the plan and premiums to the Pension Benefit Guaranty Corporation, which in either event are not in default) or any “withdrawal liability” within the meaning of Section 4201 of ERISA, or any other liability pursuant to Title I or IV of ERISA or the penalty, excise tax or joint and several liability provisions of the Code relating to employee benefit plans, in any such case relating to any Employee Benefit Plan or any pension plan maintained by any company that would be treated as a single employer with the Sellers, the Companies or the Company Subsidiaries under Section 4001 of ERISA or Section 414 of the Code (an “ERISA affiliate”), where individually or in the aggregate, in any of such events, any such liability would be reasonably expected to have a Material Adverse Effect. Except as set forth in Section 2.14 of the Disclosure Schedule, each Employee Benefit Plan

intended to be “qualified” within the meaning of Section 401(a) of the Code has received a favorable determination letter that such plan is so qualified and the trusts maintained thereunder are exempt from taxation under Section 501(a) of the Code, the Sellers have not received any notices from the Internal Revenue Service that any such plan is not so qualified, and, to the knowledge of the Sellers, each such plan is so qualified in form and in operation. Except as set forth in Section 2.14 of the Disclosure Schedule, the consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former employee or officer of any Company or Company Subsidiary or any ERISA affiliate to severance pay, unemployment compensation or other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer. There are no pending, or, to the knowledge of the Sellers, threatened or anticipated claims by or on behalf of any Employee Benefit Plan, by any employee or beneficiary covered under any such plan, or otherwise involving any such plan (other than routine claims for benefits) where any such pending, threatened or anticipated claims would reasonably be expected to have a Material Adverse Effect. Except as specifically identified in Section 2.14, neither Company nor any Company Subsidiary, nor Sellers contribute in any multiemployer plan (within the meaning of Section 3(37) of ERISA) for the benefit of Business Employees; and to the extent that they do so contribute, all contributions that are required under the terms of any applicable collective bargaining agreement or plan to be contributed prior to the Closing Date will have been contributed as of the Closing Date. All contributions that are due on or before the Closing Date to any other Employee Benefit Plans, including without limitation salary reduction contributions and matching contributions, will have been contributed or accrued as of the Closing Date (to the extent such accrual is required under GAAP), except where the failure to do so would not be reasonably expected to have a Material Adverse Effect. Neither Seller nor any Companies or Company Subsidiaries shall grant any additional equity-based awards to any current or former directors of the Companies or Company Subsidiaries.

2.15 Labor Relations. Section 2.15 of the Disclosure Schedule sets forth a list of all labor organizations recognized as representing the employees of the Frontier LEC Business. Complete and accurate copies of all collective bargaining agreements and other labor union contracts between either Sellers or any Company or Company Subsidiary and any such labor organizations have been delivered or made available to the Buyer. Other than as set forth in Section 2.15 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) neither Seller nor any Company or Company Subsidiary is party to any collective bargaining agreement or other labor union contract applicable to employees of the Frontier LEC Business, (ii) there are no strikes, slowdowns or work stoppages pending or, to the knowledge of the Sellers, threatened between the Sellers or any Company or Company Subsidiary and any employees of the Frontier LEC Business, and the Frontier LEC Business has not experienced any such strike, slowdown, or work stoppage within the past two years, (iii) there are no unfair labor practice complaints pending against either Sellers or any Company or Company Subsidiary relating to employees of the Frontier LEC Business before the National Labor Relations Board or any other Governmental Authority or, to the knowledge of the Sellers, any current union representation questions involving employees of the Frontier LEC Business and (iv) to the knowledge of the Sellers, the Frontier LEC Business is in compliance in all respects with its obligations under all Laws and Governmental Orders

governing its employment practices, including, without limitation, provisions relating to wages, hours and equal opportunity.

2.16 Intellectual Property. Except as disclosed in Section 2.16 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (i) the rights of either Sellers or any Company or Company Subsidiary in or to the Intellectual Property do not conflict with or infringe on the rights of any other Person, and neither Seller nor any Company or Company Subsidiary has received any claim from any Person to such effect, (ii) the Companies and the Company Subsidiaries own, are licensed or otherwise have the right to use, and as of the Closing Date the Companies and the Company Subsidiaries will own, be licensed or otherwise have the right to use, all Intellectual Property and (iii) to the knowledge of the Sellers, no other Person is infringing or diluting the rights of the Sellers, the Companies or the Company Subsidiaries with respect to the Intellectual Property.

2.17 Taxes. Except as disclosed in Section 2.17 of the Disclosure Schedule and except for such matters that would not reasonably be expected to have a Material Adverse Effect, (a) all Tax Returns required to be filed by the Sellers, the Companies or the Company Subsidiaries with respect to the Frontier LEC Business have been timely filed; (b) all Taxes shown on such Tax Returns have been timely paid other than such Taxes, if any, as are described in Section 2.17 of the Disclosure Schedule and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the financial statements of the Frontier LEC Business; (c) no audits with respect to the Companies or Company Subsidiaries are in process, pending or threatened in writing, no deficiencies or adjustments to Tax Returns exist or have been asserted in writing with respect to Taxes of the Companies or Company Subsidiaries, no notice has been received in writing that any Tax Return or Taxes of the Companies or Company Subsidiaries required to be filed or paid has not been filed or has not been paid; (d) there are no Tax liens on any of the assets of the Frontier LEC Business or shares of the Companies or Company Subsidiaries (other than liens for Taxes that are not yet due and payable); (e) all Taxes that the Frontier LEC Business is required to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Tax authority; (f) none of the Companies or Company Subsidiaries (i) is currently or has ever been a member of an affiliated group (other than a group the common parent of which is any of the Sellers) filing a consolidated federal income tax return and (ii) has any liability for the Taxes of any person under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law), or as transferee or successor, by contract or otherwise; (g) all Tax sharing or similar agreements shall be terminated as of the Closing Date and, after the Closing Date, the Companies and Company Subsidiaries shall not be bound thereof or have any liability thereunder; and (h) no consent under Section 341(f) of the Code has been filed with respect to any of the Companies or Company Subsidiaries.

2.18 Commissions. With the exception of any responsibility that the Sellers have to Chase Securities Inc. and to Merrill Lynch & Co., whose fees will be paid by the Sellers, there is no broker or finder or other Person who has any valid claim against any Company or Company Subsidiary, the Buyer, any of their respective Affiliates or any of their respective assets for a commission, finders' fee, brokerage fee or other similar fee in connection with this Agreement,

or the transactions contemplated hereby, by virtue of any actions taken by on or behalf of the Sellers, the Companies, the Company Subsidiaries or any of their respective officers, employees or agents.

2.19 Affiliate Transactions. Except as set forth in Section 2.19 of the Disclosure Schedule, except as otherwise provided or permitted in this Agreement or entered into in the ordinary course of business consistent with past practice, and except for such matters which would not reasonably be expected to have a Material Adverse Effect, since September 29, 1999 neither the Sellers nor any Affiliate thereof that is not one of the Companies or Company Subsidiaries has engaged in any transaction with any Company or Company Subsidiary, and neither Seller nor any Affiliate thereof that is not one of the Companies or Company Subsidiaries is a party to any agreements or arrangements, including, without limitation, co-location or interconnection agreements, with any Company or Company Subsidiary that will continue in effect after the Closing Date for the Companies or Company Subsidiaries that are not terminable by the Companies or Company Subsidiaries at will without cost, penalty or premium to the Companies and Company Subsidiaries.

2.20 Telephone Operations. Except as disclosed in Section 2.20 of the Disclosure Schedule and except for such matters that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect:

(a) The financial information for the Frontier LEC Business set forth in Annex A to Section 2.20 of the Disclosure Schedule (i) with respect to the historical (actual) information as of December 31, 1995, 1996, 1997, 1998 and 1999 and each of the fiscal years then ended, fairly states the financial information set forth therein and has been prepared in conformity with GAAP applied on a consistent basis and (ii) with respect to the pro forma information for the fiscal year ended December 31, 1999, has been prepared in good faith by subjecting the historical (actual) information for the fiscal year ended December 31, 1999 set forth in such Annex A to the adjustments described in Section 2.20 of the Disclosure Schedule.

(b) The schedule of corporate and information technology charges of the Frontier LEC Business for the fiscal years ended December 31, 1998 and 1999 set forth in Annex B to Section 2.20 of the Disclosure Schedule fairly states such information in relation to the basic financial information based upon the cost allocation methodology described therein.

(c) The information for the Frontier LEC Business set forth in Annex C to Section 2.20 of the Disclosure Schedule (i) with respect to the pro forma information for the fiscal year ended December 31, 1999, has been prepared in good faith by subjecting the historical (actual) information for the fiscal year ended December 31, 1999 to the adjustments described in Section 2.20 of the Disclosure Schedule and (ii) with respect to the number of Access Lines, is a true statement of the approximate number of such Access Lines as of December 31, 1999.

(d) The financial information for the Frontier LEC Business set forth in Annex D to Section 2.20 of the Disclosure Schedule (i) with respect to historical (actual) information as of December 31, 1995, 1996, 1997 and 1998 and each of the fiscal years then ended, has been prepared in good faith based upon the books and records of the Frontier LEC Business and, taken as a whole, fairly states such information in all material respects in relation to the basic financial information and (ii) with respect to the pro forma information as of December 31, 1999 and for the fiscal year then ended, has been prepared in good faith based upon the books and records of the Frontier LEC Business after subjecting the historical (actual) information for such fiscal year to the adjustments described in Section 2.20 of the Disclosure Schedule and, taken as a whole, the historical (actual) financial information set forth in such Annex fairly states such information in all material respects in relation to the basic financial information.

(e) Except as required by Law or by pool requirements applied generally to carriers or a subgroup of carriers, no Company or Company Subsidiary has been given written notice by any regulatory authority or pool administrator advising it that amounts paid to such Company or Company Subsidiary are required to be repaid into a pool or that amounts payable to such Company or Company Subsidiary are going to be reduced.

(f) No Company or Company Subsidiary has received an order from any regulatory authority requiring it to make refunds to its retail customer base or any significant portion thereof.

(g) No Company or Company Subsidiary has been made subject to any order from any regulatory authority requiring it to make a reduction to rates generally applicable to its retail customer base or any significant portion thereof.

(h) No Company or Company Subsidiary has been made subject to a moratorium preventing it from seeking an increase in rates for basic services.

(i) No Company or Company Subsidiary is subject to any requirement of Law solely applicable to it and not to any carrier or any subgroup of carriers which requires it to make specific material network investments in connection with the Frontier LEC Business.

(j) No host or hub switch of a Company or a Subsidiary has exhausted its capacity to serve the customers who are currently in the area for which the switch is intended to be used, except switches scheduled for upgrade or expansion during calendar year 2000 or 2001 (which upgrades and expansions are included in the amounts of the relevant capital expenditure budgets set forth in Section 4.4).

(k) The switches of each Company and Company Subsidiary used in the telephone service areas covered by the Frontier LEC Business are Class 5 compliant, can support the utilization of SS7 signaling and are equipped for the provision of CLASS services.

(l) The Companies and Company Subsidiaries operating in the Rochester, New York area telephone service area utilize 20 main hub central offices, each of which is interconnected directly or indirectly to the other switches through SONET rings using Nortel OC-48 equipment. The Companies and Company Subsidiaries operating in the Rochester, New York area telephone service area have features in place that are available to support local number portability, enhanced 911 services and cellular 911 services.

(m) The Companies and Company Subsidiaries operating in telephone service areas outside the Rochester, New York market utilize switches that are Class 5 compliant, and are compatible with CLASS features and SS7 signaling. Where required by an order or other requirements of Law, such Companies and Company Subsidiaries have installed features that support local number portability, enhanced 911 services and cellular 911 services.

(n) The regulatory books of account of the Companies and Company Subsidiaries have been maintained in accordance with normal business practices, and accurately and fairly reflect in all material respects all of the properties, assets, liabilities, transactions and regulatorily required appropriate accruals of each Company and Company Subsidiary. The continuing property records (CPRs) and other regulatory records related to the assets and properties of the Companies and Company Subsidiaries maintained by the Companies and Company Subsidiaries conform in all material respects with the applicable rules and regulations of the FCC and applicable PUCs. The records of the Companies and Company Subsidiaries relating to Telephone Plant (the assets used primarily in the local exchange carrier operations that would be properly included in the fixed assets referenced in Part 32 of the FCC Rules and Regulations (47 C.F.R., Part 32)) have been prepared in good faith and fairly reflect all such Telephone Plant.

(o) A true and complete list of the approximate number of Access Lines of the Companies and Company Subsidiaries in service as of May 31, 2000, broken down by the categories specified therein, is set forth in Section 2.20 of the Disclosure Schedule.

2.21 Long Distance Agreements. On or prior to the date hereof, Subsidiaries of Global have entered into the Carrier Services Agreement, dated as of June 19, 2000 (the "Carrier Services Agreement"), and the Asset Purchase Agreement, dated as of July 11, 2000 (the "Asset Purchase Agreement"), with one of the Company Subsidiaries. True and complete copies of the Carrier Services Agreement and the Asset Purchase Agreement have been provided to the Buyer, together with all amendments, modifications and side letter agreements relating thereto.

Article 3. Representations and Warranties of the Buyer.

The Buyer represents and warrants to the Seller as follows:

3.1 Organization and Standing. The Buyer is a corporation duly incorporated, validly existing, and in good standing under the laws of its jurisdiction of incorporation and has

all requisite corporate power and authority to own, lease and operate its properties and assets and to conduct its business as it is now being conducted.

3.2 Binding Agreement. The Buyer has all requisite corporate power and authority to enter into this Agreement, to execute and deliver this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Buyer and the consummation by the Buyer of its obligations hereunder have been duly and validly authorized by all necessary corporate and stockholder action on the part of the Buyer. This Agreement has been duly executed and delivered on behalf of the Buyer and, assuming the due authorization, execution and delivery by the Seller, constitutes a legal, valid and binding obligation of the Buyer enforceable in accordance with its terms.

3.3 Absence of Violations or Required Consents. Except as set forth in Section 3.3 of the Disclosure Schedule and, in the case of clauses (b), (c) and (d), except for such violations, breaches, defaults, consents, approvals, authorizations, orders, actions, registrations, filings, declarations, notifications and Encumbrances that would not reasonably be expected to have a material adverse effect on the business, results of operations or financial condition of the Buyer and its Subsidiaries, taken as a whole, or materially impair or delay the consummation of the transactions contemplated hereby, the execution, delivery and performance by the Buyer of this Agreement does not and will not (a) violate or result in the breach or default of any provision of the certificate or articles of incorporation or by-laws of the Buyer, (b) violate any Law or Governmental Order applicable to the Buyer or any of its properties or assets, (c) except for the Required Consents, require any consent, approval, authorization or other order of, action by, registration or filing with or declaration or notification to any Governmental Authority or any other Person or (d) result in any violation or breach of, constitute a default (or event which with the giving of notice, or lapse of time or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the creation of any Encumbrance on any of the Buyer's assets pursuant to, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license or permit, or franchise to which the Buyer is a party or by which its assets are bound.

3.4 Litigation. Except as described in Section 3.4 of the Disclosure Schedule, there are no Actions pending or, to the Buyer's knowledge, any Action threatened to be brought by or before any Governmental Authority, against the Buyer or any of its Affiliates that (i) seeks to question, delay or prevent the consummation of the transactions contemplated hereby or (ii) would reasonably be expected to affect adversely the ability of the Buyer to fulfill its obligations hereunder, including without limitation, the Buyer's obligations under Article 1 hereof.

3.5 Commissions. There is no broker or finder or other Person who has any valid claim against the Sellers, any of their respective Affiliates or any of their respective assets for a commission, finders' fee, brokerage fee or other similar fee in connection with this Agreement, or the transactions contemplated hereby, by virtue of any actions taken by on or behalf of the Buyer or its officers, employees or agents.

3.6 Financing. The Buyer has delivered to the Sellers true and complete copies of all commitment letters from commercial banks or other financing sources setting forth their respective commitments to provide all necessary financing in connection with the transactions contemplated by this Agreement (the "Financing Commitments"). The Buyer has on hand funds that, together with the proceeds of the Financing Commitments, are sufficient to pay the Purchase Price pursuant to this Agreement and otherwise to satisfy its obligations hereunder. The Buyer has been advised by the parties providing the Financing Commitments that none of such parties knows of any fact or circumstance (including, without limitation, the obligations of the Buyer under this Agreement) that is reasonably likely to result in any of the conditions to the Financing Commitments not being satisfied or the funds contemplated by the Financing Commitments not being available for the transactions contemplated by this Agreement and the Buyer knows of no such fact or circumstance.

3.7 Acquisition of Shares for Investment. The Buyer has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its purchase of the Shares. The Buyer is acquiring the Shares for investment and not with a view toward the distribution thereof. The Buyer agrees that the Shares may not be sold or otherwise disposed of without registration under the Securities Act of 1933, as amended, except pursuant to an exemption from registration available under such Act.

Article 4. Covenants and Agreements.

4.1 Conduct of the Business Prior to Closing; Access. The Sellers covenant as follows:

(a) Between the date hereof and the Closing Date, except as contemplated by this Agreement, except as described in either Section 2.8 or Section 4.1 of the Disclosure Schedule, or except with the consent of the Buyer (which consent shall not be unreasonably withheld or delayed in the case of clauses (i), (iii), (vi), (vii), (viii), (ix), (xi), (xii) and (xiii) to the extent clause (xiii) refers to clauses (i), (iii), (vi), (vii), (viii), (ix), (xi) or (xii)), the Sellers will cause the Frontier LEC Business to be operated in the ordinary course of business consistent with past practice (including, without limitation, with respect to compliance with Laws and performance under contracts) and will not permit:

(i) any of the assets of the Frontier LEC Business to be subjected to any Encumbrance, other than Permitted Exceptions, that will not be released at or prior to the Closing Date;

(ii) any changes, including changes to connection, disconnection and collection practices, to be made in the operations of the Frontier LEC Business that are material to the Frontier LEC Business as a whole;

(iii) other than, in each case, in the ordinary course of business consistent with past practice, any assets of the Frontier LEC Business to be sold, transferred, leased, subleased, licensed, encumbered or otherwise disposed of (including, without limitation, sales, transfers, leases, subleases, licenses or dispositions of material assets to Sellers or any of their Subsidiaries other than the Companies and Company Subsidiaries), other than the sale of obsolete Equipment and transfers of cash;

(iv) (A) any increase, or the announcement of any increase, in the wages, salaries, compensation, bonuses, incentives, pension or other benefits payable by any Company or Company Subsidiary to any of the officers or key employees of the Frontier LEC Business to be granted, including, without limitation, any increase or change pursuant to any Employee Benefit Plan, or (B) any benefits under any Employee Benefit Plan with respect to officers or key employees (or material benefits with respect to any employees who are not officers or key employees) of the Frontier LEC Business to be established or increased or to be promised to be increased, or any payment or vesting thereof to be accelerated, in either case except (I) as required by Law, (II) that involve only increases in the ordinary course of business consistent with the past practices of the Frontier LEC Business or (III) as required under any existing agreement or arrangement;

(v) any material change in any method of accounting or accounting practice or policy used by the Frontier LEC Business to be made, including, without limitation, material changes in assumptions underlying or methods of calculating bad debt, contingency or other reserves, or notes or accounts receivable write-offs, or in corporate allocation methodology, in each case other than as required by Law or under GAAP;

(vi) any commitments for any Company or Company Subsidiary to make capital expenditures in excess of \$20,000,000 in the aggregate that are not contemplated in the capital improvements budgets for 2000 or 2001 set forth in Section 4.1 of the Disclosure Schedule;

(vii) any amendment of the certificate of incorporation or bylaws of any Company or Company Subsidiary;

(viii) any material Action, Indebtedness or any other claims or rights related to the Companies or Company Subsidiaries to be compromised, settled or otherwise adjusted, or any waiver or release relating thereto to be granted other than (unless such action would impose material restrictions or obligations on the Frontier LEC Business after the Closing) in the ordinary course of business;

(ix) any new agreement, contract, commitment or arrangement, or any amendments or modifications to any existing such agreement, contract,

commitment or arrangement, to be entered into with any Affiliate of any Company or Company Subsidiary (other than with another Company or Company Subsidiary) that is material to the Frontier LEC Business or that will continue in effect after the Closing Date and not be terminable by such Company or Company Subsidiary on not more than 60 days' written notice without payment of premium or penalty;

(x) any change in the stock ownership of any Company or Company Subsidiary to be made or any interest in any Company or Company Subsidiary to be granted or assigned;

(xi) any Indebtedness in excess of a net amount of \$10,000,000 to be created, incurred, assumed or guaranteed by any Company or Company Subsidiary that cannot be prepaid or terminated without payment of premium or penalty, except for borrowings under existing credit agreements (or replacements therefor on substantially the same terms) or the creation of trade payables;

(xii) any new Material Contract (other than those covered by clause (ii), (iii) or (ix) above), or any amendments or modifications to any existing such Material Contract, to be entered into that will continue in effect after the Closing Date and not be terminable by the Company or Company Subsidiary on not more than 60 days' written notice without payment of premium or penalty;

(xiii) any agreement, contract, commitment or arrangement to do any of the foregoing to be entered into.

(b) Pending the Closing Date, the Sellers shall:

(1) Ensure that the Buyer and its representatives are given reasonable access during normal business hours to all of the employees (including appropriate experts and other knowledgeable personnel), properties, books and records of the Companies and Company Subsidiaries and that the Buyer and its representatives are furnished with such information concerning the Companies and Company Subsidiaries as the Buyer may reasonably require, including such access and cooperation as may be necessary to allow the Buyer and its representatives to:

(A) identify those contracts and Permits that require third party consent to the transactions contemplated hereby, those that expire prior to or soon after the Closing and those that may require special documentation at the Closing;

(B) review any arrangements with respect to those assets that will not be transferred as part of the Frontier LEC Business that Buyer may need to replicate or replace at the Closing;

(C) determine what changes Buyer may need to make to various assets, including information technology assets, to be owned by the Companies and the Company Subsidiaries after the Closing;

(D) arrange appropriate insurance coverage by the Closing with respect to the Companies and the Company Subsidiaries;

(E) become familiar with the location and organization of the books and records, including any original cost documents and outside plant maps;

(F) make appropriate arrangements for the continuation of ongoing maintenance, construction and plant upgrade activities of the Companies and the Company Subsidiaries after the Closing;

(G) identify various regulatory mandates applicable to the Companies and the Company Subsidiaries and review compliance therewith, including matters relating to the National Exchange Carrier Association (including the Universal Service Fund and the Local Switching Support and Telecommunications Relay Services funds);

(H) perform Transaction Screens and/or Phase I environmental reviews with respect to each parcel of Real Property at Buyer's expense; and

(I) obtain title insurance policies and surveys covering Real Property at Buyer's expense and provide the title company with such instructions, authorizations and affidavits at no cost to the Sellers or the Companies or Company Subsidiaries as may be reasonably necessary for the title company to issue title policies (based upon the most recent assessed value or market value of such parcels) to the Buyer, dated as of the Closing Date, for all of the Real Property owned by the Companies or Company Subsidiaries with so-called non-imputation endorsements;

provided that this right of access shall not be exercised in any way which would unreasonably interfere with the normal operations, business or activities of the Sellers or any Company or Company Subsidiary;

(2) Furnish to the Buyer within 30 Business Days after the end of each month ending between the date of this Agreement and the Closing Date a statement of income for the Frontier LEC Business for the month just ended, on a state by state basis to the extent prepared, and within 30 Business Days after the end of each quarter ending between the date of this Agreement and the Closing Date a balance sheet for the Frontier LEC Business as of the end of such quarter;

(3) Make available for the Buyer all other routine management and statistical reports of the Frontier LEC Business;

(4) From time to time, furnish to the Buyer such additional information (financial or otherwise) concerning the Frontier LEC Business as the Buyer may reasonably request (which right to request information shall not be exercised in any way which would unreasonably interfere with the normal operations, business or activities of the Sellers, the Companies or the Company Subsidiaries);

(5) Use, to the extent the Buyer requires audited or reviewed financial statements of the Frontier LEC Business in order to comply with the reporting requirements of the Securities and Exchange Commission (the "SEC") set forth in Regulations S-K and S-X, reasonable best efforts to obtain (or, if Buyer proposes to have its auditors audit any such financial statements, to permit the Buyer to obtain by providing audited consolidating balance sheets as of the end of the fiscal years hereinafter described and consolidating income statements and statements of cash flows and changes in equity for such periods, in each case, for the Companies and the Company Subsidiaries in the form required by Regulations S-K and S-X), in either case at the Buyer's expense, the required audited or reviewed combined financial statements of the Frontier LEC Business covering the fiscal years ended December 31, 1998 and 1999 (and each fiscal quarter thereof), and to the extent the Closing shall not have occurred prior to the end thereof, the fiscal year ending December 31, 2000 (and each fiscal quarter thereof) and each subsequent fiscal quarter, reasonably sufficient and timely enough to permit the Buyer reasonably to satisfy such obligations, including, without limitation, providing reasonable access as stated under clause (1) above to any auditors engaged by the Buyer for such purpose and delivering one or more representation letters from the Sellers to any such auditors as may be reasonably requested by the Buyer to allow such auditors to complete any such audit or review and to issue an opinion on such financial statements acceptable to the SEC;

(6) Consult with the Buyer with respect to taking, or permitting the Companies and Subsidiaries to take, any material action with respect with the Frontier LEC Business other than in the ordinary course of business consistent with past business or other than as contemplated by this Agreement (including, without limitation, the Disclosure Schedule), including, without limitation, consultation regarding the negotiation or renegotiation of any collective bargaining agreements; provided, however, that, except as required by Section 4.1(a), neither Seller nor any of the Companies or Company Subsidiaries shall be obligated to accept or follow any advice proffered by the Buyer with respect to any such prospective action and that such right of consultation shall not entitle the Buyer to participate in any such negotiations or renegotiations of collective bargaining agreements; and

(7) Endeavor with reasonable efforts to notify the Buyer within a reasonable period of time after the Sellers have obtained knowledge of the occurrence of any circumstance, change in, or effect on the Companies or

Company Subsidiaries that Sellers believe had or would in the reasonably foreseeable future have a Material Adverse Effect.

4.2 Financing Commitments. The Buyer covenants as follows:

(a) The Buyer shall use its reasonable best efforts to obtain the financing provided for by the Financing Commitments. Without limiting the generality of the foregoing, the Buyer shall not take or fail to take, and shall cause its Subsidiaries not to take or fail to take, any action the taking of which, or which the failure to take, would reasonably likely result in any of the conditions to the Financing Commitments not being satisfied or the funds contemplated by the Financing Commitments not being available for the transactions contemplated by this Agreement, or that would otherwise materially impair or delay the consummation of the transactions contemplated hereby. In the event that such financing or any portion thereof becomes unavailable, the Buyer shall use its reasonable best efforts promptly to obtain commitment letters for alternative financing from other sources sufficient to enable the Buyer to pay the Purchase Price pursuant to this Agreement and otherwise to satisfy its obligations hereunder. Any such alternative financing shall be deemed to constitute (or to constitute a portion of, as the case may be) "Financing Commitments" for purposes of this Agreement. The Buyer shall furnish to the Sellers promptly true and complete copies of any alternative commitment letters from commercial banks or other financing sources, all definitive loan agreements entered into pursuant to the Financing Commitments and all other correspondence or notices from any party providing the Financing Commitments relating to the financing.

(b) The Buyer shall give prompt notice to the Sellers of the occurrence, or non-occurrence, of any fact or circumstance, or of any notice from any party providing the Financing Commitments, that is reasonably likely to result in any of the conditions to the Financing Commitments not being satisfied or the funds contemplated by the Financing Commitments not being available for the transactions contemplated by this Agreement.

4.3 Post-Closing Covenants and Agreements. (a) From and after the Closing Date, the Sellers shall, at all reasonable times, make available without cost, for inspection and/or copying for reasonable business purposes by the Buyer or any of the Companies or Company Subsidiaries, or their representatives, any books and records of the Frontier LEC Business, whether in electronic or physical form, that are not in the possession of the Companies and Company Subsidiaries after the Closing. Any such books and records shall be preserved by the Sellers for so long as the Buyer or any Company or Company Subsidiary shall be obligated by Law to maintain the same. After the period set forth above, upon not less than 30 days written notice to the Buyer specifying in reasonable detail the books and records that neither Seller proposes to destroy, such Seller may destroy the books and records in its possession unless, before expiration of such notice period, the Buyer or any of the Companies or Company Subsidiaries objects in writing to the destruction of any or all of such books and records, in which case such books and records shall be delivered to the objecting Person at the expense of the objecting Person.

(b) From and after the Closing Date, the Buyer shall, and shall cause the Companies and Company Subsidiaries to:

(i) At all reasonable times, make available without cost, for inspection and/or copying for reasonable business purposes by the Sellers or their representatives, the books and records of the Companies and Company Subsidiaries, whether in electronic or physical form. Such books and records shall be preserved by the Buyer or the Companies and Company Subsidiaries until the later of the closing by tax audit of, or the expiration of the relevant statute of limitations (including any waiver thereof) with respect to, all open tax periods of the Sellers prior to and including the Closing Date. After the period set forth above, upon not less than 30 days written notice to the Sellers specifying in reasonable detail the books and records that the Buyer or any Company or Company Subsidiary proposes to destroy, the Buyer or such Company or Company Subsidiary may destroy the books and records in their possession unless, before expiration of such notice period, a Seller objects in writing to the destruction of any or all of such books and records, in which case such books and records shall be delivered to the objecting Person at the expense of the objecting Person. Notwithstanding the foregoing, the Buyer and the Companies and Company Subsidiaries shall continue to preserve and, at all reasonable times after the Closing Date, to make available without cost, for inspection and/or copying by any Person that was a trustee or other fiduciary under the Employee Benefit Plans identified in Section 4.3 of the Disclosure Schedule, the books and records of such Employee Benefit Plan and the books and records of the Companies and Company Subsidiaries relating thereto.

(ii) (x) Exculpate, indemnify and hold harmless all past and present employees, officers, agents and directors of the Companies and Company Subsidiaries to the full extent permitted by law for any acts or omissions relating to, or arising out of, the Frontier LEC Business occurring on or prior to the Closing Date; (y) cause to be maintained in effect through September 28, 2005 the current provisions regarding elimination of liability of directors and indemnification of officers and directors contained in the certificate of incorporation and by-laws or other organizational documents of the Companies and the Company Subsidiaries; and (z) not take any action that would cause any directors', officers', fiduciaries' or similar insurance and indemnification policies that may be maintained by the Sellers for past and present directors and officers of the Companies and Company Subsidiaries and trustees of the Employee Benefit Plans providing coverage for acts and omissions and other events relating to, or arising out of, the Frontier LEC Business occurring at or prior to the Closing Date, including, without limitation, in respect of the transactions contemplated by this Agreement, not to remain in full force and effect.

(iii) Except for disputes in good faith, honor and comply in all material respects with the terms and conditions contained in all contracts to which any of the Companies or any of the Company Subsidiaries is a party or by which it is bound.

(c) Effective as of the Closing Date, the Sellers will have no obligation to provide insurance coverage for the Companies, the Company Subsidiaries and the Frontier LEC Business for occurrences after the Closing Date and the Buyer will become solely responsible for all insurance coverage and related risk of loss based on events occurring on and after the Closing Date with respect to the Companies, the Company Subsidiaries and the Frontier LEC Business. To the extent that (i) any insurance policies controlled by the Sellers (the "Sellers' Insurance Policies"), cover any loss, liability, claim, damage or expense relating to the Companies, the Company Subsidiaries or the Frontier LEC Business (the "Subject Liabilities") and relating to or arising out of occurrences prior to the Closing Date, and (ii) the Sellers' Insurance Policies continue after the Closing to permit claims to be made thereunder with respect to the Subject Liabilities relating to or arising out of occurrences prior to the Closing Date ("Subject Claims"), the Sellers shall cooperate with the Buyer in submitting Subject Claims on behalf of the Buyer or any Company or Company Subsidiary under the Sellers' Insurance Policies and the Buyer shall reimburse, indemnify and hold the Sellers harmless from all out-of-pocket, costs and expenses (including, without limitation, all retroactive or retrospective premiums related to the Subject Claims (but not any other present or future premiums), deductibles, out-of-pocket legal and administrative costs, net Tax costs to the Sellers resulting from the receipt and payment to the Buyer of any insurance proceeds relating to any Subject Claim and attorneys' fees under the Sellers' Insurance Policies) of any nature actually incurred by the Sellers as a result of Subject Claims made under the Sellers' Insurance Policies. The Sellers shall exercise reasonable best efforts (which efforts shall not require the Sellers to incur any out-of-pocket costs or expenses not reimbursed by the Buyer or any other adverse consequences) to cause the Sellers' Insurance Policies to be modified to allow for the assignment to the Buyer of all benefits, rights and obligations thereunder in respect of any Subject Liabilities. To the extent any such policies are not so assigned, upon receipt by the Sellers of any insurance proceeds relating to any Subject Claims made under the Sellers' Insurance Policies, the Sellers will promptly pay such insurance proceeds to the Buyer, net of any unreimbursed costs and expenses described above.

(d) From and after the Closing Date,

(i) The Buyer will not, for a period of two years following the Closing Date, without the prior written consent of Global, directly or indirectly, solicit to hire or hire (or cause or seek to cause to leave the employ of Global or any Subsidiary of Global) any employee of Global or any Subsidiary of Global with whom the Buyer has had contact or who (or whose performance) became known to the Buyer in connection with this Agreement; *provided, however*, that the foregoing provision will not prevent the Buyer from hiring any such Person who contacts the Buyer on his or her own initiative without any direct or indirect solicitation by or encouragement from the Buyer or who contacted the Buyer in response to a general advertisement; and.

(ii) The Sellers will not, for the period from the date hereof through the date that is two years following the Closing Date, without the prior written consent of the Buyer, directly or indirectly, solicit to hire or hire (or cause or seek to cause to leave the employ of the Companies or Company Subsidiaries on the Buyer or any Subsidiary of the Buyer) any employee of the Companies or Company Subsidiaries or the Buyer or any Subsidiary

of the Buyer with whom (other than with respect to the Companies and the Company Subsidiaries) the Sellers have had contact or who (or whose performance) became known to the Sellers in connection with this Agreement; *provided, however*, that the foregoing provision will not prevent the Sellers from hiring any such Person who contacts the Sellers on his or her own initiative without any direct or indirect solicitation by or encouragement from the Sellers or who contacted the Sellers in response to a general advertisement.

4.4 Cooperation. Following the execution of this Agreement, the Buyer and the Sellers agree as follows:

(a) Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable, including under applicable Laws and regulations, to consummate the Sale and the other transactions contemplated by this Agreement as soon as practicable after the date hereof. In furtherance and not in limitation of the foregoing, each party hereto agrees (i) to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby as promptly as practicable after the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and to take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable, (ii) to file all necessary applications for Required Consents at the FCC, PUCs and local franchising authorities with respect to the transactions contemplated hereby as promptly as practical after the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested by the FCC, PUCs and local franchising authorities and to take all other actions necessary to cause the Required Consents to be obtained as soon as practicable and (iii) to obtain all other required consents from third parties. The parties agree to file all necessary applications for Required Consents with state PUCs jointly to the extent permitted under Applicable Law, and to share counsel whenever feasible and where it does not pose a conflict of interest.

(b) The Sellers and the Buyer shall, in connection with the efforts referenced in Section 4.5(a) to obtain all requisite approvals and authorizations for the transactions contemplated by this Agreement under the HSR Act or any other Regulatory Law, use its reasonable best efforts to (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (ii) promptly inform the other party of any communication received by such party from, or given by such party to, the FCC, PUCs, the Antitrust Division of the Department of Justice (the "DOJ") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby, and (iii) permit the other party to review any communication (other than filings pursuant to the HSR Act) given by it to, and consult with each other in

advance of any meeting or conference with, the FCC, PUCs, the DOJ or any such other Governmental Authority or, in connection with any proceeding by a private party, with any other Person, and to the extent permitted by the FCC, PUCs, the DOJ or such other applicable Governmental Authority or other Person, give the other party the opportunity to attend and participate in such meetings and conferences. Neither party shall take any action in connection with obtaining any Required Consent that is intended to create, allocate, or shift to the other party any liability arising from the obtaining of such Required Consent; provided that this provision is not intended to limit the rights or obligations of either party under this Section 4.4 or any other Section of this Agreement or the right of any party to otherwise seek to reduce or eliminate any such liability on itself. For purposes of this Agreement, "Regulatory Law" means (i) the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, the Communications Act, and all other federal, state and foreign, if any, Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition, whether in the communications industry or otherwise, through merger or acquisition and (ii) all federal, state and foreign, if any, Laws with respect to the transfer, assignment, modification or granting of Permits, whether in the public utility or communications industries or otherwise, including, without limitation, certificates of public convenience and necessity, public interests certificates and radio licenses.

(c) In furtherance and not in limitation of the covenants of the parties contained in Sections 4.4(a) and 4.4(b), if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Regulatory Law, the Sellers and Buyer shall cooperate in all respects with each other and use their respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 4.4 shall limit a party's right to terminate this Agreement pursuant to Section 11.1 so long as such party has up to then complied in all material respects with its obligations under this Section 4.4.

(d) If any objections are asserted with respect to the transactions contemplated hereby under any Regulatory Law or if any suit is instituted by any Governmental Authority or any private party challenging any of the transactions contemplated hereby as violative of any Regulatory Law, each of the Sellers and the Buyer shall use its reasonable best efforts to resolve any such objections or challenge as such Governmental Authority or private party may have to such transactions under such Regulatory Law so as to permit consummation of the transactions contemplated by this Agreement.

(e) As used in this Section 4.4, "reasonable best efforts" shall not require (i) the Buyer or any of its Affiliates to divest or hold separate or otherwise take or commit to

take any action that limits their freedom of action with respect to, or their ability to retain, any of their assets or businesses or any other action, in each case that would be reasonably expected to have a Material Adverse Effect or Buyer Material Adverse Effect, or (ii) either Seller or any of their Affiliates to divest or hold separate or otherwise take or commit to take any action that limits their freedom of action with respect to, or their ability to retain, any of their assets or businesses or any other action, in each case that would be reasonably expected to have a Material Adverse Effect or an adverse effect (other than an immaterial effect) on the business, results of operations or financial condition of the Sellers or their Subsidiaries (other than the Companies and the Company Subsidiaries).

4.5 Confidentiality.

(a) Prior to the Closing Date. The terms of the Confidentiality Agreement are herewith incorporated by reference and shall continue in full force and effect until the Closing Date and shall remain in effect in accordance with its terms even if this Agreement is terminated.

(b) Financial and Tax Information. (i) Before and after the Closing Date, each of the parties shall maintain the confidentiality of the tax information of the Frontier LEC Business under terms similar to those set forth in the Confidentiality Agreement with respect to "Evaluation Material" as though such terms applied to the parties and continued after the Closing Date.

(ii) After the Closing Date, the Sellers shall maintain the confidentiality of the financial information of the Frontier LEC Business prior to the Closing under terms similar to those set forth in the Confidentiality Agreement with respect to "Evaluation Material" as though such terms applied to the Sellers and continued after the Closing Date.

4.6 Public Announcements. Except as otherwise required by law or the rules of any stock exchange or automated quotation system, the parties shall not issue any report, statement or press release or otherwise make any public announcement with respect to this Agreement and the other transactions contemplated hereby without prior consultation with and approval of the other parties hereto (which approval shall not be unreasonably withheld).

4.7 No Solicitation. Other than as specified in this Agreement, the Sellers shall not, and shall use their best efforts to cause its officers, directors, representatives, affiliates or associates not to, (a) initiate contact with, solicit, encourage or respond to any inquiries or proposals by, or (b) enter into any discussions or negotiations with, or disclose, directly or indirectly, any information concerning the Companies and Company Subsidiaries to, or afford any access to the properties, books and records of the Companies and Company Subsidiaries to, any Person in connection with any possible proposal for the acquisition (directly or indirectly, whether by purchase, merger, consolidation or otherwise) of all or substantially all of the assets, business or capital stock of the Companies and Company Subsidiaries. The Seller agrees to terminate immediately any such discussions or negotiations.

4.8 No Additional Representations. THE BUYER ACKNOWLEDGES THAT, EXCEPT THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER THE SELLER NOR ANY OTHER PERSON HAS MADE ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, REGARDING THE FRONTIER LEC BUSINESS OR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION FURNISHED OR MADE AVAILABLE TO THE BUYER AND ITS REPRESENTATIVES, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OR REPRESENTATION AS TO CONDITION, MERCHANTABILITY OR SUITABILITY AS TO ANY PROPERTIES OR ASSETS OF THE FRONTIER LEC BUSINESS. THE BUYER FURTHER ACKNOWLEDGES THAT ANY COST ESTIMATES, PROJECTIONS OR OTHER PREDICTIONS CONTAINED OR REFERRED TO IN THE OFFERING MATERIALS THAT HAVE BEEN PROVIDED TO THE BUYER ARE NOT AND SHALL NOT BE DEEMED TO BE REPRESENTATIONS OR WARRANTIES OF THE SELLERS.

4.9 Use of Global Crossing and Frontier Names. (a) After the Closing Date, neither the Buyer nor any of its Affiliates (including, without limitation, the Companies and Company Subsidiaries) shall use "Global Crossing" or "Global" or any name or term confusingly similar to or "Global Crossing" or "Global" in any corporate name or in connection with the operation of any business. Notwithstanding the foregoing, the Companies and Company Subsidiaries shall have a period of time (which in no event is, except as set forth in Schedule 4.9(a), to exceed 120 days following the Closing Date) in which to, and the Buyer shall cause the Companies and Company Subsidiaries to, remove or cover the names "Global Crossing" or "Global" and any trademarks, tradenames, servicemarks, trade dress or logos relating to such names from all signs, billboards, advertising materials, telephone listings, labels, stationery, office forms and mastheads; provided, however, that during such period of time such names, trademarks, tradenames, servicemarks, trade dress and logos shall be used (i) only to the extent necessary to avoid financial hardship and (ii) only to the extent and in the manner that such names, trademarks, tradenames, servicemarks, trade dress and logos were used by the Companies and Company Subsidiaries as of immediately prior to the Closing.

(b) After the Closing Date, except as set forth in Section 4.9 of the Disclosure Schedule, neither of the Sellers nor any of their Affiliates shall use "Frontier" or any name or term confusingly similar to "Frontier" in any corporate name or in connection with the operation of any business. Notwithstanding the foregoing, the Sellers and their Affiliates shall have a period of time (which in no event is, except as set forth in Schedule 4.9(b), to exceed 120 days following the Closing Date) in which to, and the Sellers shall cause their Affiliates to, remove or cover the name "Frontier" and any trademarks, trade names, service marks, trade dress or logos relating to such names from all signs, billboards, advertising materials, telephone listings, labels, stationery, office forms and mastheads; provided, however, that during such period of time such names, trademarks, trade names, service marks, trade dress and logos shall be used (i) only to the extent necessary to avoid financial hardship and (ii) only to the extent and in the manner that such names, trademarks, trade names, service marks, trade dress and logos were used by the Sellers and their Affiliates as of immediately prior to the Closing. This Section 4.9(b) shall not be construed to prohibit the Sellers and their Affiliates from using the name "Frontier" in

connection with the filing of any Tax Returns required by any Tax authority or jurisdiction for periods prior to the Closing or the filing of any other documents required by any Governmental Authority.

4.10 Long Distance Agreements. (a) The closing under the Asset Purchase Agreement shall occur in accordance with the terms thereof without creating any liability or obligation of any Company or Company Subsidiary thereunder extending beyond the Closing Date. The Sellers shall use reasonable best efforts to obtain, as soon as practicable, all required consents necessary for consummation of the Asset Purchase Agreement.

(b) The Carrier Service Agreement shall be amended prior to the Closing as follows:

(i) The initial term of the Carrier Service Agreement shall continue in effect for a period of three years following the Closing Date. The Buyer may thereafter at its option renew the Carrier Service Agreement for up to four consecutive two-year periods. Renewal shall be automatic unless the Carrier Service Agreement is canceled by the Buyer pursuant to Section 2.3 of the Carrier Service Agreement or is otherwise canceled in accordance with the termination provisions of the Carrier Service Agreement. Sections 2.2 and 2.3 of the Carrier Service Agreement shall be revised as appropriate to eliminate Global's right to terminate the Carrier Service Agreement except for breach by the Buyer.

(ii) Section 3.9 of the Carrier Service Agreement shall be revised to change "then current standard wholesale pricing programs" to "the best prices given to another carrier with the same or lower volume or term commitments, and the same or substantially similar cost characteristics with respect to traffic origination and termination".

(iii) The Buyer may include at its option any of its present and future Subsidiaries as parties to the Carrier Service Agreement, subject to the pricing limitation specified immediately below. Such election shall be binding for each included Subsidiary for the remaining term of the Carrier Service Agreement.

(iv) Pursuant to the Exhibits to the Carrier Service Agreement one of Global's Subsidiaries has the right under certain pricing arrangements to surcharge an additional four cents per minute if more than a specified percentage of traffic originates or terminates in non-RBOC/GTE regions. This four cent surcharge shall not be applied under the Carrier Service Agreement with respect to long distance end-user customers located in the franchise territories of the incumbent local exchange carrier operations of the Frontier LEC Business. This subparagraph does not apply to the Buyer's other present or future Subsidiaries.

(v) Sections 3.3 and 3.11 of the Carrier Service Agreement shall be deleted.

4.11 Transition Services. (a) Following the Closing and for so long as a Company or Company Subsidiary remains a Subsidiary of the Buyer (but in no event for a period longer than two years from the Closing Date), the Sellers agree to provide, or to cause their Affiliates to provide, to the Companies and Company Subsidiaries, and the Buyer shall pay for, all of the administrative and support services provided to the Frontier LEC Business by the Sellers as of the date hereof which are on Schedule 4.11 hereto, at a relative level of service consistent with that provided by the Sellers to the Frontier LEC Business during the 12 months preceding the date hereof, unless on or before the date that is four months after the date hereof (which date may up to twice be extended for an additional 30 days at the Buyer's sole option), the Buyer shall notify the Sellers of any or all of such services that should not be so provided following the Closing. The services initially so provided following the Closing shall continue to be provided as set forth in the previous sentence, and the Buyer shall continue to pay therefor, unless the Buyer shall have given the Sellers at least three months advance written notice of any or all of such services the provision of which shall be terminated.

(b) Following the Closing and for so long as the Company or Company Subsidiary currently providing such services remains a Subsidiary of the Buyer (but in no event for a period longer than two years from the Closing Date), the Buyer agrees to provide, or to cause its Affiliates to provide, to the Sellers and their Subsidiaries, and the Sellers shall pay for, all of the administrative and support services provided by the Frontier LEC Business to the Sellers and their Subsidiaries (other than the Companies and Company Subsidiaries) as of the Closing Date which are on Schedule 4.11 hereto, at a relative level of service consistent with that provided to the Sellers and their Subsidiaries by the Frontier LEC Business during the 12 months preceding the date hereof, unless on or before the date that is four months after the date hereof (which date may up to twice be extended for an additional 30 days at the Sellers' sole option), the Sellers shall notify the Buyer of any or all of such services that should not be so provided following the Closing. The services initially so provided following the Closing shall continue to be provided as set forth in the previous sentence, and the Sellers shall continue to pay therefor, unless the Sellers shall have given the Buyer at least three months advance written notice of any or all of such services the provision of which shall be terminated.

(c) Such services will be provided for a charge equal to the then current cost of such services (without mark-up) to the Sellers and their Affiliates or to the Buyer and its Affiliates, as the case may be, determined and allocated to the Buyer or the Sellers, as the case may be, in a manner consistent with the determination and allocation of such costs to the Frontier LEC Business reflected in the financial data and information described in clauses (ii) and (iii) of Section 2.6(a). The Buyer and the Sellers agree to pay, promptly in accordance with their standard payment practices (but in no event later than 45 days after presentation), any bills and invoices that it receives from the other party for services provided under this Section 4.11, subject to receiving, if requested, any reasonably appropriate support documentation for such bills and invoices. Such charges shall be billed as of the end of each calendar month. Each party shall provide the other at least 60 days' notice of any material increase in the cost of such services prior to the date such increase will take effect.

(d) The parties hereto agree to negotiate in good faith a transition services agreement with respect to services to be provided by the Sellers to the Frontier LEC Business, or by the Frontier LEC Business to the Sellers, following the Closing consistent with the terms of this Section 4.11.

(e) Section 2.5 (by reference to Section 2.7) of the Disclosure Schedule identifies the proposed "Future Allocation" of certain shared or displaced assets or services relating to the Frontier LEC Business between the Companies and Company Subsidiaries, on the one hand, and the Sellers, on the other (the "Scheduled Allocation"). Each of the Buyer and the Sellers agrees to negotiate in good faith such proposed allocations prior to the Closing with a view to creating a final allocation which (A) to the extent there exists an overwhelmingly dominant user or beneficiary of such assets or services, allocates such asset or service to such user or beneficiary, and (B) otherwise equitably allocates such assets and services between the Companies and Company Subsidiaries and the Sellers taking into account the criticality of the function to each, the cost and burden on the party to whom the asset or service is not allocated to replace such function in light of such party's other resources, and the related disruption, and the overall burdens and benefits of the overall allocation. If the Buyer and the Sellers are unable to agree on a negotiated final allocation, the Scheduled Allocation shall be deemed to constitute the final allocation and the party to whom such asset or service is allocated (which shall be the Sellers if no allocation is provided for in the Scheduled Allocation) will provide the other party access to such asset or service as a Transition Service under the provisions of this Section 4.11 on the cost basis described in Section 4.11(c).

(f) Consistent with its notice requirements in this Section 4.11, the Buyer at its sole discretion may choose to migrate any or all of the billing, ordering, provisioning and other operations support systems being provided under the transition services arrangement in accordance with Schedule 4.11 to the Buyer's own platforms. The Sellers will use its reasonable best efforts to comply with reasonable data requests (including requests for electronic source data) for information that is necessary to map, convert and integrate such systems into the Buyer's or its vendor's platforms. The Sellers also agree to use its reasonable best efforts to provide the applicable information required to migrate all other transition services to the Buyer's or its vendor's systems. The Buyer agrees that its requests may not impose a material burden on the operation of the Sellers and their Subsidiaries (including, prior to the Closing, the Companies and Company Subsidiaries).

4.12 Sublease of Premises in GCNA Building. At the Buyer's request, GCNA and the Buyer agree to exercise reasonable good faith efforts after the execution of this Agreement to negotiate and finalize a Sublease Agreement pursuant to which GCNA will agree to sublease to Buyer or one of its Subsidiaries for a period of not less than two years following the Closing Date (with an option to extend the term thereof to the end of the term of GCNA's current lease of such premises), a portion of the building located at 180 South Clinton Avenue, Rochester, New York not to exceed the number of square feet currently allocated to the Frontier LEC Business and for a rent based on the pro rata cost allocable to the square feet so subleased, in each case, determined on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) and containing such other

terms and conditions as are customary in such a sublease agreement (including an indemnity for failure of the Buyer to perform its obligations under the sublease); provided that, if the consent of the landlord under the lease is not obtained within three months of the date hereof, then the Buyer shall have no obligation under this Section so long as the Buyer has complied with its obligation to exercise reasonable good faith efforts to obtain such consent in accordance with this Section 4.12.

4.13 Intercompany Accounts and Guaranties. (a) As of the calendar day immediately prior to the Closing Date, except for amounts identified as "Affiliate Advance Receivables" on the books and records of the Companies and Company Subsidiaries and any other accounts that may not be so canceled under applicable Law, all amounts (x) owed to any of the Companies or Company Subsidiaries by the Sellers and their Affiliates (other than the Companies and the Company Subsidiaries) or (y) owed to the Sellers and their Affiliates (other than the Companies and the Company Subsidiaries) by any of the Companies or Company Subsidiaries shall be canceled and extinguished.

(b) With respect to all intercompany accounts not so canceled, upon the Closing the Buyer shall assume responsibility for and shall release the Sellers and their Affiliates (other than the Companies and the Company Subsidiaries) from, and indemnify and hold harmless the Sellers and their Affiliates (other than the Companies and the Company Subsidiaries) from and against, all liability for, and (to the extent permitted under applicable Law) shall cause the relevant Companies and Company Subsidiaries to enter into novation agreements (in form and substance satisfactory to the parties hereto) with respect to, all amounts owed to any of the Companies or Company Subsidiaries by the Sellers and their Affiliates (other than the Companies and the Company Subsidiaries); provided that no such action shall be taken if such action would be in violation of any Law or would, without the consent of the Sellers, otherwise result in an adverse effect on either Seller, in which case the parties hereto shall negotiate in good faith suitable alternative arrangements that would not be in violation of any Law or result in any adverse effects.

(c) The Buyer shall use its best efforts to obtain the release prior to the Closing of the Sellers and any Affiliate of the Sellers other than the Companies and the Company Subsidiaries from any and all guarantees of such Persons of any indebtedness or other obligations of the Frontier LEC Business and shall indemnify and hold harmless such Persons against any payment that any of them must make under any of such guarantees and its reasonable costs and expenses thereunder including, without limitation, reasonable attorney's fees and costs.

4.14 Capital Expenditures. If the aggregate amount of capital expenditures incurred for assets of the Frontier LEC Business from and including January 1, 2000 through and including the Closing Date shall not equal or exceed (i) if the Closing were to occur during the year 2000, a pro rata portion (based upon the number of elapsed days in such year prior to the Closing) of the \$212,287,000 aggregate 2000 capital expenditures budget or (ii) if the Closing were to occur after December 31, 2000, the sum of (x) \$212,287,000 and (y) a pro rata portion (based upon the number of elapsed days in such year prior to the Closing) of the aggregate \$222,800,000 2001 capital expenditures budget, then the Sellers shall cause an aggregate amount

of cash equal to any such shortfall, not restricted under applicable regulatory Laws as to its use, to pay for capital expenditures of such Company or Company Subsidiary (the "Capital Expenditure Cash Fund") to be retained in the accounts of one or more of the Companies and Company Subsidiaries at the Closing. The Capital Expenditure Cash Fund shall not be counted as "Working Capital" for purposes of the adjustment to Purchase Price pursuant to Sections 1.3 and 1.4.

4.15 Non-Compete. (a) The Sellers covenant and agree that the Sellers and their Subsidiaries, for a period of three years from the Closing Date, will not, without the Buyer's prior consent, directly or indirectly compete with the Companies or Company Subsidiaries by engaging in local exchange carrier operations, by providing retail long distance services (other than calling card, toll free and terminating long distance) or by providing retail data services (other than Internet services and Webhosting services) in a Restricted Area, except as stated herein.

(b) For the purposes of this Section 4.15, a "Restricted Area" means the telephone service area on the Closing Date of any Company or Company Subsidiary that is an incumbent local exchange carrier, and in addition any territory adjacent to such telephone service area and within 20 miles of such telephone service area, but a Restricted Area shall not include any such adjacent territory that is within the CMSAs (or equivalent Census Office classification for an equal or larger populated area) covering the New York City metropolitan area or covering the Minneapolis-St. Paul metropolitan area.

(c) For the purposes of this Section 4.15, a Seller or a Subsidiary shall not be deemed to compete with a Company or Company Subsidiary if it is engaged in the provision of local exchange carrier operations, retail long distance services, or any prohibited retail data services in a Restricted Area by using services of a Company or Company Subsidiary other than on a reseller or competitive local exchange carrier basis, or if it is providing as of the Closing Date any of such services to a customer that is simultaneously being provided service to multiple locations outside a Restricted Area by a Seller or its Subsidiary as of the Closing Date.

(d) For purposes of this Section 4.15, a Seller or a Subsidiary shall not be deemed to compete with a Company or Company Subsidiary if it provides any retail long distance service or retail data service to a customer when: (i) it has engaged in seeking to win a bid or otherwise to establish the terms and conditions for the provision of services on a regional, national or global basis to a customer or prospective customer that is not headquartered in a Restricted Area, (ii) it has sought from a Company or Company Subsidiary all of such services that are offered by the Company within a Restricted Area on terms and conditions, including price and assurance of service quality for such services that it reasonably deems necessary to provide such services to such customer and (iii) such Company or Company Subsidiary has failed to timely commit to the provision of such services on the reasonable terms and conditions sought by such Seller or Subsidiary or, if it has made such commitment, has failed to timely provide such services on the terms and conditions to which it has committed.

(e) For purposes of this Section 4.15, a Seller or a Subsidiary shall not be deemed to compete with a Company or Company Subsidiary if it provides any retail long distance service or retail data service to a customer when: (i) it has expressed in writing to a Company or Company Subsidiary a firm interest in seeking to win a bid or otherwise to establish the terms and conditions for the provision of services on a regional, national, or global basis to a customer or prospective customer that is headquartered in a Restricted Area, (ii) it has sought from a Company or Company Subsidiary a commitment to team to win the bid or otherwise to provide services offered by the Company or Company Subsidiary to such customer and (iii) such Company or Company Subsidiary has failed to timely provide to the Seller or Subsidiary the right to include such services in a bid on a right of first refusal basis.

(f) This Section 4.15 shall not be deemed to prohibit the provision by Seller or a Subsidiary of any wireless service licensed on a multistate basis by the FCC.

(g) This Section 4.15 shall not be construed to prohibit any activity by an entity in which a Seller or one of its Subsidiaries has an equity ownership of not more than 15%, or the preexisting operations of any entity that may acquire a Seller or any of its Affiliates.

(h) This Section shall not be construed to prohibit the acquisition by Seller or one of its Subsidiaries of any business if, upon such acquisition by a Seller or any of its Subsidiaries, such Seller or Subsidiary uses its reasonable best efforts to divest or dispose as promptly as practicable on commercially reasonable terms that portion of such acquired business that may otherwise cause a breach under this Section 4.15, and the Buyer shall not commence, or if commenced, will immediately discontinue, any efforts to enforce the foregoing covenants with respect to such acquisition by suit, petition for injunction or otherwise, so long as such divestiture or disposal is being pursued in good faith by such Seller or Subsidiary.

(i) The Sellers and the Buyer agree that this covenant not to compete and its specific limitations constitute a reasonable covenant under the circumstances and is supported by adequate consideration.

4.16 Transition Plan. Within 30 days after the date hereof, the Buyer shall deliver to the Sellers a list of five proposed representatives to a joint transition team, which shall include expertise from various functional specialties associated or involved in providing billing, payroll and other support services to be provided to the Frontier LEC Business after the Closing. The Sellers will add their five representatives to such team within 15 days after receipt of the Buyer's list. Such team will be responsible for preparing as soon as reasonably practicable after the date hereof but at least 60 days prior to the Closing Date a transition plan which will identify and describe substantially all of the various transition activities that the parties plan to complete before and after the Closing and any other transfer of control matters that any party reasonably believes should be addressed in such transition plan. The Buyer and the Sellers shall use reasonable efforts to cause their representatives on such transition team to cooperate in good faith and take all reasonable steps necessary to develop a mutually acceptable transition plan during such period.

Article 5. Conditions to Obligations of the Buyer.

The obligations of the Buyer to consummate the transactions contemplated by this Agreement are, at its option, subject to satisfaction of each of the following conditions:

5.1 Representations and Warranties. (a) The representations and warranties of the Sellers contained herein (other than the Special Representations) shall be true and correct in all material respects (other than those representations and warranties that are qualified by Material Adverse Effect, which shall be true and correct in all respects) at and as of the Closing Date as though each such representation and warranty were made at and as of such time, other than such representations and warranties as are made as of a specific date, in each case except for changes that are expressly contemplated by this Agreement, and except for such failures to be true and correct that (without regard to materiality concepts therein once such failure is established) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) The representations and warranties of the Sellers contained in Sections 2.4(a), 2.4(c), 2.4(d), 2.5 and 2.6 and the first sentence of Section 2.4(b) (collectively, the "Special Representations") shall be true and correct in all respects at and as of the Closing Date.

5.2 Performance by the Sellers. All of the covenants and agreements to be complied with and performed by the Sellers on or before the Closing Date shall have been complied with or performed in all material respects.

5.3 Certificate. The Sellers shall have delivered to the Buyer a certificate, dated as of the Closing Date, executed on behalf of the Sellers by their duly authorized officers to the effect of Sections 5.1 and 5.2.

5.4 Consents; No Objections. (a) The applicable waiting periods (and any extension thereof) under the HSR Act shall have expired or been terminated; and

(b) All approvals for the Sale from the FCC and PUCs, and all material consents from third parties, shall have been obtained and become final and non-appealable (provided that if any appeal or a petition for reconsideration is filed after any such approval has been obtained, such approval shall be deemed to be final and non-appealable unless the Buyer shall have delivered to the Sellers an opinion of counsel rendered in good faith that it is probable that such approval will be reversed and/or vacated upon any such appeal or petition for reconsideration) (i) other than those the failure of which to be obtained would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and (ii) without the imposition of conditions that would individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or a Buyer Material Adverse Effect.

5.5 No Proceedings or Litigation. No preliminary or permanent injunction or other order issued by any United States federal or state Governmental Authority, nor any Law promulgated or enacted by any United States federal or state Governmental Authority, that restrains, enjoins or otherwise prohibits the transactions contemplated hereby or limits the ability in any respect of the rights of any Company or Company Subsidiary to hold its assets and conduct the Frontier LEC Business as it is being conducted as of the Closing Date such as to have a Material Adverse Effect or a Buyer Material Adverse Effect, or imposes civil or criminal penalties on any stockholder, director or officer of the Buyer if such transactions are consummated, shall be in effect; provided, however, that the provisions of this Section 5.5 shall not be available to any party whose failure to fulfill its obligations pursuant to Section 4.4 shall have been the cause of, or shall have resulted in, such order or injunction.

5.6 No Material Events. Since the date hereof, there have not been any circumstances, changes in or effects on the Frontier LEC Business that, individually or in the aggregate, had or would in the reasonably foreseeable future have a Material Adverse Effect.

Article 6. Conditions to Obligations of the Seller.

The obligations of the Seller to consummate the transactions contemplated by this Agreement are, at its option, subject to satisfaction of each of the following conditions:

6.1 Representations and Warranties. The representations and warranties of the Buyer contained herein shall be true and correct in all material respects (other than those representations and warranties that are qualified by Material Adverse Effect, which shall be true and correct in all respects) at and as of the Closing Date as though each such representation and warranty were made at and as of such time, other than such representations and warranties as are made as of a specific date, in each case except for changes that are expressly contemplated by this Agreement, and except for such failures to be true and correct that (without regard to materiality concepts therein once such failure is established) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the business, results of operations or financial condition of the Buyer and its Subsidiaries, taken as a whole.

6.2 Performance by the Buyer. All of the covenants and agreements to be complied with and performed by the Buyer on or prior to the Closing Date shall have been complied with or performed in all material respects.

6.3 Certificate. The Buyer shall have delivered to the Sellers a certificate, dated as of the Closing Date, executed on behalf of the Buyer by its duly authorized officers to the effect of Sections 6.1 and 6.2.

6.4 Consents; No Objections. (a) The applicable waiting periods (and any extension thereof) under the HSR Act shall have expired or been terminated; and

(b) All approvals for the Sale from the FCC and PUCs, and all material consents from third parties, shall have been obtained and become final and non-appealable (provided that if any appeal or a petition for reconsideration is filed after any such approval has been obtained, such approval shall be deemed to be final and non-appealable unless the Seller shall have delivered to the Buyer an opinion of counsel rendered in good faith that it is probable that such approval will be reversed and/or vacated upon any such appeal or petition for reconsideration) (i) other than those the failure of which to be obtained would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and (ii) without the imposition of conditions that would individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or an adverse effect (other than an immaterial effect) in the business, results of operations or financial condition of the Sellers or their Subsidiaries (other than the Companies and the Company Subsidiaries).

6.5 No Proceedings or Litigation. No preliminary or permanent injunction or other order issued by any United States federal or state Governmental Authority, nor any Law promulgated or enacted by any United States federal or state Governmental Authority, that restrains, enjoins or otherwise prohibits the transactions contemplated hereby or limits the ability in any respect of the rights of any Company to hold its assets and conduct the Frontier LEC Business as it is being conducted as of the Closing Date such as to have a Material Adverse Effect or an adverse effect (other than an immaterial effect) in the business, results of operations or financial condition of the Sellers or their Subsidiaries (other than the Companies and the Company Subsidiaries), or imposes civil or criminal penalties on any stockholder, director or officer of the Buyer if such transactions are consummated, shall be in effect; provided, however, that the provisions of this Section 5.5 shall not be available to any party whose failure to fulfill its obligations pursuant to Section 4.4 shall have been the cause of, or shall have resulted in, such order or injunction.

6.6 Purchase Price Adjustment Limitation. The Performance Adjustment component of the Estimated Adjustment, if any, shall not exceed \$200,000,000.

Article 7. Tax Matters.

7.1 Liability for Taxes. (a) The Sellers shall be liable for and shall indemnify the Buyer as the case may be, for (i) all Taxes (as defined below) imposed on the Companies or Company Subsidiaries, or for which the Companies or Company Subsidiaries may otherwise be liable, for any taxable year or period that ends on or before the Closing Date ("Pre-Closing Tax Periods") and, with respect to any portion of a taxable year or period beginning before and ending after the Closing Date ("Straddle Period"), the portion of such Straddle Period ending on and including the Closing Date, and (ii) all liabilities imposed on the Companies or Company

Subsidiaries on or before the Closing Date under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law) for Taxes of the Sellers or any other corporation which is affiliated with Sellers (other than the Companies and Company Subsidiaries).

(b) The Buyer shall be liable for, and shall indemnify the Sellers and their Affiliates for, all Taxes imposed on the Sellers or any of their Affiliates with respect to the Companies and Company Subsidiaries for any taxable year or period that begins after the Closing Date and, with respect to a Straddle Period, the portion of such Straddle Period beginning after the Closing Date.

(c) For purposes of this Section 7.1, whenever it is necessary to determine the liability for Taxes of the Companies and Company Subsidiaries for a portion of a Straddle Period:

(i) real, personal and intangible property Taxes (“property Taxes”) for the Pre-Closing Tax Period shall equal to the amount of such property Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days during the Straddle Period that are in the Pre-Closing Tax Period and the denominator of which is the number of days in the Straddle Period; and

(ii) all other Taxes for the Pre-Closing Tax Period shall be determined by assuming that the Companies and Company Subsidiaries had a taxable year or period that ended at the close of the Closing Date.

(d) The Buyer covenants that it will not cause or permit any Company or Company Subsidiary or any Affiliate of the Buyer (i) to take any action on the Closing Date other than in the ordinary course of business, including but not limited to the distribution of any dividend or the effectuation of any redemption, that could give rise to any Tax liability or reduce any Tax attribute of the Sellers or any affiliated group of which the Sellers are members or (ii) to make or change any Tax election, amend any Tax Return or take any Tax position on any Tax Return, take any action, omit to take any action or enter into any transaction that results in any increased Tax liability or reduction or any Tax attribute of the Sellers or any affiliated group of which the Sellers are members in respect of any Pre-Closing Tax Period. The Buyer agrees that the Sellers or any affiliated group of which the Sellers are members shall have no Tax liability or reduction of any Tax attribute resulting from any action referred to in the preceding sentence and agrees to indemnify and hold harmless the Sellers or any affiliated group of which the Sellers are members against any such Tax and any loss, liability, claim, damage, expense or Tax in connection therewith.

7.2 Tax Refunds. The Sellers shall be entitled to any refund or credit of any Taxes of the Companies and Company Subsidiaries, including interest paid thereon, with respect to Pre-Closing Tax Periods or the portion of any Straddle Periods ending on and including the Closing Date. The Sellers shall have the right to determine whether any claim for refund for such Taxes shall be made on behalf of the Sellers by the Companies or Company Subsidiaries. If the

Sellers elect to make a claim for refund, the Buyer, the Companies and the Company Subsidiaries shall cooperate fully in connection therewith. Notwithstanding the foregoing, the Sellers shall not be entitled to make any claim for refund of Taxes which would materially adversely affect the liability for Taxes of the Buyer, the Companies or the Company Subsidiaries for any period after the Closing Date without the prior written consent of the Buyer; provided, however, that such consent shall not be unreasonably withheld and such consent shall not be necessary to the extent that the Sellers have indemnified the Buyer against the effects of any such settlement. The Sellers shall reimburse the Buyer, the Companies and the Company Subsidiaries for reasonable out-of-pocket expenses incurred in providing such cooperation.

7.3 Adjustment to Purchase Price. The Buyer and the Sellers agree to report any indemnification payment made by the Sellers under Section 7.1 as an adjustment to purchase price, contribution to capital, or other non-taxable amount to the extent that there is substantial authority for such reporting position under applicable law.

7.4 Amended Returns. The Sellers shall be responsible for filing any amended consolidated, combined or unitary Tax Returns for any Pre-Closing Tax Period or Straddle Period of the Company and Company Subsidiaries which are required as a result of examination adjustments made by the Internal Revenue Service or by the applicable state, local or foreign taxing authorities for such taxable years or periods as finally determined; provided, however, that such Tax Returns, to the extent they relate to the Companies or Company Subsidiaries shall be prepared in a manner consistent with past practices to the extent that preparing them in such a manner is permissible by the Internal Revenue Service or by the applicable state, local or foreign taxing authorities. The Sellers shall provide notice to the Buyer of all such provided returns to the extent they relate to the Companies or Company Subsidiaries. For those jurisdictions in which separate Tax Returns are filed by the Company or Company Subsidiaries for any Pre-Closing Tax Period or Straddle Period, any required amended returns resulting from such examination adjustments, as finally determined, shall be prepared by the Sellers and furnished to the Buyer for review and comment ten days prior to the due date for filing such returns and the Sellers shall incorporate all reasonable comments of the Buyer. Buyer shall cause to be executed all waivers of statute of limitations or powers of attorney as may be necessary for Sellers to exercise their rights under this Section.

7.5 Tax Returns. The Sellers shall prepare, or cause to be prepared, and file or cause to be filed when due, including extensions thereof, all Tax Returns that are required to be filed with respect to the Companies and Company Subsidiaries for Pre-Closing Tax Periods and shall pay any Taxes due in respect of such Tax Returns, and the Buyer shall file or cause to be filed when due all Tax Returns that are required to be filed subsequent to the Closing with respect to the Companies and Company Subsidiaries for taxable years or periods beginning and ending after the Closing Date and shall timely pay any Taxes due in respect of such Tax Returns. The Sellers shall have the right to prepare or cause to be prepared all unitary, combined, or consolidated Tax Returns that are required to be filed with respect to the Companies and Company Subsidiaries for any Straddle Period. Buyer shall prepare or cause to be prepared any other Straddle Period Tax Returns. Any such Straddle Period Tax Return (regardless of which party prepares it) shall be prepared in a manner consistent with past practices and without a

change of any election or accounting method and shall be submitted by the preparing party to the other party (together with schedules, statements and supporting documentation) at least 30 days prior to the due date (including extension of such Tax Return), provided, however, that with respect to sales tax returns, such returns shall be submitted by the preparing party to the other party at least five days prior to the due date. Such other party shall have the right to review all work papers and procedures used to prepare any such Tax Return solely to the extent that such work papers and procedures relate to the Companies and the Company Subsidiaries. If such other party, within ten Business Days after delivery of any such Tax Return, notifies the preparing party in writing that it objects to any of the items in such Tax Return solely to the extent that such items relate to the Companies or the Company Subsidiaries, the preparing party shall attempt in good faith to resolve the dispute and, if they are unable to do so, the disputed items shall be resolved (within a reasonable time, taking into account the deadline for filing such Tax Return) by an internationally recognized independent accounting firm chosen by and mutually acceptable to both the Buyer and the Sellers. Upon resolution of all such items, the relevant Tax Return shall be adjusted to reflect such resolution and shall be binding upon the parties without further adjustment. The costs, fees and expenses of such accounting firm shall be born equally by the Buyer and the Sellers.

7.6 Tax Contest Provisions. Whenever the Buyer receives a notice of any pending or threatened Tax audit or assessment for any Pre-Closing Tax Period or Straddle Period, the Buyer shall promptly inform the Sellers in writing. The Sellers shall have the right to control, at their own cost, any resulting proceedings respect to any Pre-Closing Tax Period and to determine whether and when to settle any such claim, assessment or dispute. The Buyers and the Sellers shall jointly control any resulting proceedings with respect to any Straddle Period and shall jointly determine whether and when to settle any such claim, assessment or dispute. Notwithstanding the foregoing, the Sellers shall not be entitled to settle, either administratively or after the commencement of litigation, any claim for Taxes which would materially adversely affect the liability for Taxes of the Buyer, the Companies or the Company Subsidiaries for any period after the Closing Date without the prior written consent of the Buyer. Such consent shall not be unreasonably withheld, and shall not be necessary to the extent that the Sellers have indemnified the Buyer against the effects of any such settlement. Whenever any taxing authority sends a notice of an audit, initiates an examination of any Company or Company Subsidiary or otherwise asserts a claim, makes an assessment or disputes the amount of Taxes for any taxable period beginning after the Closing Date, the Sellers shall promptly inform the Buyer in writing, and the Buyer shall have the right to control, at its cost, any resulting proceedings and to determine whether and when to settle any such claim, assessment or dispute. Notwithstanding the foregoing, the Buyer shall not be entitled to settle, either administratively or after the commencement of litigation, any claim for Taxes which would materially adversely affect the liability for Taxes of the Sellers without the prior written consent of the Sellers, provided that such consent shall not be unreasonably withheld. The Buyer shall cause to be executed all waivers of statute of limitations or power of attorneys as may be necessary for the Sellers to exercise their rights under this Section. The Buyer shall not execute any waivers of the statute of limitations for the Companies or Company Subsidiaries for any Pre-Closing Period without the consent of the Sellers.

7.7 Termination of Tax Allocation Agreements. Any and all tax allocation or sharing agreements or arrangements, whether or not written, that may have been entered into by and between the Sellers and its affiliates, on the one hand, and the Companies and Company Subsidiaries, on the other hand, shall be terminated as to the Companies and Company Subsidiaries as of the Closing Date, and no payments which are owed by or to the Companies or Company Subsidiaries pursuant thereto shall be made thereunder. After the Closing Date, this Agreement shall be the sole Tax sharing agreement relating to the Companies and Company Subsidiaries for all Pre-Closing Tax Periods.

7.8 Assistance and Cooperation. Each of the Buyer and the Sellers will provide the other with such assistance as may reasonably be requested by each of them in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each provide the other with any records or information which may be relevant to such Tax Return, audit or examination, proceedings or determination. Such assistance shall include making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder and shall include providing copies of any relevant Tax Return and supporting work schedules. The party requesting assistance hereunder shall reimburse the other for reasonable expense incurred in providing such assistance.

7.9 Transfer and Conveyance Taxes. The Sellers, on the one hand, and the Buyer, on the other hand, shall each be liable for and shall pay one-half of all applicable sales, transfer, recording, deed, stamp and other similar taxes, including, without limitation, any real property transfer or gains taxes (if any), resulting from the consummation of the transactions contemplated by this Agreement.

7.10 Global Crossing Options. (a) The Sellers shall be entitled to claim any and all deductions (the "Option Deductions"), for all federal, state, local and foreign purposes, attributable to the exercise by any of the employees of the Frontier LEC Business of any Global stock options, and the Buyer shall not take, nor permit the Companies or Company Subsidiaries to take, any position or action (including, without limitation, the filing of any Tax Returns) which would interfere with, or be inconsistent with, the Sellers claiming the Option Deductions.

(b) If, pursuant to a final determination (within the meaning of Section 1313 of the Code), the Sellers are not entitled to claim all or any portion of the Option Deductions, then (i) the Buyer shall, at the Sellers' expense, take all actions, including without limitation, promptly filing, or causing the Companies or Company Subsidiaries to file, amended Tax Returns, as are necessary to allow the Companies or Company Subsidiaries to claim the Option Deductions, and (ii) shall pay, or cause the Companies or Company Subsidiaries to pay, to the Sellers all refunds or credits received by the Sellers or the Companies or Company Subsidiaries attributable to the Option Deductions within ten days after receipt of such refund (or, in the case of a credit, within ten days after the credit is allowed or applied against any other Tax liability).

7.11 Carryback of Net Operating Losses. The Buyer, the Companies and the Company Subsidiaries shall make any and all elections under Section 172(b)(3) of the Code and

any corresponding provisions of state, local or foreign law to relinquish the entire carryback period with respect to any net operating loss attributable to the Companies or the Company Subsidiaries in any taxable period beginning after the Closing Date that could be carried back to a taxable year of the Companies or the Company Subsidiaries ending on or before the Closing Date.

7.12 Survival. Claims for indemnification under Section 7.1 shall survive until the expiration of the applicable statute of the limitations (including any extensions or waivers of such statutes).

Article 8. Employee Benefit and Labor Matters.

8.1 Continuation of Employee Benefits. From and after the Closing Date and except as otherwise expressly provided in this Article 8, the Buyer shall, and shall cause the Companies and Company Subsidiaries to:

(a) Provide, until three years after the Closing Date (the "Benefit Continuation Period"), benefits that in the aggregate are no less favorable than the benefits provided, in the aggregate, under the Employee Benefit Plans to the current employees of the Frontier LEC Business (the "Business Employees") immediately prior to the Closing. For purposes of this Agreement, "Business Employees" shall refer only to those individuals who are actively employed by the Frontier LEC Business on the Closing Date, or who are on vacation, disability, family leave, layoff or other leaves of absence which have been agreed or consented to (or protected by applicable law) on such Closing Date and who in any case where they are not actively employed on the Closing Date actually return to active service with the Surviving Corporation of the Buyer within 12 months (or such longer period protected by applicable law) after the Closing Date. Not in limitation of the foregoing but for clarification, during the Benefit Continuation Period the Buyer shall, or shall cause the Companies and Company Subsidiaries, to maintain a severance program that provides payments and benefits to Business Employees whose employment terminates during such period that are not less than the payments and benefits provided for under the Change in Control Severance Plan for Salary Band Levels 25 and above, as maintained by GCNA (the "Severance Plan") (assuming, for purposes of such plan, that a change of control has already occurred) for the same type of termination.

Notwithstanding the foregoing, nothing herein shall require (i) the continuation of any particular employee benefit plan or contribution levels or prevent any amendment or termination thereof (subject to the maintenance, in the aggregate, of the benefits as provided in the preceding sentence) or (ii) require the Buyer to continue or maintain any stock purchase or other equity plan related to the equity of Global or the Buyer. Notwithstanding the foregoing, until September 29, 2001, the Buyer shall, or shall cause the Company and the Company Subsidiaries to, maintain benefits that are equivalent to the benefits provided under the Employee Telecommunications Benefit program, the Educational Assistance Fund, the Educational Assistance Program and the Executive Perquisite program; provided, however, that Sellers shall assume or retain all liabilities

with respect to benefits accrued or payable under the foregoing four programs to the extent incurred as of the Closing Date (which for purposes of the Educational Assistance Fund shall mean that any four-year scholarship awarded prior to the Closing Date shall be deemed incurred with respect to all four years of such scholarship so long as the student remains eligible for such scholarship under the terms of such Fund). In the event of any sale, transfer or other disposition by the Buyer of all or any part of the Frontier LEC Business or of the Companies and/or the Company Subsidiaries (whether by merger, sale of stock or assets or otherwise) (any such event, a "Sale") prior to the end of the Benefit Continuation Period, the Buyer shall cause any such purchaser to assume and perform all obligations of the Buyer under this Section 8.1(a) for not less than the balance of the Benefit Continuation Period.

(b) (i) Waive any limitations to pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Business Employees under any welfare benefit plan in which such employees may be eligible to participate after the Closing to the extent that such limitations did not apply or had been satisfied by such Business Employees and their covered dependents, (ii) provide each Business Employee with credit for any co-payments and deductibles paid prior to the Closing for the year in which the Closing occurs in satisfying any applicable deductible or out-of-pocket requirements under any welfare benefit plan in which such employees may be eligible to participate after the Closing, and (iii) recognize all service of the Business Employees rendered as employees of the Sellers, and during the period that the Companies and the Company Subsidiaries were Subsidiaries of the Sellers, for all purposes (including, without limitation, purposes of eligibility to participate, vesting credit, entitlement for benefits, and benefit accrual (except for purposes of benefit accrual under any defined benefit cash balance pension plan) in any benefit plan in which such employees may be eligible to participate after the Closing, to the same extent taken into account under a comparable Employee Benefit Plan immediately prior to the Closing Date.

8.2 Termination of Participation in Employee Benefit Plans: Defined Benefit Pension Plans. Except as set forth herein, the Buyer shall not, and shall cause the Companies and Company Subsidiaries not to, assume any Employee Benefit Plans maintained or sponsored by the Sellers. Effective as of the Closing Date, the Business Employees shall cease to participate in any of the Employee Benefit Plans maintained or sponsored by the Sellers, and the Companies and Company Subsidiaries shall cease to be contributing employers under any Employee Benefit Plan. In addition, with respect to any Employee Benefit Plan that is a defined benefit pension plan (collectively, the "Sellers' Pension Plans"), the Sellers shall not transfer any assets or liabilities with respect to any Business Employees who participated in any such plans immediately prior to the Closing Date; provided, however, that the Sellers shall cause the applicable Sellers' Pension Plans to recognize all service provided by the Business Employees after the Closing Date to the Buyer, the Companies and the Company Subsidiaries (collectively, the "Buyer Group") for purposes of eligibility for the commencement of benefits thereunder; and provided, further, in connection with the foregoing, (i) Buyer shall, or shall cause the applicable member of the Buyer Group, to provide the Sellers with written notice of the termination of

employment occurring after the Closing Date of any Business Employee who participated in the Sellers' Pension Plan prior to the Closing Date (a "Termination Notice") and (ii) in the event of any Sale whereby the Business Employees are transferred from Buyer or otherwise outside of the Buyer Group, (x) Buyer shall, or shall cause the applicable member of the Buyer Group to continue to provide such Termination Notice even after such Sale or (y) Buyer shall cause the acquiring entity to agree to provide such Termination Notice after such Sale.

8.3 Defined Contribution Plan. (a) As soon as reasonably practicable after the Closing Date, the Buyer shall, or shall cause the Buyer Group to, provide a defined contribution plan for the benefit of the Business Employees (which plan may be an existing plan or plans of the Buyer) (the "Successor 401(k) Plan"), that has those features that are provided for in the Sellers' 401(k) Plan, which are required by Section 411(d)(6) of the Code to be provided by the Successor 401(k) Plan (the "Protected Benefits"). In addition, the Buyer shall, or shall cause the Buyer Group to, take all necessary actions, if any, to qualify such plan under the applicable provisions of the Code and shall make any and all filings and submissions to the appropriate governmental agencies required to be made by it in connection with the transfer of assets described below. As soon as reasonably practicable following the delivery to the Sellers of a favorable determination letter from the Internal Revenue Service regarding the qualified status of the Successor 401(k) Plan (or, if earlier, the delivery of an opinion of the Buyer's counsel, reasonably satisfactory to the Sellers, to such effect), the Sellers shall cause the trustee of the Sellers' 401(k) Plan to transfer, in the form of cash and marketable securities (or such other form as may be agreed by the Buyer and the Sellers) (the "Assets"), the full account balances of the Business Employees (which account balances shall be fully vested) under the Sellers' 401(k) Plan (which account balances will have been credited with appropriate earnings attributable to the period from the Closing Date to the date of transfer described herein), reduced by any necessary benefit or withdrawal payments to or in respect of Business Employees occurring during the period from the Closing Date to the date of transfer described herein, to the appropriate trustee as designated by the Buyer under the trust agreement forming a part of the Successor 401(k) Plan. With respect to that portion of the Assets that is comprised of shares of capital stock of Global ("Global Stock"), Buyer shall cause the trustee of the Successor 401(k) Plan to hold such shares in trust for the benefit of the Business Employees until such time as any such employee elects to dispose of his or her shares; and provided, further, that in no event shall the Successor 401(k) Plan be required to permit participants to otherwise invest in Global Stock, whether with additional contributions made into such plan, reallocation of other Assets of a participant's account, or otherwise. In consideration for the transfer of assets described herein, the Buyer shall, or shall cause the Buyer Group to, effective as of the date of transfer described herein, assume all of the obligations of the Sellers in respect of the account balances accumulated by Business Employees under the Sellers' 401(k) Plans on or after the Closing Date.

(b) Notwithstanding anything provided in Section 8.3(a) to the contrary, in the event that the provision of the Protected Benefits would impose upon the Buyer or the Buyer Group material costs and expenses of administration that the parties reasonably agree would impose an unreasonable and substantial burden on the Buyer (or the Buyer Group, as applicable), the trustee of the Successor 401(k) Plan shall not be required to accept the transfer of account balances from the Sellers' 401(k) Plan pursuant to Section 8.3(a); provided, however, the parties

agree that it would constitute an unreasonable and substantial burden on Buyer or the Buyer Group if the Buyer were required, solely for the purposes of accepting the trustee-to-trustee transfer of Assets (pursuant to Section 8.3(a), above), to establish a new and separate defined contribution plan. In lieu of such trustee-to-trustee transfer, the Sellers shall take any actions reasonably necessary to provide for a distribution to the Business Employees of their vested account balances pursuant to Section 401(k)(10) of the Code, to the extent that such employees elect to receive such distributions, and the Buyer shall, or shall cause the Buyer Group to, take any actions reasonably necessary to cause the Successor 401(k) Plan to receive any such distributions (in cash and in shares of Global Stock, as applicable) which any such Business Employee may elect to roll over into such 401(k) plan. In addition, in the event any such Business Employee elects to roll over his or her vested account balances into the Successor 401(k) Plan, the Buyer shall take all actions necessary to permit such Business Employee to roll over any loan balance outstanding under the Sellers 401(k) Plan prior to the Closing Date, to the extent permitted by applicable Law.

(c) Notwithstanding anything in this Agreement to the contrary, in no event shall the Sellers transfer, or cause to be transferred, the assets, if any, of, or liabilities with respect to the Business Employees under, either the Supplemental Management Pension Plan or the Supplemental Retirement Savings Plan.

8.4 Post-Retirement Benefits. (a) Sellers shall retain or assume the liability for all post-retirement medical and/or life insurance benefits (the "Post Retirement Welfare Benefits") for (i) any former employee of the Frontier LEC Business who, as of the Closing Date, was either retired or otherwise terminated employment with the Sellers prior to the Closing Date and was entitled to Post-Retirement Welfare Benefits from the Sellers at such time, or (ii) is a non-Union Employee, whether or not eligible for post-retirement welfare benefits as of the Closing Date (even if they continue their employment with the Buyer or the Buyer Group after the Closing Date); **provided, however**, that the foregoing benefits shall be secondary to any medical or life insurance benefit coverage that such a person described in clauses (i) or (ii), above may otherwise be eligible to receive under any plan, program or arrangement provided by the Buyer or any member of the Buyer Group or pursuant to any Assumed CBAs.

(b) With respect to any Business Employee who is a Union Employee as of the Closing Date, the Buyer shall assume all liabilities, obligations and responsibilities with respect to providing Post-Retirement Welfare Benefits, if any, to such employees under any Assumed CBAs or any Post-Retirement Welfare Benefits programs which the Buyer or the Buyer Group maintain for such employees after the Closing Date.

(c) As soon as practicable on or after the Closing Date, the Sellers shall transfer any assets that are dedicated or otherwise allocated exclusively for the purpose of funding and determining the accrued liability with respect to the Post-Retirement Welfare Benefits of the Union Employees assumed by the Buyer pursuant to Section 8.4(b), above. To the extent such transfer occurs after the Closing Date, the amount of the transfer shall equal the assets as of the Closing Date **plus** the interest on such assets accrued from the Closing Date to the date the assets are transferred hereunder, at a rate equal to the assumed discount rate used to value the foregoing

liability as of the Closing Date (as set forth in the Buck Consulting Report), adjusted by any contributions made by, or payments made to, the Union Employees in respect of the Post-Retirement Welfare Benefits prior to the date the foregoing assets are transferred.

8.5 Collective Bargaining Agreements. Effective on and after the Closing Date, the Buyer shall assume all of the collective bargaining agreements (including, without limitation, pursuant to the specified provisions of the collective bargaining agreements set forth in Section 8.5 of the Disclosure Schedule) (all such agreements, the “Assumed CBAs”) and other labor contracts with respect to any Business Employees existing immediately prior to the Closing Date (including, without limitation, the obligation, if any, to contribute to any multiemployer pension or welfare plans) and to continue, to the extent required under such agreements and other contracts, to employ all of the Business Employees covered by such agreements, whether or not then actively at work, including, without limitation, any Business Employees who are on vacation leave, leave of absence, sick leave or disability leave for the periods set forth therein. The Buyer shall also honor any reemployment rights of any current or former Business Employees including, but not limited to, any such persons who are receiving long-term disability benefits as of the Closing Date.

8.6 WARN. On and for 90 days after the Closing Date, the Buyer shall not, and shall cause the Companies and Company Subsidiaries not to, implement any employment terminations, layoffs or hours reductions or take any other action which could result in a “plant closing” or “mass layoff”, as those terms are defined in the Worker Adjustment and Retraining Notification Act of 1988 (“WARN”) or similar events under applicable state law, affecting in whole or in part any facility, site of employment or operating unit, or any employee employed by any Company or Company Subsidiary, or which could require either Seller, any Company or Company Subsidiary or the Buyer to give notice or take any other action required by WARN or applicable state law.

8.7 Annual Incentive Compensation. On the Closing Date, the Sellers shall pay, or cause to be paid, to all Business Employees a pro rata portion of any bonuses otherwise payable in respect of the fiscal year in which the Closing Date occurs (the “Bonuses”) pursuant to the Sellers’ annual incentive compensation plans. The amount of such Bonuses shall be calculated based on the amounts accrued in respect of such Bonuses on the books and records of the Frontier LEC Business as of the end of the month immediately preceding the month in which the Closing Date occurs, which Bonuses would otherwise be payable after the end of the applicable fiscal year.

Article 9. Indemnification.

9.1 Indemnification by the Sellers. Subject in all respects to the provisions of this Article 8, the Sellers hereby agree jointly and severally to indemnify and hold harmless the Buyer and its Affiliates, officers, directors, employees, agents and representatives after the Closing Date from and against any Claims and Damages incurred by them arising out of or resulting from

(a) any breach on the part of the Sellers of (i) any representation or warranty made by the Sellers in Article 2 hereof (other than those set forth in Section 2.17) or in any certificate delivered pursuant to this Agreement or (ii) any covenant or agreement made by the Sellers in this Agreement; or

(b) any matter on the Probable Liabilities List to the extent that the amount of the expense and/or loss for such matter becomes capable of being “reasonably estimated” (within the meaning of such term under GAAP and determined on a basis consistent with that used to determine the Probable Liabilities List) within 18 months after the Closing Date (a “Liability Claim”).

9.2 Indemnification by the Buyer. Subject in all respects to the provisions of this Article 8, the Buyer hereby agrees, and shall cause the Companies and Company Subsidiaries, jointly and severally to indemnify and hold harmless the Sellers and their respective Affiliates, officers, directors, employees, agents and representatives after the Closing Date from and against any Claims and Damages incurred by them arising out of or resulting from

(a) any breach on the part of the Buyer of (i) any representation or warranty made by the Buyer in Article 3 hereof or in any certificate delivered pursuant to this Agreement or (ii) any covenant or agreement made by the Buyer in this Agreement; or

(b) any obligation or liability reflected in the Combined Liabilities or Combined Working Capital used to adjust the Purchase Price pursuant to Section 1.3 to the extent so reflected.

9.3 Limitations on Indemnification Claims and Liability. (a) The respective representations and warranties of the Sellers and the Buyer set forth in this Agreement or in any certificate delivered pursuant to this Agreement, and the opportunity to make a claim for indemnification, or otherwise be indemnified or held harmless, under this Article 9 with respect thereto or with respect to (i) any covenant or agreement relating to any action required by this Agreement to be taken prior to or at the Closing or (ii) any Liability Claim shall survive until, and expire with, and be terminated and extinguished upon, the date that is 18 months after the Closing Date. Any and all covenants and agreements relating to any action required by this Agreement to be taken after the Closing and the obligation of the Buyer with respect to Section 9.2(b) shall survive the Closing forever and shall not expire with, and be terminated and extinguished upon, the Closing.

(b) The Sellers shall not be obligated to indemnify or hold harmless any Indemnified Party under Section 9.1 (i) for any Claims or Damages incurred by such Indemnified Party in connection with any individual occurrence or related series of occurrences that do not exceed \$25,000 or (ii) unless and until Claims or Damages in respect of the indemnification obligations of the Sellers under Section 9.1 exceed in the aggregate \$50,000,000, following which (subject to the provisions of this Article 9) the Sellers shall be obligated to indemnify or hold harmless an Indemnified Party only for such Claims or Damages which, when aggregated with all other Claims and Damages indemnified under Section 9.1, exceed such threshold amount

or (iii) to the extent that Claims or Damages, when aggregated with all other Claims and Damages indemnified under Section 9.1, exceed \$200,000,000 or (iv) for any matter reflected in the Combined Liabilities or Combined Working Capital to the extent used to adjust the Purchase Price pursuant to Section 1.3. For purposes of this Section 9.3(b), the amount of any Claims and Damages shall be computed as set forth in Section 9.4.

(c) In addition to the foregoing limitations and any other limitations under this Agreement, the Sellers shall not be obligated to indemnify or hold harmless any Indemnified Party under Section 9.1(b) unless and until Claims or Damages in respect of Liability Claims exceed in the aggregate the aggregate amount of all matters on the Probable Assets List for which the asset values of such matters have become capable of being “reasonably estimated” (within the meaning of such term under GAAP and determined on a basis consistent with that used to determine the Probable Assets Lists) within 18 months after the Closing Date. To the extent that any matter or any additional matter on the Probable Asset List becomes so capable of being “reasonably estimated” after an indemnification payment has been made with respect to a Liability Claim, the Buyer or its Affiliate shall promptly repay to the GCNA such amount of the indemnification payment as would not have been paid had the asset value of such matter reduced the original payment (and any such repayment shall be a credit against any applicable indemnification threshold or limitation set forth in Section 9.3(b) hereof) at such time or times and to the extent such matters become so estimable.

(d) Notwithstanding anything to the contrary in this Agreement, the indemnifications in Sections 9.1 and 9.2 hereof will be the sole and exclusive remedies available to the Buyer or the Sellers, or any of their respective Affiliates, officers, directors, employees, agents or representatives, after the Closing for breaches of any representations or warranties in this Agreement, or any certificate delivered pursuant to this Agreement, or any covenants or agreements contained in this Agreement (other than with respect to any covenant or agreement relating to any action required by this Agreement to be taken after the Closing or to obligations or liabilities reflected in Combined Liabilities or Combined Working Capital), or otherwise in connection with this Agreement (other than as provided by Articles 1, 7 and 8). Any claim for indemnification must be made as provided in Sections 9.5, 9.6 and 9.7 hereof.

9.4 Computation of Claims and Damages. Whenever an Indemnifying Party is required to indemnify and hold harmless an Indemnified Party from and against and hold the Indemnified Party harmless from, or to reimburse the Indemnified Party for, any item of Claim or Damage under this Agreement, the Indemnifying Party will, subject to the provisions of this Article 9, pay the Indemnified Party the amount of the Claim or Damage (i) reduced by any amounts to which the Indemnified Party actually recovers from third parties in connection with such Claim or Damage (“Reimbursements”), (ii) reduced by the Net Proceeds of any insurance policy payable to the Indemnified Party with respect to such Claim or Damage and (iii) reduced appropriately to take into account any Tax Benefit to the Indemnified Party with respect to such Claim or Damage, net of all income Taxes resulting from the indemnification payment. For purposes of this Section 9.4, (x) “Net Proceeds” shall mean the insurance proceeds actually paid, less any deductibles, co-payments, premium increases, retroactive premiums or other payment obligations (including attorneys’ fees and other costs of collection) that relates to or arises from

the making of the claim for indemnification and (y) "Tax Benefit" shall mean any benefit actually realized by the Indemnified Party in connection with the Claim or Damage. The Indemnified Party shall use reasonable best efforts to pursue Reimbursements or Net Proceeds that may reduce or eliminate Claims and Damages and otherwise to mitigate Claims and Damages. If any Indemnified Party receives any Reimbursement or Net Proceeds, or realizes a Tax Benefit, after an indemnification payment is made which relates thereto, the Indemnified Party shall promptly repay to the Indemnifying Party such amount of the indemnification payment as would not have been paid had the Reimbursement, Net Proceeds or Tax Benefit reduced the original payment (and any such repayment shall be a credit against any applicable indemnification threshold or limitation set forth in Section 9.3(b) hereof) at such time or times as and to the extent that such Reimbursement or Net Proceeds is actually received or such Tax Benefit is actually realized. The Indemnified Party shall make available to the Indemnifying Party and its agents and representatives all pertinent records, materials and information, and provide reasonable access during normal business hours to the Indemnified Party's employees, properties, books and records, and shall otherwise cooperate with and assist the Indemnifying Party and its agents and representatives in reviewing the propriety and the amount of any Claims or Damages, including, without limitation, the availability and/or amounts of Reimbursements, Net Proceeds and Tax Benefits.

9.5 Notice of Claims. Upon obtaining actual knowledge of any Claim or Damage which has given rise to, or could reasonably give rise to, a claim for indemnification hereunder, the party seeking indemnification (the "Indemnified Party") shall, as promptly as reasonably practicable (but in no event later than 30 days) following the date the Indemnified Party has obtained such knowledge, give written notice (a "Notice of Claim") of such claim to the party or parties from which indemnification is or will be sought under this Article 9 (the "Indemnifying Party"). The Indemnified Party shall furnish to the Indemnifying Party in good faith and in reasonable detail such information as the Indemnified Party may have with respect to such indemnification claim (including copies of any summons, complaint or other pleading which may have been served on it and any written claim, demand, invoice, billing or other document evidencing or asserting the same). No failure or delay by the Indemnified Party in the performance of the foregoing shall reduce or otherwise affect the obligation of the Indemnifying Party to indemnify and hold the Indemnified Party harmless, except to the extent that such failure or delay shall have materially adversely affected the Indemnifying Party's ability to defend against, settle or satisfy any liability, damage, loss, claim or demand for which such Indemnified Party is entitled to indemnification hereunder. For purposes of this Section 9.5, (i) a Notice of Claim given in good faith must include to the extent then practicable a good faith estimate of the amount of the claim and (ii) a Notice of Claim shall be deemed to have been given as of the date the Probable Liabilities List is agreed upon or otherwise determined with respect to Liability Claims. Notwithstanding anything to the contrary in this Agreement, no identification of any party as an "Indemnifying Party" for purposes of any of the provisions of this Agreement shall constitute any acknowledgment by such party that it is liable to any Person under this Article 9.

9.6 Defense of Third Party Claims. If any claim set forth in the Notice of Claim given by an Indemnified Party pursuant to Section 9.5 hereof is a claim asserted by a third party, the Indemnifying Party shall have 30 days after the date that the Notice of Claim is given or

deemed given by the Indemnified Party to notify the Indemnified Party in writing of the Indemnifying Party's election to defend such third party claim on behalf of the Indemnified Party. If the Indemnifying Party elects to defend such third party claim, the Indemnified Party shall make available to the Indemnifying Party and its agents and representatives all witnesses, pertinent records, materials and information in the Indemnified Party's possession or under the Indemnified Party's control as is reasonably required by the Indemnifying Party and shall otherwise cooperate with and assist the Indemnifying Party in the defense of such third party claim. Regardless of which party is defending such third party claim, the Indemnified Party shall not pay, settle or compromise such third party claim without the consent of the Indemnifying Party. If the Indemnifying Party elects to defend such third party claim, the Indemnified Party shall have the right to participate in the defense of such third party claim, at the Indemnified Party's own expense. In the event, however, that the Indemnified Party reasonably determines that representation by counsel to the Indemnifying Party of both the Indemnifying Party and the Indemnified Party may present such counsel with a conflict of interest, then such Indemnified Party may employ separate counsel to represent or defend it in any such action or proceeding and the Indemnifying Party will, subject to the provisions of this Article 9, pay the reasonable fees and disbursements of such counsel when due under such counsel's customary billing practices. If the Indemnifying Party does not elect to defend such third party claim or does not defend such third party claim in good faith, the Indemnified Party shall have the right, in addition to any other right or remedy it may have hereunder, at the Indemnifying Party's expense, to defend such third party claim; provided, however, that such Indemnified Party's defense of or its participation in the defense of any such third party claim shall not in any way diminish or lessen the indemnification obligations of the Indemnifying Party under this Article 9. If the Indemnifying Party subsequently reasonably determines that the Indemnified Party is not defending such third party claim in good faith, the Indemnifying Party shall have the right, in addition to any other right or remedy it may have hereunder, to elect to assume the defense of such third party claim and, to the extent that the Indemnified Party has not defended such third party claim in good faith, and whether or not the Indemnifying Party shall have subsequently assumed the defense thereof, the indemnification obligations of the Indemnifying Party under this Article 9 shall be reduced or eliminated to the extent that such failure to defend in good faith shall have materially adversely affected the Indemnifying Party's ability to defend against, settle or satisfy any liability, damage, loss, claim or demand for which such Indemnified Party is otherwise entitled to indemnification hereunder.

9.7 Special Indemnification Procedures with Respect to Environmental Matters.

(a) Notwithstanding anything to the contrary in this Agreement, with respect to any potential claim for indemnification in connection with, arising out of or resulting from any breach on the part of the Sellers of (i) any representation or warranty made by the Sellers in Section 2.13 hereof, or in any other section of this Agreement or in any certificate delivered pursuant to this Agreement relating to matters relating to Environmental Laws or Hazardous Materials, (ii) any covenant or agreement made by the Sellers in this Agreement relating to matters relating to Environmental Laws or Hazardous Materials or (iii) any Liability Claim relating to matters relating to Environmental Laws or Hazardous Materials, which claim relates to the costs of remediation of environmental conditions (each, a "Remediation Claim"), the Notice of Claim given to the Sellers pursuant to Section 9.5 hereof shall be required to set forth the condition

requiring such remediation, the proposed remedial actions (including the scope of work to be performed) (each, a "Remediation Action") and an estimate of the cost of such remediation. The Sellers shall be given the right to consult with the Buyer of the Remediation Action covered under this Section 9.7. The Indemnified Party shall consult in good faith with the Sellers and their representatives with respect to all aspects of the proposed Remediation Claim specified in the Notice of Claim, including, without limitation, the form and substance of any communications plan, report or submission to be given to any Governmental Authority with respect to any Remediation Action. The costs of any environmental surveys or testing, geologic testing or engineering tests conducted in connection with any potential or proposed Environmental Claim (other than those required by a Governmental Authority in connection with an identified potential or proposed Environmental Claim), including laboratory and analytical fees, or any consultants or engineers engaged to assist in any review related thereto, shall be paid for by the party conducting such surveys, testing or tests or engaging such consultants or engineers.

(b) With respect to any Remediation Actions in excess of \$500,000 in the aggregate, the Indemnified Party shall, to the fullest extent practicable, seek in good faith competitive written bids from at least three qualified sources prior to having any of such Remediation Actions performed. To the extent that any Indemnified Party will be seeking indemnification under the provisions of this Article 9, with respect to a Remediation Action, indemnification with respect to such Remediation Action shall be limited to that required to comply with Environmental Laws and the Indemnified Party shall use its reasonable best efforts to minimize the amount of any Remediation Claim in connection therewith.

(c) The procedures specified in Sections 9.7(a) and 9.7(b) above are provided solely for the purpose of determining the amount of the indemnification to which an Indemnified Party is entitled under Section 9.1 hereof with respect to a Remediation Claim. Nothing herein shall be construed to restrict or limit in any way the remedial actions actually undertaken or costs of remediation actually incurred with respect thereto.

9.8 Probable Liabilities and Assets Lists. (a) Pursuant to the procedures and in accordance with the time schedules set forth in Section 1.4, the parties shall agree upon (or in the case of a Neutral Auditor Determination, there shall be determined for the parties pursuant to Section 1.4) a list (the "Probable Liabilities List") of matters (the "Probable Liabilities") that both (i) with respect to which, as of the Closing Date, it is "probable" (within the meaning of such term under GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) and as set forth in Schedule 1.3 hereto) that a liability has been incurred and (ii) would have been reflected in the Combined Liabilities for purposes of determining the Liabilities Adjustment or in Combined Working Capital for purposes of determining the Working Capital Adjustment, in each case pursuant to Section 1.3(a) in conformity with GAAP (including, without limitation, the materiality concepts thereof) consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) and as set forth in Schedule 1.3 hereto, but for the fact that, as of the Closing Date, the amount of

the expense and/or loss for such matter cannot be “reasonably estimated” (within the meaning of such term under GAAP).

(b) Pursuant to the procedures and in accordance with the time schedules set forth in Section 1.4, the parties shall agree upon (or in the case of a Neutral Auditor Determination, there shall be determined for the parties pursuant to Section 1.4) a list (the “Probable Assets List”) of matters (the “Probable Assets”) that both (i) with respect to which, as of the Closing Date, it is “probable” (within the meaning of such term under GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) and as set forth in Schedule 1.3 hereto) that a current or long-term receivable of the Companies or Company Subsidiaries exists and (ii) would have been reflected in the books and records of the Frontier LEC in conformity with GAAP (including, without limitation, the materiality concepts thereof) consistently applied and on the basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of section 2.6(a) and as set forth in Schedule 1.3 hereto, but for the fact that, as of the Closing Date, the value of such asset cannot be “reasonably estimated” (within the meaning of such term under GAAP).

Article 10. Definitions.

Unless otherwise stated in this Agreement, the following capitalized terms have the following meanings:

Access Line means a physical circuit over which calls are switched in the telephone central offices, and over which calls can be directed to other Access Lines on the Public Switched Network or received from other Access Lines connected to the Public Switched Network. In counting the number of Access Lines, (i) each digital T1 circuit (which can be channelized into 24 separate voice-grade equivalent lines) is counted as 24 Access Lines by the Companies and Company Subsidiaries in Rochester, New York; Illinois; Michigan; and Wisconsin, (ii) each PRI circuit (a T1 circuit used to provision ISDN service) is counted as 23 Access Lines, (iii) both retail and wholesale market segments are included in the Access Line counts in the Rochester, New York market and (v) telephone lines used for internal business purposes (“official” lines) are excluded from Access Line counts.

Action means any action, suit, claim, arbitration, or proceeding or investigation (of which the Sellers or the Buyer, as the case may be, have knowledge) commenced by or pending before any Governmental Authority.

Adjustment has the meaning set forth in Section 1.4 hereof.

Affiliate means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such specified Person.

Agreement or this Agreement means this Purchase Agreement dated as of the date first above written (including the Annexes and Exhibits hereto and the Disclosure Schedule) and all amendments hereto made in accordance with the provisions of Section 11.7 hereof.

Asset Purchase Agreement has the meaning set forth in Section 2.21 hereof.

Buck Consulting Report means the report dated March 23, 2000 by Buck Consulting relating to the January 1, 1999 valuation of the post-retirement non-pension benefits of Global Crossing Telecommunications.

Business Day means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

Business Employee has the meaning set forth in Section 8.1 hereof.

Buyer has the meaning specified in the introductory paragraph to this Agreement.

Buyer Material Adverse Effect means a material adverse effect on the business, results of operations or financial condition of the Buyer and its Subsidiaries (not including the Companies and the Company Subsidiaries), taken as a whole; provided that, for such purpose, "material adverse effect" shall be determined on the basis of the same magnitude of effect as that used to determine a Material Adverse Effect.

Buyer Group has the meaning set forth in Section 8.2 hereof.

Capital Expenditure Cash Fund has the meaning set forth in Section 4.13 hereof.

Carrier Services Agreement has the meaning set forth in Section 2.21 hereof.

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

Claims and Damages means, except as otherwise expressly provided in this Agreement, any and all losses, claims, demands, liabilities, obligations, actions, suits, orders, statutory or regulatory compliance requirements, or proceedings asserted by any Person (including, without limitation, Governmental Authorities), and all damages, costs, expenses, assessments, judgments, recoveries and deficiencies, including, to the extent required pursuant to Article 8, reasonable attorneys' fees and costs, incurred by or awarded against a party to the extent indemnified in accordance with Article 8 hereof, but shall not include any consequential, special, multiple, punitive or exemplary damages, except to the extent such damages have been recovered by a third party and are the subject of a third party claim for which indemnification is available under the express terms of Article 8 hereof.

Closing has the meaning set forth in Section 1.6 hereof.

Closing Cash Payment has the meaning set forth in Section 1.3 hereof.

Closing Date has the meaning set forth in Section 1.6 hereof.

Closing Statement has the meaning set forth in Section 1.4 hereof.

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

Combined Liabilities means all long-term liabilities (which does not include contra asset accounts including, but not limited to, accumulated depreciation or allowance for uncollectible accounts) properly recorded on a combined balance sheet for the Company and the Company Subsidiaries excluding the following: (i) deferred taxes to the extent they reflect timing differences, (ii) deferred investment tax credits, (iii) minority interests (to the extent they are non-cash in nature and permitted under this Agreement), (iv) deferred revenues, (v) any amount included in the definition of "Working Capital," (vi) all accrued employee benefit or pension obligations (A) with respect to which assets will be transferred to the Buyer or Buyer Group, or obligations are assumed by the Sellers, pursuant to Article 8 or (B) which have been established by or at the direction of the Buyer, (vii) liabilities created from or in connection with the obtaining of any Required Consents or other consents or approvals for the Sale from third parties or under Regulatory Law (provided that one-half of any liabilities accrued as of the date of the combined balance sheet in conformity with GAAP consistently applied that were created from or in connection with the obtaining of Required Consents from PUCs (other than where the Companies or Company Subsidiary receive a corresponding asset) shall be included in Combined Liabilities up to a maximum, when aggregated together with any current liabilities created from or in connection with the obtaining of such Required Consents from PUCs included in the calculation of Combined Working Capital, of \$15,000,000), (viii) any other "non-cash" liabilities, (ix) Taxes to the extent they are subject to Article 7 and (x) all intercompany liabilities (other than those that are not canceled pursuant to Section 4.13(a)), all of the foregoing as determined on a combined basis for the Companies or Company Subsidiaries in conformity with GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) or as expressly required in this definition. For purposes of determining Combined Liabilities, the liability attributable to the long-term portion of the Post-Retirement Welfare Benefits of Union Employees shall be calculated using the same actuarial assumptions that were used to determine the financial statement disclosures as of December 31, 1999 in the Buck Consulting Report. To the extent that, due to tax timing differences, any Tax deduction relating to any liability included in Combined Liabilities will not be available in a Pre-Closing Tax Period, Combined Liabilities shall be reduced appropriately to take into account any Tax Benefit (as defined in Section 9.4) actually realized at or prior to the time of calculation of the Adjustment to the Buyer with respect to such liability; and if the Buyer actually realizes a Tax Benefit after the Adjustment has been determined, the

Buyer shall promptly pay to GCNA such additional amount as would have been paid as Purchase Price had the Tax Benefit reduced the original calculation of Combined Liabilities, at such time or times as and to the extent that such Tax Benefit is actually realized.

Combined Working Capital means, without duplication, the aggregate of (i) all cash and cash equivalents (other than the Capital Expenditure Cash Fund), accounts receivables and other receivables (less the reserve for uncollectible accounts), prepaid expenses (including prepaid Taxes), security deposits, inventories, supplies, any other current assets and deferred income Taxes recorded as a current asset (but excluding any intercompany accounts) less (ii) all accounts payable, accrued expenses and current liabilities, other accruals, salaries, bonuses and commissions payable, the current portion of long-term Indebtedness and deferred income Taxes recorded as a current liability (but excluding (1) any intercompany accounts (other than intercompany payables that are not canceled pursuant to Section 4.13(a)), (2) all accrued employee benefit obligations (A) with respect to which assets will be transferred to the Buyer or Buyer Group, or obligations are assumed by the Sellers, pursuant to Article 8 or (B) which have been established by or at the direction of the Buyer, (3) Taxes to the extent they are subject to Article 7 and (4) liabilities created from or in connection with the obtaining of any Required Consent or other consents or approvals for the Sale of third parties or under any Regulatory Law (provided that one-half of any current liabilities accrued as of the date of the combined balance sheet in conformity with GAAP consistently applied that were created from or in connection with the obtaining of Required Consents from PUCs (other than where the Companies or Company Subsidiaries receive a corresponding asset) shall be included in the calculation of Combined Working Capital up to a maximum, when aggregated together with any long-term liabilities created from or in connection with the obtaining of such Required Consents from PUCs included in the calculation of Combined Liabilities, of \$15,000,000)), all as determined on a combined basis for the Companies and Company Subsidiaries in conformity with GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) or as expressly required by this definition. For purposes of determining Combined Working Capital, the liability, if any, attributable to the current portion of the Post-Retirement Welfare Benefits of Union Employees shall be calculated using the same actuarial assumptions that were used in preparing the Buck Consulting Report. To the extent that, due to tax timing differences, any Tax deduction relating to any liability included in the calculation of Combined Working Capital will not be available in a Pre-Closing Tax Period, Combined Working Capital shall be increased appropriately to take into account any Tax Benefit (as defined in Section 9.4) actually realized at or prior to the time of calculation of the Adjustment to the Buyer with respect to such liability; and if the Buyer actually realizes a Tax Benefit after the Adjustment has been determined, the Buyer shall promptly pay to GCNA such additional amount as would have been paid as Purchase Price had the Tax Benefit increased the original calculation of Combined Working Capital, at such time or times as and to the extent that such Tax Benefit is actually realized.

Confidentiality Agreement means the confidentiality agreement dated June 7, 2000 between the Buyer and Global.

control (including the terms “controlled by” and “under common control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly, of the power to direct or to cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

Debt Adjustment has the meaning set forth in Section 1.3 hereof.

Disclosure Schedule means the Disclosure Schedule, dated as of the date hereof, delivered to the Buyer by the Seller in connection with this Agreement.

DOJ has the meaning set forth in Section 4.4 hereof.

Employee Benefit Plans means all “employee benefit plans” within the meaning of Section 3(3) of ERISA, all bonus, stock option, stock purchase, incentive, deferred compensation, retirement, supplemental retirement, severance and other employee benefit plans, programs, policies or arrangements, and all employment, retention, change of control or compensation agreements, in each case for the benefit of, or relating to, any current employee or former employee of any of the Companies or Company Subsidiaries, other than any de minimis, fringe or unwritten benefit plans, programs, policies or arrangements, the costs of which, to the Sellers, are not material.

Encumbrance means any security interest, pledge, mortgage, lien (including, without limitation, tax liens), charge, encumbrance, easement, adverse claim, preferential arrangement, restriction or defect in title that adversely affects the use of the property in the manner it is being used prior to the Closing Date or the value of the property as measured in the context of the current uses thereof.

Environmental Claims means any and all actions, suits, demands, demand letters, claims, liens, notices of non-compliance or violation, investigations, proceedings, consent orders or consent agreements relating in any way to any Environmental Law, any Environmental Permit, Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation (a) by Governmental Authorities for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Person for damages, contributions, indemnification, cost recovery, compensation or injunctive relief.

Environmental Law means any Law relating to the environment, health, safety or Hazardous Materials, in force and effect on the date hereof or, in the case of the Sellers’ certificate to be delivered in accordance with the provisions of Section 5.3 hereof, on the

Closing Date (exclusive of any amendments or changes to such Law or any regulations promulgated thereunder or orders, decrees or judgments issued pursuant thereto which are enacted, promulgated or issued after the date hereof, or in the case of such certificate, on or after the Closing Date), including but not limited to, CERCLA; the Resource Conservation and Recovery Act of 1986 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §§6901 et seq.; the Clean Water Act, 33 U.S.C. §§1251 et seq.; the Toxic Substances Control Act of 1976, 15 U.S.C. §§2601 et seq.; the Clean Air Act of 1966, as amended, 42 U.S.C. §§7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. §§300f et seq.; the Atomic Energy Act, 42 U.S.C. §§2011 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. §§136 et seq.; and the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. §§1101 et seq.

Environmental Permits means all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law.

Equipment means all of the tangible personal property, machinery, equipment, vehicles, rolling stock, furniture, and fixtures of the Frontier LEC Business in which any Company or Company Subsidiary has an interest, by ownership or lease, together with any replacements thereof, or additions thereto made in the ordinary course of business between the date hereof and the Closing Date.

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

Estimated Adjustment has the meaning set forth in Section 1.3 hereof.

FCC means the Federal Communications Commission.

Financing Commitments has the meaning set forth in Section 3.6 hereof.

Frontier LEC Business means the local exchange carrier operations of Global and its Subsidiaries, and the cable television operations and wireless and cellular telephone operations of the Companies and Company Subsidiaries, including, without limitation, the incumbent and competitive local exchange carrier operations of Frontier Telephone of Rochester, Inc., the rural local exchange carrier operations of the other Companies and the Company Subsidiaries and the retail Internet access, Web hosting, data services (IP frame relay and asynchronous transfer mode) and directory services operations currently provided by the Companies and Company Subsidiaries, but excluding (i) competitive local exchange carrier and resold cellular and other wireless operations other than those conducted by the Companies or the Company Subsidiaries immediately prior to the Closing, (ii) long distance service operations other than (x) the retail long distance customer base purchased by the Companies and the Company Subsidiaries and/or (y) marketing, sales, customer service, and billing and collection services performed by the Companies and the Company Subsidiaries on an agency or contract basis relating to long

distance services not purchased by the Companies and Company Subsidiaries, (iii) the assets and services identified in Section 2.5 of the Disclosure Schedule as excluded from the Frontier LEC Business and (iv) Sellers' non-LEC marketed long distance services (such as 800 services marketed nationally to families with college students). For purposes for this definition, "local exchange carrier operations" means the provision in the relevant geographic area of (A) wireline local exchange, digital subscriber line, exchange access and (to the extent not provided by Subsidiaries of the Sellers other than the Companies and Company Subsidiaries) intra-LATA toll telecommunications services to end users, (B) wireline exchange access telecommunications services to interexchange carriers and other local exchange carriers, (C) retail sales of telephone equipment and products (subject to the non-compete agreement disclosed in Section 2.11 of the Disclosure Schedule) and (D) non-tariffed public communications (pay telephones), commercial telecommunications services facilities leasing and certain other non-regulated services and products.

GAAP means United States generally accepted accounting principles and practices as in effect from time to time.

GCNA has the meaning set forth in the introductory paragraph to this Agreement.

Global has the meaning set forth in the introductory paragraph to this Agreement.

Governmental Authority means any United States federal, state or local government or any foreign government, any governmental, regulatory, legislative, executive or administrative authority, agency or commission or any court, tribunal, or judicial body.

Governmental Order means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority. Governmental Orders shall not include Permits.

Hazardous Materials means petroleum and petroleum products, byproducts or breakdown products, radioactive materials, and any other chemicals, materials, or substances designated, classified or regulated as being "hazardous" or "toxic", or words of similar import, under any Environmental Law.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

Indebtedness means obligations with regard to borrowed money and leases classified or accounted for as capital or financing leases on financial statements, but shall expressly not include either accounts payable or accrued liabilities that are incurred in the ordinary course of business or obligations under operating leases classified or accounted for as such on financial statements.

Indemnified Party has the meaning set forth in Section 9.5 hereof.

Indemnifying Party has the meaning set forth in Section 9.5 hereof.

Intellectual Property means all patents, trademarks, trade names, domain names, service marks and copyrights, and applications for any of the foregoing, and other intellectual property, including, without limitation, computer software and programs, of the Frontier LEC Business, whether owned or used by, or licensed to, any Company or Company Subsidiary.

knowledge with respect to the Sellers means, exclusively, information of which the Chief Executive Officer, the Chief Financial Officer or any other employee of a Seller of Salary Band Level 35 or above in GCNA's pay scale has knowledge after reasonable inquiry of the appropriate managerial employee of the Frontier LEC Business having supervisory responsibility for the matter concerned.

Law means any federal, state, local or foreign statute, law, ordinance, regulation, rule, code, order or other requirement or rule of law.

Liability Claim has the meaning set forth in Section 9.1 hereof.

Material Adverse Effect means any circumstance, change in, or effect on the Companies or Company Subsidiaries that has a material adverse effect on the business, results of operations or financial condition of the Frontier LEC Business taken as a whole; provided, however, that Material Adverse Effect shall not include adverse effects relating to or resulting from (or, in the case of effects that have not yet occurred, reasonably likely to result from) (i) the execution of this Agreement or the announcement of agreement among the parties with respect to the transactions contemplated by this Agreement, (ii) general economic or industry conditions that have a similar effect on other participants in the industry or (ii) regional economic or industry conditions that have a similar effect on other participants in the industry in such region.

Material Contracts means the written agreements, contracts, policies, plans, mortgages, understandings, arrangements or commitments primarily relating to the Frontier LEC Business to which any Company or Company Subsidiary is a party or by which any of the assets of the Frontier LEC Business are bound as described below:

(i) any agreement or contract providing for payments by the Companies or Company Subsidiaries to any Person in excess of \$10,000,000 per year or \$30,000,000 in the aggregate over the five-year period commencing on the date hereof;

(ii) any employment agreement or consulting agreement or similar contract providing for payments to any Person in excess of \$350,000 per year or

\$1,500,000 in the aggregate over the five-year period commencing on the date hereof;

(iii) any retention or severance agreement or contract with respect to any officer of the Frontier LEC Business who is to be employed by any Company or Company Subsidiary following the Closing Date;

(iv) any lease of Equipment or Real Property or license with respect to Intellectual Property (other than licenses granted in connection with the purchase of equipment or other assets) by the Frontier LEC Business from another Person providing for payments to another Person in excess of \$10,000,000 per year or \$30,000,000 in the aggregate over the five-year period commencing on the date hereof;

(v) any lease of Equipment or Real Property or license with respect to Intellectual Property (other than licenses granted in connection with the purchase of equipment or other assets) by the Frontier LEC Business to another Person providing for payments to the Seller or any Company or Company Subsidiary in excess of \$10,000,000 per year or \$30,000,000 in the aggregate over the five-year period commencing on the date hereof;

(vi) any joint venture, partnership or similar agreement or contract of the Frontier LEC Business;

(vii) any agreement or contract under which any Company or Company Subsidiary, or a Seller in connection with the Frontier LEC Business, has borrowed or loaned any money in excess of \$25,000,000 or issued or received any note, bond, indenture or other evidence of indebtedness in excess of \$25,000,000 or directly or indirectly guaranteed indebtedness, liabilities or obligations of others in an amount in excess of \$25,000,000;

(viii) any covenant not to compete or contract or agreement, understanding, arrangement or any restriction whatsoever limiting in any respect the ability of any Company or Company Subsidiary to compete in any line of business or with any Person or in any area;

(ix) any agreement or contract with any officer, director or employee of either Seller or any Company or Company Subsidiary (other than employment agreements covered in clause (i) or agreements or contracts containing terms substantially similar to terms available to employees generally) or agreement or contract with either Seller or any Subsidiary of Global that is neither a Company or Company Subsidiary providing for payments in excess of \$10,000,000 per year or \$30,000,000 in the aggregate over the five-year period commencing on the date hereof; and

(x) any resale, co-location or interconnection agreement.

Material Contracts shall not include any and all (w) contracts, purchase orders, purchase commitments, leases and agreements entered into in the ordinary course of business and relating to the Frontier LEC Business (other than those described in clauses (iii), (iv), (v) or (vi) above) that (A) are terminable at will without payment of premium or penalty by any Company or Company Subsidiary or (B) are terminable on not more than 60 days' written notice without payment of premium or penalty and do not involve the obligation of any Company or Company Subsidiary to make payments in excess of \$25,000,000 during the 60-day period commencing on the Closing Date; (x) contracts, sales orders, purchase orders, purchase commitments and agreements entered into in the ordinary course of business and relating to integrated marketing services or related services of the Frontier LEC Business.

Neutral Auditor has the meaning set forth in Section 1.4 hereof.

Neutral Auditor Determination has the meaning set forth in Section 1.4 hereof.

Notice of Claim has the meaning set forth in Section 9.5 hereof.

Option Deductions has the meaning set forth in Section 7.10 hereof.

Performance Adjustment has the meaning set forth in Section 1.3 hereof.

Permits has the meaning set forth in Section 2.12 hereof.

Permitted Exceptions means each of the following:

(a) mortgages, security interests or other Encumbrances described in Section 2.11 of the Disclosure Schedule;

(b) liens for taxes, assessments and governmental charges or levies not yet due and payable or the validity of which is being contested in good faith by appropriate proceedings;

(c) Encumbrances imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's liens and other similar liens, arising in the ordinary course of business;

(d) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations;

(e) survey exceptions, rights of way, easements, reciprocal easement agreements and other Encumbrances on title to real property that do not, individually or in the aggregate, materially adversely affect the use of such

property in the conduct of the Frontier LEC Business as it is being conducted prior to the Closing Date;

(f) zoning laws and other land use restrictions that do not materially detract from the value or impair the use of the property subject thereto, or materially impair the operation of the Frontier LEC Business;

(g) security interests in favor of suppliers of goods for which payment has not been made in the ordinary course of business consistent with past practice;

(h) Encumbrances on the interests of the lessors of properties in which the Frontier LEC Business holds a leasehold interest; and

(i) any and all other Encumbrances that would be immaterial to the Frontier LEC Business.

Person means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

Pre-Closing Tax Period has the meaning set forth in Section 7.1 hereof.

Probable Assets has the meaning set forth in Section 9.8.

Probable Assets List has the meaning set forth in Section 9.8.

Probable Assets Statement has the meaning set forth in Section 1.4.

Probable Liabilities has the meaning set forth in Section 9.8.

Probable Liabilities List has the meaning set forth in Section 9.8.

Probable Liabilities Statement has the meaning set forth in Section 1.4.

Proposed Adjustment has the meaning set forth in Section 1.4 hereof.

PUC means any state public service commission or similar regulatory body.

Purchase Price has the meaning set forth in Section 1.3 hereof.

Real Property means the real property and related mineral rights owned by, and all easements, rights-of-way and other possessory interests in real estate of, the Frontier LEC Business, together with all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems, equipment and items of

personal property of the Frontier LEC Business attached or appurtenant thereto, and all easements, licenses, rights and appurtenances relating to the foregoing.

Regulatory Law has the meaning set forth in Section 4.4(b).

Release means disposing, discharging, injecting, spilling, leaking, leaching, dumping, emitting, escaping, emptying, seeping, placing and the like into or upon any land or water or air or otherwise entering into the environment.

Required Consents means any consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to (a) the HSR Act, (b) the Communications Act of 1934, as amended, and any rules and regulations promulgated by the FCC, (c) state securities or “blue sky” laws, (d) the Securities Act of 1933, as amended, (e) the Securities Exchange Act of 1934, as amended, (f) laws, rules, regulations, practices and orders of any state or PUCs, local franchising authorities, foreign telecommunications regulatory agencies or similar state or foreign regulatory bodies, or the Federal Energy Regulatory Commission, (g) rules and regulations of The Nasdaq Stock Market and The New York Stock Exchange, Inc. and (h) antitrust or other competition Laws of other jurisdictions.

S&P means Standard & Poor’s Corporation.

Sale has the meaning set forth in the recitals hereto.

Sellers has the meaning set forth in the introductory paragraph to this Agreement.

Shares has the meaning set forth in Section 1.1 hereof.

Special Representations has the meaning set forth in Section 5.1 hereof.

Straddle Period has the meaning set forth in Section 7.1 hereof.

Subsidiary of any Person means (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation is owned by such Person directly or indirectly through Subsidiaries and (ii) any partnership, limited partnership, limited liability company, associates, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than a 50% equity interest.

Tax or Taxes means any and all taxes, fees, withholdings, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any government or taxing authority, including, without limitation, taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers’ compensation,

unemployment compensation, or net worth, taxes or other charges in the nature of excise, withholding, *ad valorem*, stamp, transfer, value added or gains taxes, license, registration and documentation fees, and customs duties, tariffs and similar charges.

Tax Return means any report, return, document, declaration or other information or filing required to be supplied to any Tax authority or jurisdiction (foreign or domestic) with respect to Taxes, including, without limitation, information returns, any documents with respect to or accompanying payments of estimated Taxes, or with respect to or accompanying requests for the extension of time in which to file any such report, return, document, declaration or other information.

Union Employee means a Business Employee whose terms and conditions of employment are governed by the terms of any Assumed CBA (as defined in Section 8.5).

Working Capital Adjustment has the meaning set forth in Section 1.3 hereof.

Article 11. Miscellaneous Provisions.

11.1 Termination Rights. (a) Grounds for Termination. This Agreement may be terminated:

(1) by mutual consent of the parties;

(2) by either the Sellers or the Buyer, provided such party or parties are not then in material default hereunder, upon written notice to the other party or parties, if the Closing hereunder has not occurred on or before December 31, 2001; provided that if all Required Consents have been obtained but have not become final and non-appealable as of such date, then such date shall be extended to March 31, 2002; or

(3) by either the Sellers or the Buyer, upon written notice to the other party or parties, if any Governmental Authority shall have issued a statute, rule, regulation, order, decree or injunction or taken any other action permanently restraining, enjoining or otherwise prohibiting the purchase and sale contemplated by this Agreement and such statute, rule, regulation, order, decree or injunction or other action shall have become final and nonappealable.

(b) Post-Termination Liability. If this Agreement is terminated pursuant to Subsection 11.1(a) hereof, this Agreement shall thereupon become void and of no further effect whatsoever, and the parties shall be released and discharged of all obligations under this Agreement, except (i) to the extent of a party's liability for willful material breaches of this Agreement prior to the time of such termination, (ii) as set forth in Section 4.5 hereof and (iii) the obligations of each party for its own expenses incurred in connection with the transactions contemplated by this Agreement as provided herein.

11.2 Expenses. Except as otherwise specifically provided in this Agreement, all out-of-pocket costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

11.3 Notices. Any notice, demand, claim, notice of claim, request or communication required or permitted to be given under the provisions of this Agreement shall be in writing and shall be deemed to have been duly given (i) upon delivery if delivered in person, (ii) on the date of mailing if mailed by registered or certified mail, postage prepaid and return receipt requested, (iii) on the date of delivery to a national overnight courier service, or (iv) upon transmission by facsimile (if such transmission is confirmed by the addressee) if delivered through such services to the following addresses, or to such other address as any party may request by notifying in writing all of the other parties to this Agreement in accordance with this Section 11.3.

If to the Sellers:

Global Crossing Ltd.
360 North Crescent Drive
Beverly Hills, California 90210
Attention: James Gorton, Esq.
Senior Vice President and General Counsel
Facsimile No.: (310) 281-5820

and

Global Crossing North America, Inc.
180 South Clinton Avenue
Rochester, New York 14646
Attention: Joseph P. Clayton
Chief Executive Officer
Facsimile No.: (716) 325-7639

with copies to:

Global Crossing North America, Inc.
180 South Clinton Avenue
Rochester, New York 14646
Attention: Martin T. McCue, Esq.
Senior Vice President and General Counsel
Facsimile No.: (716) 546-7823

and

Robert E. Spatt, Esq.
Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017-3954
Facsimile No.: (212) 455-2502

If to the Buyer:

Citizens Communications Company
High Ridge Park
Stamford, Connecticut 06905
Attention: Scott N. Schneider
Executive Vice President
Facsimile No.: (203) 614-5201

with copies to:

Citizens Communications Company
High Ridge Park
Stamford, Connecticut 06905
Attention: L. Russell Mitten, Esq.
Vice President and General Counsel
Facsimile No.: (203) 614-4651

and

Jeffrey L. Hardin, Esq.
Fleischman and Walsh, L.L.P.
1400 Sixteenth Street, N.W.
Suite 600
Washington, D.C. 20036
Facsimile No.: (202) 387-3467

Any such notice shall be deemed to have been received on the date of personal delivery, the date set forth on the Postal Service return receipt, or the date of delivery shown on the records of the overnight courier, as applicable.

11.4 Benefit and Assignment. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. There shall be no assignment of any interest under this Agreement by any party except that the Buyer may assign its rights hereunder to any wholly owned subsidiary of the Buyer; provided, however, that no such assignment shall relieve the assignor of its obligations under this Agreement. Nothing herein, express or implied, is intended to or shall confer upon any other Person any legal

or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

11.5 Waiver. Any party to this Agreement may (a) extend the time for the performance of any of the obligations or other acts of any other party, (b) waive any inaccuracies in the representations and warranties of any other party contained herein or in any document delivered by any other party pursuant hereto or (c) waive compliance with any of the agreements or conditions of any other party contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any party to assert any of its rights hereunder shall not constitute a waiver of any such rights.

11.6 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

11.7 Amendment. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, the Seller and the Buyer or (b) by a waiver in accordance with Section 11.5 hereof.

11.8 Effect and Construction of this Agreement. This Agreement embodies the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements, arrangements and understandings, whether written or oral, relating to matters provided for herein; provided, however, that the Confidentiality Agreement shall remain in effect until the Closing. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual agreement, and this Agreement shall not be deemed to have been prepared by any single party hereto. Disclosure of any fact or item in the Disclosure Schedule referenced by a particular paragraph or section in this Agreement shall, should the existence of the fact or item be relevant to any other paragraph or section, be deemed to be disclosed with respect to that other paragraph or section whether or not a specific cross reference appears to the extent that the fact or item disclosed is reasonably clearly applicable to such other paragraph or section. Disclosure of any fact or item in the Disclosure Schedule shall not necessarily mean that such item or fact, individually or in the aggregate, is material to the business, results of operations or financial condition of the Frontier LEC Business or that it is probable that any impairment or liability will result therefrom. The headings of the sections and subsections of this Agreement are inserted as a matter of convenience and for reference purposes only and in no respect define, limit or describe the scope

of this Agreement or the intent of any section or subsection. This Agreement may be executed in one or more counterparts and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts executed in and to be performed entirely within that State.

11.9 Specific Performance. Each of the parties hereto acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (i) waive, in any action for specific performance, the defense of adequacy of a remedy at law and (ii) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in any state or federal court sitting in New York, New York.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

GLOBAL CROSSING LTD.

By: /s/ THOMAS J. CASEY
Name: Thomas J. Casey
Title: Vice Chairman

GLOBAL CROSSING NORTH AMERICA, INC.

By: /s/ MARTIN T. MCCUE
Name: Martin T. McCue
Title: Senior Vice President

CITIZENS COMMUNICATIONS COMPANY

By: /s/ SCOTT N. SCHNEIDER
Name: Scott N. Schneider
Title: Executive Vice President

THE COMPANIES

772 shares of Common Stock	Frontier Telephone of Rochester, Inc.
6 shares of Common Stock	Frontier Communications of Rochester, Inc.
357 shares of Common Stock	Frontier Subsidiary Telco Inc.
200 shares of Common Stock	Frontier Communications of Sylvan Lake, Inc.
100 shares of Common Stock	Frontier Communications of Seneca-Gorham, Inc.
506,758 shares of Common Stock	Frontier Communications of New York, Inc.
21,742 shares of Common Stock	Frontier Communications of AuSable Valley, Inc.

THE COMPANY SUBSIDIARIES

Company Subsidiary	Class of Stock	Number of Shares and Record Owner
Frontier Communications of DePue, Inc.	Common Stock	554 shares owned by Frontier Subsidiary Telco Inc.
DePue Communications, Inc.	Common Stock	1,000 shares owned by Frontier Communications of DePue, Inc.
Frontier Communications of Illinois, Inc.	Common Stock	26,313 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Indiana, Inc.	Common Stock	3,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Iowa, Inc.	Common Stock	100 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Lakeside, Inc.	Common Stock	53,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications - Midland, Inc.	Common Stock	36,447.5 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Mt. Pulaski, Inc.	Common Stock	340 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications - Prairie, Inc.	Common Stock	67,800 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications - Schuyler, Inc.	Common Stock	5,000 shares owned by Frontier Subsidiary Telco Inc.
Schuyler Cellular, Inc.	Common Stock	100 shares owned by Frontier Communications - Schuyler, Inc.
Frontier Communications of Thorntown, Inc.	Common Stock	9,483 shares owned by Frontier Subsidiary Telco Inc.
Frontier Cable of Indiana, Inc.	Common Stock	343 shares owned by Frontier Communications of Thorntown, Inc.
Frontier Communications of Alabama, Inc.	Common Stock	1,299 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Fairmount, Inc.	Common Stock	10,405 shares owned by Frontier Subsidiary Telco Inc.
Fairmount Cellular, Inc.	Common Stock	100 shares owned by Frontier Communications of Fairmount, Inc.
Frontier Communications of Georgia, Inc.	Common Stock	3,600 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Lamar County, Inc.	Common Stock	250 shares owned by Frontier Subsidiary Telco Inc.

Company Subsidiary	Class of Stock	Number of Shares and Record Owner
Frontier Communications of Mississippi, Inc.	Common Stock	1,743.5 shares owned by Frontier Subsidiary Telco Inc.
Frontier Cable of Mississippi, Inc.	Common Stock	1,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of the South, Inc.	Common Stock	5,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Cellular of Alabama, Inc.	Common Stock	250 shares owned by Frontier Communications of the South, Inc. 166 shares owned by Frontier Communications of Alabama, Inc. 84 shares owned by Frontier Communications of Lamar County, Inc.
Frontier Communications of Breezewood, Inc.	Common Stock	1,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Canton, Inc.	Common Stock	1,980 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Lakewood, Inc.	Common Stock	5,080 shares owned by Frontier Communications of Canton, Inc.
Frontier Communications of Oswayo River, Inc.	Common Stock	3,623 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Pennsylvania, Inc.	Common Stock	120,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier InfoServices, Inc.	Common Stock	100 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of America, Inc.	Common Stock	200 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Michigan, Inc.	Common Stock	1,621,850 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Minnesota, Inc.	Common Stock	100 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Mondovi, Inc.	Common Stock	1,365 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Orion, Inc.	Common Stock	100 shares owned by Frontier Subsidiary Telco Inc.
O.T. Cellular Telephone Company	Common Stock	100 shares owned by Frontier Communications of Orion, Inc.
Frontier Communications - St. Croix, Inc.	Common Stock	119,520 shares owned by Frontier Subsidiary Telco Inc.
Frontier Cable of Wisconsin, Inc.	Common Stock	1,635 shares owned by Frontier Communications - St. Croix, Inc.
Frontier Communications of Viroqua, Inc.	Common Stock	8,000 shares owned by Frontier Subsidiary Telco Inc.
Frontier Communications of Wisconsin, Inc.	Common Stock	1,233,935 shares owned by Frontier Subsidiary Telco Inc.

Performance Adjustment Calculation Methodology

Calculation of Pre-Closing Pro Forma Revenue

Pre-Closing Pro Forma Revenue shall be calculated using the actual amount of revenue for the Frontier LEC Business for the 12 calendar months ending as of the end of the month most recently completed prior to the Closing Date (the "Measurement Period") determined in conformity with GAAP consistently applied and on a basis consistent with the basis used in preparing the financial data and information described in clauses (ii) and (iii) of Section 2.6(a) of the Agreement, adjusted for the following items:

- Addition of Long Distance Revenue: Long distance revenue equal to the aggregate of actual long distance revenue, if any, that was billed to customers of the Frontier LEC Business on behalf of Global Crossing Telecommunications, Inc. during the Measurement Period, net of an assumed provision for uncollectible accounts of 3%, shall be added to actual revenue.
- Subtraction of Billing and Collection Revenue: Billing and collection revenue equal to the aggregate of actual billing and collection revenue, if any, that was billed by the Frontier LEC Business to Global Crossing Telecommunications, Inc. during the Measurement Period shall be subtracted from actual revenue.
- Subtraction of Agent Commissions: Agent commission revenue equal to the aggregate of the actual agent commission revenue, if any, that was charged to Global Crossing Telecommunications, Inc. by the Frontier LEC Business during the Measurement Period shall be subtracted from the actual revenue.

Calculation of Pre-Closing Pro Forma EBITDA

Pre-Closing Pro Forma EBITDA shall be calculated by subtracting the Pre-Closing Pro Forma Operating Expenses from the Pre-Closing Pro Forma Revenue, as calculated above. "Pre-Closing Pro Forma Operating Expenses" shall be calculated using actual operating expenses (excluding depreciation, amortization, net interest expense, and income taxes) for the Frontier LEC Business for the Measurement Period (excluding non-recurring revenues and expenses resulting from assets and liabilities being put on the balance sheet in the process of determining the amount of Combined Liabilities or Combined Working Capital) determined in conformity with GAAP consistently applied and on a basis consistent with information described in clauses (ii) and (iii) of Section 2.6(a) of the Agreement, adjusted for the following items:

- Inclusion of wholesale long distance expenses: Wholesale long distance expenses equal to the aggregate of the actual long distance minutes of use by customers of the Frontier LEC Business through Global Crossing Telecommunications, Inc. multiplied by an assumed average cost per minute equal to the average cost per minute actually incurred under the Carrier Services Agreement during the Measurement Period shall be added to actual operating expenses.

- Inclusion of other operating expenses: Assumed other operating expenses equal to: (i) \$0 if Frontier Communications of America, Inc. has commenced offering long distance services 12 months or more prior to the Closing Date, (ii) \$1,050,000 per calendar month for each full month in the Measurement Period prior to the date that Frontier Communications of America, Inc. has commenced offering long distance services if Frontier Communications of America, Inc. receives such approval during the Measurement Period or (iii) \$15,790,000 if Frontier Communications of America, Inc. has not commenced offering long distance services prior to the Closing Date shall be added to actual operating expenses.

Transition Services

These transition services can be made available by Seller or a Seller affiliate, pursuant to the request of the transition team, for the Frontier LEC properties and operations pursuant to Section 4.11 of the Agreement except to the extent a software license or other contract prohibits it.

1. Payroll administration
2. Benefits administration
3. Accounts payable
4. Accounts receivable
5. Collections of accounts/credit office operations
6. Risk Management
7. Billing and collection arrangements resulting from the allocation of shared assets pursuant to this Agreement related to customers
8. Purchasing
9. Software license administration
10. Environmental compliance
11. Real Estate administration
12. Training
13. Economic development initiatives
14. Safety education
15. OSHA compliance
16. Short term (interim) corporate compliance
17. Staffing services
18. Network planning
19. Diversity development services
20. Legal services in connection with outside counsel supervision, and litigation related to collections, bankruptcy, tax litigation, HR and discrimination claims, and collective bargaining, grievance handling
21. Corporate giving recommendations
22. Short term (interim) tax compliance
23. Help desk (internal) to the extent currently shared
24. IT services to the extent currently shared for systems on a system-by-system basis
25. Building security
26. Travel Services
27. Building Maintenance
28. Cash Management
29. Budget administration and reporting
30. Regulatory compliance (interim)
31. Accounting
32. Public Relations

These transition services can be made available by Buyer or a Buyer affiliate, pursuant to the request of the transition team, for Sellers and their affiliates pursuant to Section 4.11 of the Agreement except to the extent a software license or other contract prohibits it.

1. Collections of accounts/credit office operations
2. Billing and collection arrangements resulting from the allocation of assets pursuant to this Agreement related to customers
3. Purchasing
4. Software license administration
5. Environmental compliance
6. Real Estate administration
7. Training
8. Safety education
9. OSHA compliance
10. Staffing services
11. Short term (interim) tax compliance
12. Help desk (internal) to the extent currently shared
13. IT services to the extent currently shared for systems on a system-by-system basis
14. Building security
15. Building Maintenance
16. Cash Management
17. Budget administration and reporting
18. Regulatory compliance (interim)
19. Legal services consultation on historical regulatory issues, and HR and employee relations issues

SELLERS DISCLOSURE SCHEDULE

This document is the "Sellers Disclosure Schedule" referred to in, and is dated as of the date of, that certain Stock Purchase Agreement (the "Purchase Agreement"), dated as of July 11, 2000, by and among Global Crossing Ltd., a company formed under the laws of Bermuda ("Global"), Global Crossing North America, Inc., a New York corporation and wholly-owned subsidiary of Global Crossing Ltd. ("GCNA" and together with Global, the "Sellers"), and Citizens Communications Company, a Delaware corporation (the "Buyer"). Capitalized terms used but not defined in this Sellers Disclosure Schedule shall have the meanings assigned to such terms in the Purchase Agreement, unless the context otherwise requires.

This Sellers Disclosure Schedule is qualified in its entirety by reference to the specific provisions of the Purchase Agreement. Matters reflected herein may not necessarily be limited to matters strictly required by the Purchase Agreement to be reflected in the Sellers Disclosure Schedule. To the extent that any such additional matters are included, they are included for informational purposes only. The inclusion of any fact or item herein shall not necessarily mean that such item or fact, individually or in the aggregate, is material to the business results, results of operations or financial condition of the Frontier LEC Business, is required to have been disclosed herein, is of a nature that would cause a Material Adverse Effect with respect to any Person or the Frontier LEC Business, that the commitments or liabilities relating to such item or fact exceed specified thresholds, or that such fact or item is probable.

Section headings have been placed on the sections of this Sellers Disclosure Schedule for the convenience of the parties only; such headings shall be given no substantive or interpretative effect whatsoever. Disclosure of any fact or item in this Sellers Disclosure Schedule referenced by a particular paragraph or section of the Purchase Agreement shall, should the existence of the fact or item be relevant to any other paragraph or section, be deemed to be disclosed with respect to that other paragraph or section whether or not a specific cross reference appears to the extent that the fact or item disclosed is reasonably clearly applicable to such other paragraph or section.

Section 2.3

Absence of Violations or Required Consents

The following consents to this transaction are required for Sellers:

- Georgia Public Service Commission
- Illinois Commerce Commission
- Iowa Utilities Board
- Minnesota Public Utilities Commission
- Mississippi Public Service Commission
- New York Public Service Commission
- Ohio Public Utility Commission
- Pennsylvania Public Utility Commission
- Federal Communications Commission

The following consent to this transaction may be required for Sellers:

- Indiana Utility Regulatory Commission

Consent by municipal or other authority to the transfer of control of the cable television franchise in New Richmond, Wisconsin may be required.

The RUS, RTB and FFB loan documents, if any, may require consent from the RUS, RTA and/or current noteholders prior to the consummation of this transaction. Sellers will comply with written instructions received from Buyer, if any, regarding obtaining such consent.

Consent is required under the Credit Agreement dated July 2, 1999 among Global Crossing Ltd., Global Crossing Holdings Ltd., the Lenders party thereto, and the Chase Manhattan Bank, as Administrative Agent.

Nothing in this Schedule purports to identify any consent required in order for Buyer to complete the transaction.

Leased realty for which landlord consent is required prior to transfer of control:

Location
Burnsville, MN 14500 Burnhaven Drive Lease
Burnsville, MN 14500 Burnhaven Drive Sublease Source One
Burnsville, MN 14500 Burnhaven Drive Sublease MN Marketing Center
Burnsville, MN 14500 Burnhaven Drive Lease, 1st Amend., Easement
Apple Valley, MN 55121, 6900 151 Street West

Bloomfield, NY 12-14 Main Street
Canandaigua, NY Cable Vault
Fairport, NY 38 West Avenue
Gorham, NY 3779 Route 245
Penfield, NY 28 Willowpond Way
Rochester, NY 2060 Brighton-Henrietta Townline Rd. (A/P)
Rochester, NY 2060 Brighton-Henrietta Townline Rd. (Training)
Rochester, NY 3385 Brighton-Henrietta Townline Rd.
Rochester, NY 1225 Jefferson Road
Rochester, NY 3441 W. Henrietta Road
Rochester, NY 1350 Jefferson Road
Rochester, NY 460 Buffalo Road
Rochester, NY HSBC Bldg, 100 Chestnut Plaza
Rochester, NY Midtown Plaza 300 & 102
Rochester, NY Union Street Garage
Victor, NY 833 Phillips Road
Enterprise Telephone Company leases
King Industrial Park
Industrial Park, Rte 23, New Holland, PA

Leased realty for which assignment of the lease is prohibited: Webster, NY, 827 Ridge Road. This realty lease is for 8 parking spaces leased on a month-to-month basis at a total rate of \$360 per month.

Sellers and Buyer contemplate entering into assignment of certain agreements. In certain instances, third party consents to assignments are required.

See also Schedule to Sections 2.7 and 2.8.

Section 2.4

Minority Interests

Fairmount Cellular, Inc. owns a 25% interest in Georgia RSA 3.

The following cellular partnership interests are held by Frontier Communications of DePue, Inc.:

Illinois Valley Cellular RSA 2-I Partnership (6.66% interest)

Illinois Valley Cellular RSA 2-II Partnership (6.66% interest)

Illinois Valley Cellular RSA 2-III Partnership (6.66% interest)

In the ordinary course of business, the Companies and the Company Subsidiaries may receive ownership interests in customer bankruptcy or reorganization proceedings. Neither individually nor in the aggregate are these ownership interests material to the Frontier LEC Business.

A Company Subsidiary, Frontier Communications - Midland, Inc., holds an ownership interest in Illianet. This Company Subsidiary's investment was \$200,000. Disposal of this ownership interest is subject to a pending transaction which is expected to be consummated prior to the Closing Date.

Section 2.5

Entire Business

Frontier Communications of Sylvan Lake, Inc. ("Sylvan") and Global Crossing Telemanagement, Inc. are members of Global Crossing Telemanagement of VA, LLC. Sylvan's membership interest will be transferred to a different Global Crossing Ltd. subsidiary prior to the Closing. This membership interest is not part of the Frontier LEC Business.

See also Schedule to Sections 2.7 and 2.16.

Section 2.6

Financial Information

The Sellers have made available to the Buyer all Annual Reports filed by the Sellers with each state regulatory commission (PUC) requiring such reports for the years 1997, 1998 and 1999.

Section 2.7

Title to Assets; Related Matters

The Frontier LEC Business primarily holds as assets outside plant, equipment, and nominal amounts of real property. However, the Frontier LEC Businesses do not have title to the computing and technical infrastructure necessary for it to operate its business as currently conducted.

Global Crossing North America, Inc. and its various subsidiaries share assets and personnel with the relevant costs allocated among them. Certain of these assets and personnel perform services on behalf of the Frontier LEC Business. The Sellers will transfer to the Buyer assets or rights which are held by entities other than the Companies or Company Subsidiaries, even though these may be required to perform the Frontier LEC Business. Similarly, there are certain assets which may be held within the Frontier LEC Business which are required for other Global Crossing entities to function. Shared assets (those which are utilized by both the Frontier LEC Business and by other businesses of the Sellers) which currently are held by the Seller and which are not currently expected to be transferred to the Frontier LEC Business as part of this transaction include, but are not limited to, those assets listed on Schedule 2.7.1. Schedule 2.7.1 also includes other assets.

See also Schedules to Sections 2.11.1 and 2.11.2, 2.16 and 2.19.

The Frontier LEC Business and Global Crossing North America, Inc. share space at several locations. Among these is leased premises located at 180 South Clinton Avenue, Rochester, New York. The lease is in the name of Global Crossing North America, Inc. Any sublease will require the consent of the landlord. It is believed that numerous additional locations have commingled operations as of the Closing Date, including certain towers in New York State.

CONTRACTS					
	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
ILEC or Shared Operational Support Systems:					
DPI (M)	NYNEX/DPI, IBM	RTO fully integrated OSS: Supports Customer Records, Billing, Order processing, Usage Processing, Repair Ticketing, POTS assignment, CARE, Directory Assistance, Treatment, Payment processing. Processes input for Directory Assistance and from TSPS.	Rochester Telephone Corporation	RTO 95%	Transfer the software to the Buyer, with temporary right by the Seller to obtain any services currently obtained. (Used for BSD toll and E911 processing)
Call View	In-House	Interfaced with DPI database to provide some GUI capability for the call center. Pre-loads customer data based on calling number.	FIT Inc.	RTO 100%	Transfer to the Buyer
Dexterity	In-House	System which allows customers to check their account balance, last bill date, last payment over the phone. Also processes credit card payments, sending info to outside source for validation, payments processed nightly	FIT Inc.	RTO 100%	Transfer to the Buyer
TURNOVER	Soft Landing Systems, Inc.	Supports implementation of application software into the production environment.	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
HAWKEYE	Hawkeye Info Systems	Program analysis and debugging tool	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Alert	Help Systems	Automated system monitoring tool	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Console	Help Systems	Consolidates multiple systems into a single view for operations management	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Network Node	Help Systems	Software used to identify an individual system.	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Replay	Help Systems	Tool to simulate manual input.	FIT Inc.	RTO 100%	Transfer to the Buyer
Save	Help Systems	Tool to automatically save files	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Schedule	Help Systems	Job scheduler	FIT Inc.	RTO 100%	Transferred to the Buyer
Connect Direct	Sterling Commerce (NDM)	File Transfer software	FIT Inc.	RTO 100%	Transferred to the Buyer
DBU	ProData	Data Base Utility	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
SpoolOrganizer	Broderik Data Systems	Report distribution system	FIT Inc.	RTO 100%	Transfer to the Buyer
HASuite	DataMirror	Data replication for system high availability	FIT Inc.	Shared	Transferred to the Buyer, with temporary right by the Seller to obtain any services currently obtained.
NGS IQ Series	New Generations	Query / data extraction tool	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
ProGen Plus	BCD Software	Programming utility	Frontier Corporation	RTO 100%	Transferred to the Buyer
PKZIP	Ascent Solutions, Inc.	File compression software	FIT Inc.	RTO 100%	Transferred to the Buyer
Real Vision	Real Vision Software (RVI)	RTO Billing History	FIT Inc.	RTO 100%	Transferred to the Buyer
PollMaster	Utility Data Systems	PC software used to poll call data records from switches		RTO 100%	Transferred to the Buyer

	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
Saville (M)	Saville	FCR Billing System. Run on Saville's computer in Toronto, bills printed in Rochester Data Center	Frontier Communications of Rochester	FCR 100%	System rights transferred to the Buyer (MSA and processing agreements)
CABS (M)	Communications Data Group, Inc.	Carrier Access Billing	Frontier Corporation	FTR, RTO, CLEC, shared	Transferred to the Buyer, with temporary right by the Seller to obtain any services currently obtained.
CMR processing & Lock Box	Varies (major vendor believed to be Unisys)	Payment processing equipment. Produces file which are sent to the Rochester mainframe for distribution to appropriate business unit systems.		FTR, RTO 100%	Transferred to the Buyer
CARS	In-House	Customer Account Record System (or Commercial Accounting Record System...) Primary system used for customer service processing. Houses customer information. Data Base is used by many integrated systems etc. as noted below.	Varying ownership - basic CARS is FTR's, with many updates, setc. owned by FIT and GBLX-NA	FTR 100%	Transferred to the Buyer, with temporary right by the Seller to obtain any services currently obtained.
OF: Order Flow	In-House	Customer service order processing -closely integrated with CARS		FTR 100%	Transferred to the Buyer
Billing	In-House	Billing system - closely integrated with CARS. Retail bill print outsourced to OTS. Wholesale bills printed in-house		FTR 100%	Transferred to the Buyer
Usage Processing	In-House	Processing of usage data from the switch, call rating, preparation for billing.		FTR 100%	Transferred to the Buyer
RRS	In-House	POTS Trouble Ticketing - closely integrated with CARS. Interface to UDS.		FTR 100%	Transferred to the Buyer
WMS	In-House	Wholesale Management System - closely integrated with CARS. Processes wholesale local service requests from CLECs in Rochester Market. Manages notification back to CLECs (Reject, FOC, Jeopardy, Completion)		FTR 100%	Transferred to the Buyer
Payment processing	In-House	Processes payments as submitted from the CMR process		FTR 100%	Transferred to the Buyer
Treatment	In-House	This process examines account billing and payment information to determine when additional action is necessary to obtain payment from customers.		FTR 100%	Transferred to the Buyer
MIDATA	In-House	Consists of approximately 150 MANTIS programs to handle miscellaneous items such as: Revenue Reporting, Off-line toll vouchers, Bill Message Inserts, Bill messages, Directory Advertising...		FTR 100%	Transferred to the Buyer
EMAC	EDS	Cable Pair, CO line equipment and Telephone number assignment for POTS services - Interfaced with CARS, OF, RRS	FIT Inc.	FTR 100%	Transferred to the Buyer
UDS	Access Data Consulting Corp.	POTS Work Force Mgt. Interfaced with OF and RRS to determine outside technician assignments for Orders and Repair	Frontier Telephone of Rochester	FTR 100%	Transferred to the Buyer
CARE	In-House	Two way interface with IXCs for processing customer long distance carrier selections (PIC)		FTR 100%	Transferred to the Buyer
CARE Clearinghouse	In-House	Interface with CLECs for processing customer long distance carrier selections. Also processes BNA (Billing Name & Address) requests from CLECs.		FTR 100%	Transferred to the Buyer
LSR Processing	GE Global eXchange Services	Project underway with GEIS to implement EDI based LSR processing.		FTR 100%	Transferred to the Buyer
ASR Processing	GE Global eXchange Services	Project underway with GEIS to implement EDI based ASR processing.		FTR 100%	Transferred to the Buyer
FRED JR.	In-House	Facilities Request Engineering Design system. Used to record engineering info and track provisioning progress on orders which require engineering design.		FTR 100%	Transferred to the Buyer
SATURN	Tridac	Special Services Circuit Inventory and design system	Frontier Corporation	FTR, RTO (Monroe) 100%	Transferred to the Buyer

	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
NMA (M)	Telcordia	System for real-time monitoring of switches and intelligent network elements. Correlation of alarms and monitoring of trends to identify root cause - potential identification of problems before they become service affecting.		FTR, RTO 100%	Transferred to the Buyer
DCOS-2000 (M)	Telcordia	Traffic management system. Produces reports of network activity levels to ID blockage etc. Company and customer reports.		FTR, RTO 100%	Transferred to the Buyer
CADTEL	Cadtel	CAD engineering system utilized for Outside Plant engineering. Includes landbase maps, maps of all outside facilities. In use at Burnsville. In process of converting from FRAMME system in Rochester, conversion to be complete Feb 2001 (AMFM & GIS)	FIT Inc.	FTR, RTO 100%	Transferred to the Buyer
Tapestry	Anritsu Company	System for Special Services Circuit Testing - Server	FTR	FTR, RTO 100%	Transferred to the Buyer
The Connection	Connexn (formerly The Hulton Co.)	Mechanized POTS Provisioning - automated switch updates based on order activity.	FTR	FTR, some RTOs 100%	Transferred to the Buyer
NESAP	Collaborative Solutions	Network Element Service Activation Platform: Mechanized POTS Provisioning - automated switch updates based on order activity.		some RTOs 100%	Transferred to the Buyer
CTP	Marconi (formerly Reltec)	POTS Line testing	FTR	FTR 100%	Transferred to the Buyer
uCommand	In-House	Front end utilized for customer Web-based access to billing information. Planned to be expanded to include payment capabilities	Portions in GBLX-NA and FIT	Shared	To be retained by Seller, but Buyer to be given option to either procure services from Seller for a fee, or to negotiate with Seller availability of rights that would allow Buyer to establish system on its own at its cost, with Seller retaining all intellectual property rights.
Aspect Phone Switch	Aspect Telecommunications Corp.	The RTO Virtual Call Center (Burnsville/Monroe) and the Rochester Call Center each have an Aspect Call Director system	Frontier Telephone of Rochester	RTO 100%	Transferred to the Buyer
MISC. PC / Client-Server Based Operational Support Systems					
ADSL	Cisco	Sun 250's Solaris 2.6 Sybase		FTR, RTO	To be transferred to Buyer
DSL Prequalification Tool Installation	MapInfo CompUSA	Installation of ADSL services hardware only	Imprecise "Frontier Communications" is owner; benefit goes to	FTR, RTO FTR, RTO	To be transferred to Buyer. To be transferred to Buyer
ALI Database/Paladium	Lucent	911 Lookup /Selective Routing	FC Sylvan	FTR, RTO	To be transferred to Buyer
Audio Teleconferencing Application		Frontier Audio Teleconferencing service.	FTR	FTR	To be transferred to Buyer
AudioTell SYS 70	Multi-Link, Inc.	Teleconferencing System Bridge		FTR	To be transferred to Buyer
Call Verify	Call Technologies	(CALL VERI) Upon completion of orders, this system checks the switch to verify that features have been established properly		FTR	To be transferred to Buyer
FMS	EDS	Operator Services Work Force Management - for scheduling work force		FTR	To be transferred to Buyer
ILAS	HPA (Chris Teumer)	ISDN Provisioning - assignment of facilities for ISDN service		FTR	To be transferred to Buyer
Imanager	In-house	Primary database for internet product. Used by Internet Technical support for trouble ticketing.		Shared	TBD - presumptively in Seller if Seller also remains in internet business, with Buyer rights to services
NETMAN	Nortel	Nortel Sonnet MGT. (INM)		FTR	To be transferred to Buyer
Newbridge		Monitoring and network management for A-Plus services		FTR	To be transferred to Buyer
VDL	Grass Valley	Video Distance Learning - system used for scheduling Video Distance learning		FTR 100%	To be transferred to Buyer

	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
Voice Mail	VoiceNet	Voice Mail	FCSI	FTR 100%	To be transferred to Buyer, after Seller determines alternatives for VM services for internal VM use.
Voice Mail	Centigram	Voice Mail		RTO 100%	To be transferred to Buyer
Fax Gate	Esker	Communication application whereby FTR communicates on FIT, Inc wholesale provisioning to CLECs		FTR 100%	To be transferred to Buyer
Administrative Support Systems					
Infinium (S2K)	Infinium	Accounting / Human Resource System	Frontier Corp.	Shared	No transfer - Buyer to work with the Seller to establish separate system of ILEC specific data.
BSA (Bonus + Salary)	In-House	Bonus and Salary processing, uses Infinium as the backend database.		Shared	No transfer - Buyer must establish its own system
MTR	In-House	Mechanized Time Reporting	FIT, Inc	FTR, RTO 100%	Seller will transfer the dedicated FTR MTR software, and ILEC data to the Buyer, along with the related server. (Includes union payment rules.) The application server used is a shared asset. Buyer must procure its own system hardware.
CATS MTR frontend for data entry to time reporting systems through intranet	In-House	Front-end data entry into the S2K400 for Mechanized Time Reporting. Entries update the MTR system. 3 current ILEC sites in use; 11 scheduled.	FIT, Inc	FTR, RTO 100%	To be transferred to Buyer
Enterprise Wide Systems					
Microsoft products (M)	Microsoft Corporation	Microsoft Select and EA Amendments (desktop & server OS, desktop productivity software)	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Novell Systems	Novell	Contract for deployment, file services, print services, LAN workplace application suite	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Anti-Virus	Symantec	Anti-virus software	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Symantec Ghost	Symantec	deployment software	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
System monitoring software	HP	Monitors the Internal Corporate Data Network		Shared	No transfer - Buyer must procure relevant licenses
Netscape (M)	Netscape	e-mail, directory services, web access	FIT Inc.	Shared	No transfer - Retained by Seller. Some servers may be able to be transferred to Buyer. Buyer must procure relevant licenses. Transition must take into account ILEC messages and other data that resides on files servers not transferring to the Buyer.
Additional Services					
Hyperian - Finance	Hyperian Software Corp.	Financial Reporting	Frontier Corp.	Shared	No transfer - Buyer must procure relevant licenses
Control - D / "uView"	Anacomp Inc.	Mainframe report distribution software	FIT Inc.	Shared	No transfer - resides on Rochester mainframe, and to free asset for Buyer, Seller will need to relocate the asset to the Detroit mainframe, with ownership established in Seller and \$350K relocation cost charged to the Buyer
QMIS	EDS	Work Force Management - for monitoring performance in Operator Services	Frontier (unclear what entity)	ILEC 100%	To be transferred to Buyer
Clarify	Clarify Inc. / Nortel	Trouble reporting system. Used by Business Services and help desks.	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Citrix	Citrix Systems	Internal data network remote access.	FIT Inc.	Shared	Final allocation TBD. The 30-35 CITRIX servers are shared. This software generally follows the hardware. In cases where the CITRIX configuration exclusively serves an ILEC, Seller will work with Buyer to transfer (e.g. Call Center function, CADTEL noted above). It is possible to restructure CITRIX servers so as to make more of them exclusive to Seller and to the ILECs.
Xerox	Xerox	Service Contract	Frontier Corp	Shared	Not transferred. Seller may negotiate for partial transfer to Buyer. This is a master agreement for fax and copier machines and supplies.

	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
Sterling Software	Sterling Software	Utilized for Data Backups (Formerly Systems Software Marketing)	FIT Inc.	Shared	Not to be transferred. Buyer must procure relevant licenses.
Seagull	Seagull	Software for developing Graphical User Interfaces for legacy systems.	FIT Inc.	FTR, RTO 100%	To be transferred to Buyer
Siemens Telecom Networks (M)	Siemens Stromberg-Carlson	Merchandise contract	Frontier Communications Midland Inc.	RTO 100%	To be transferred to Buyer
Siemens System Software (M)	Siemens Computer Associates International, Inc.	Equipment and software upgrades - DCO System Software to support CARS, MIPS based license agreement	FIT Inc.	RTO 100% Shared	To be transferred to Buyer No transfer - Buyer must procure relevant licenses. Vendor willing to work to split contract.
Storage Tech	Storage Technology Corporation	Media storage	Frontier Corporation	Shared	No transfer - Buyer must procure relevant licenses. Transition must consider transfer of ILEC data to Buyer.
Oracle (M)	Oracle Corporation	Data base software license and services	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Informix	Informix Software Inc.	Data base software	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
IBM Managed Hardware Service Agreement (M)	IBM	IBM Managed Hardware Service Agreement	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement. Vendor willing to work to split contract.
Lucent (M)	Lucent	Merchandise contract	Frontier Corp	Shared	TBD - Buyer and Seller will probably want to negotiate new terms independently.
Illuminet (M)	Illuminet Inc.	Provision of certain shared services such as: LIDB lookups, 800 queries, Calling Name service, local number portability service (NPAC)	Frontier Telephone of Rochester, et al	Shared	TBD - Buyer and Seller will probably want to negotiate new terms independently.
Anixter Inc. (M)	Anixter Inc.	Procurement and inventory of parts and supplies including cable and various network hardware	Frontier Corporation	Shared	No transfer - Buyer must procure relevant agreement
Fujitsu Inc.	Fujitsu Inc.	Network management software and hardware	Frontier Telephone of Rochester	FTR, RTO 100%	To be transferred to Buyer
Nortel Purchasing Agreement (M)	Nortel Networks	Global purchasing agreement. Covers all Global Crossing entities for all Nortel products except CPR. Includes provision for shared product credits, advertising and training credits. Covers all purchase orders for Nortel products.	Global Crossing North America Networks Inc. (FCI)	Shared	TBD - Buyer and Seller will probably want to negotiate new terms independently.
411 System	Nortel Networks	Directory Assistance System	FTR	FTR	To be transferred to Buyer
TOPS System	Nortel Networks	Operator Services Switch	FTR	FTR	To be transferred to Buyer
Distributorship Agreement	Nortel Networks	Enterprise agreement allowing purchase of Nortel CPE products and distribution to other Frontier entities	FSTI	FTR, RTO 100%	To be transferred to Buyer
DMS10/100 Service	Nortel Networks	Spares Exchange Service Agreement	Frontier Corporation	RTO 100%	To be transferred to Buyer
R R Donnelly & Sons (M)	R R Donnelly & Sons	Master directory printing agreement	Frontier Corporation & Frontier Information Services	FTR, RTO 100%	To be transferred to Buyer
LM Berry (M)	LM Berry	Directory advertising sales and marketing	Frontier Corporation	FTR, RTO 100%	To be transferred to Buyer
CINCOM Systems (M)	CINCOM Systems	Data base software used by CARS system	Rochester Tel Information Services and Technology, Inc.	FTR 100%	To be transferred to Buyer
SAMS for MVS	Systems Software Marketing Inc. Acquired by Computer Associates	Mainframe disk management system	Frontier Corporation	Shared	No transfer - Buyer must procure relevant agreement
RG&E	Rochester Gas & Electric Corporation	Competitively priced electric services	Frontier Corporation	Shared	TBD - Buyer and Seller may be required to negotiate new terms.
IBM Credit Corp. (M)	IBM Credit Corp.	Master lease agreement AS400's.	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement
IBM Corporation	IBM Corporation	Master Software Licenses Agreement	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement
IBM Corporation	IBM Corporation	OS/400 Software Maintenance Agreement	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement
Boole & Babbage	BMC Software Inc.	MSU based license agreement, mainframe automation software.	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement

Contracts

	Vendor	Description	Owner (Legal Entity)	Used By	Future Allocation
Look Smart Limited My Way	Look Smart Limited Planet Direct Corporation	Content service for content @ frontiernet.net	Frontier Corporation Frontier Corporation		Recently expired TBD - depending on action determined by Seller in connection with ability to transfer, and if so, time required
MDSI	Mobile Data Systems Inc.	Workforce Management Software	Frontier Telephone of Rochester, Inc.	FTR, RTO 100%	To be transferred to Buyer, with Buyer assuming alternative to be selected in near future of either proceeding (with \$344K credit for future work) or paying negotiated walkaway price of \$240K.
Sybase OTS	Sybase Inc. Output Technologies Solutions (formerly IBS)	Data base software Bill print vendor	Frontier Corporation FIT Inc.	Shared FTR, RTO 100%	No transfer - Buyer must procure relevant agreement Transfer to Buyer
PHH	DL Peterson Trust PHH	Motor Vehicle Management Services. Assist in vehicle registration.	Frontier Corporation	Shared	TBD - Buyer and Seller may be required to negotiate new terms.
SUN Microsystems	SUN Microsystems Computer Corporation	Customer Support Program agreement	FIT Inc.	Shared	No transfer - Buyer must procure relevant agreement
Sprint Products	Sprint Products Group and North Supply Company	Purchase of CPE	Frontier Corporation	ILEC 100%	To be transferred to Buyer (phones)
Iron Mountain	Iron Mountain	Off-site Storage facility	FIT Inc.	ILEC 100%	TBD - Buyer and Seller may be required to negotiate new terms.
IVAN Internet Service	In-House	Independent Vendor Access Network IP Back bone, Authentication server, Mail server, news, Domain Name Service, Web Service. Miscellaneous services related to dial-up and dedicated Internet customers. Modems (for local and roaming services). Security Services. Equipment used by help desk. Management system (system monitoring).	FIT Inc.	Shared	No transfer - Buyer must procure relevant system TBD - Services include dedicated Internet access, proxy servers, and firewalls.
OpenConnect	OpenConnect	Remote system access through the Internet, to SYSA, PRDA, and S2K	FIT Inc.	Shared	No transfer - Buyer must procure relevant licenses
Comdisco	Comdisco	Disaster Recover Agreement	FIT Inc.	Shared	TBD - Buyer and Seller may be required to negotiate new terms.

M = Material Contract

SYSTEM HARDWARE

System	Vendor	Description of Application Utilizing Hardware	Owner	Used By	Future Allocation
Internal Data Network					
Routers		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
Switches		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
Hubs		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
Circuits		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system. Buyer can negotiate with Seller arrangements for individual circuits (and related routers, switches and hubs) that pertain to ILEC-only sites, including all ILEC switch locations that would no longer be connected to the Seller's internal corporate network
Proxy servers		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
DNS servers		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
Firewalls		Hardware to support the corporate data network	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
Midrange Computers					
AS/400's and associated peripherals					
S2K400	IBM	Primary server that runs the DPI / Infinium software	FIT, Inc.	shared	Transferred to the Buyer (Infinium software would be moved to the HIAVAIL system for the Seller)
HIAVAIL	IBM	Redundant server that mirrors the production DPI / Infinium software	FIT, Inc.	shared	Retained by Seller. Buyer must establish its own high availability solution
OPTICAL	IBM	RTO billing history optical disk server for DPI	FIT, Inc.	RTO 100%	Transferred to the Buyer
Automated Tape Library	IBM	Robotic tape management system used to backup DPI / Infinium software and data	FIT, Inc.	shared	Retained by Seller. Buyer must establish its own automated backup system. Parties can negotiate for Buyer to purchase master unit and up to two storage units
COMMSRV	IBM	Communication server used file transfers, WCT billing information and Dexterity	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system
DEVELOP	IBM	DPI - development server	FIT, Inc.	RTO 100%	Transferred to the Buyer
RTODEV	IBM	DPI - cust. Training server	FIT, Inc.	RTO 100%	Transferred to the Buyer
STATESBORO	IBM	DPI - Switch data transfer server	FIT, Inc.	RTO 100%	Transferred to the Buyer
APPLE400	IBM	DPI - Switch data transfer server	FIT, Inc.	RTO 100%	Transferred to the Buyer
Servers					
File servers			FIT, Inc.	shared	Retained by Seller. Buyer will have to establish its own system
Messaging servers					
					No transfer - Buyer must establish its own system for email. Parties can negotiate possible transfer of "frontiercorp.com" to Buyer over time provided Buyer can assure e-mail "bounces" that are transparent and timely, for no less than one year.
SNNYROCH01-52	SUN	Netscape Mail Srv	FIT, Inc.	shared	Retained by Seller. Buyer will have to establish its own system
SNNYROCH02-52	SUN	Netscape Mail Srv	FIT, Inc.	shared	Retained by Seller. Buyer will have to establish its own system
Internet servers					
home.east.frontiercorp.com	SUN	Intranet Server	FIT, Inc.	shared	Retained by Seller. Buyer will have to replicate system. Content specific to ILEC can be transferred to Buyer
Authentication servers		These systems facilitate file management, email distribution, and user identification for system access.			Retained by Seller. Buyer will have to establish its own system
Application servers					
SYB1_CLARIFY1	SUN	Production trouble ticket management server		shared	Retained by Seller. Buyer will have to establish its own system

System Hardware

SYB1_CLARIFY2	SUN	Development trouble ticket management server		shared	Retained by Seller. Buyer will have to establish its own system
MAPPSERV1		File transfer server		Shared	Retained by Seller. Buyer will have to establish its own system
Remote Access servers					
SDI servers	RSA Inc.	Authentication servers for remote access. (FOBs)	FIT, Inc.	shared	Retained by Seller. Buyer will have to establish its own system
CITRIX servers		See CITRIX software	FIT, Inc.	shared	Allocation consistent with contract description of CITRIX software.
Video Equipment		Video equipment used for internal communication	FIT, Inc.	shared	Equipment in the RTOs transfers to Buyer, but not in Rochester and elsewhere
Data Storage (Field St.)		Off-site storage of system backups.		Shared	No transfer.
Mainframe					
IBM Mainframe & Associated Peripherals	IBM	This system includes the FTR OSS system (CARS) and supporting systems.	FIT, Inc.	shared	Transferred to the Buyer. If the Buyer assumes the cost for relocating shared software, with temporary right by the seller to obtain any services currently obtained.
Midrange Computers					
UNIX systems and associated peripherals		These systems provide integrated support for the FTR operation (UDS, Tapestry, Call Verify, etc.)			
UDSSRV1	HP	UDS		FTR 100%	Transferred to the Buyer
SCNYROCH01	Compaq	The Connection		FTR, RTO 100%	Transferred to the Buyer
SCNYROCH02	Compaq	The Connection		FTR, RTO 100%	Transferred to the Buyer
TAPESTRY1	SUN	Tapestry		FTR 100%	Transferred to the Buyer
TAPESTRY2	SUN	Tapestry		FTR 100%	Transferred to the Buyer
TAPGRAPH1	SUN	Tapestry		FTR 100%	Transferred to the Buyer
TAPGRAPH2	SUN	Tapestry		FTR 100%	Transferred to the Buyer
TAPGRAPH3	SUN	Tapestry		FTR 100%	Transferred to the Buyer
CALLVER1	HP	Call Verify		FTR 100%	Transferred to the Buyer
QMIS220	HP	Workforce Mgt (Operator Services)		FTR 100%	Transferred to the Buyer
QMIS320	HP	Workforce Mgt (Operator Services)		FTR 100%	Transferred to the Buyer
NDMSRV1	SUN	NDM - Network Data Mover for file transfers		FTR 100%	Transferred to the Buyer
		Telcordia System Servers		FTR, RTO 100%	Transferred to the Buyer
		CTP System servers		FTR 100%	Transferred to the Buyer
		CADTEL System Servers		FTR, RTO 100%	Transferred to the Buyer
		SATURN System Server		FTR, RTO 100%	Transferred to the Buyer
Personal Computers					
Desktops, laptops, and associated peripherals		These are the employee workstations, for employees who would transfer with the ILEC.			PCs and laptops that are associated with employees that will transfer to the Buyer will be transferred, with content transfer to be addressed separately

PROPERTY AND OPERATIONS

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Property	Current Ownership	Future Allocation
Outside Plant and other property currently identified on CPR as ILEC-owned	Frontier LEC Business	All move to Buyer as part of property owned by each Frontier LEC. No transfer of any facilities in name of other entities used in providing their services within ILEC areas
Conduit and Duct Space	Frontier LEC Business generally, but occasional non-ILEC ownership for long distance network and local terminations)	As ownership currently exists, but with continuation of rights of use or occupancy of other party that exist today, and growth as currently anticipated
Rights of Way Use	Mixed - ownership of all local rights of way generally in ILECs	As ownership currently exists, but with continuation of rights of use or occupancy of other party that exist today, and allowing growth as currently anticipated
FIT Customer Support Center at Fitzugh St.	Not in the Frontier LEC Business	No change in ownership. The operation would need to be moved to one of the remaining Sellers properties, while ILEC retains the real estate.
180 South Clinton Avenue Data Center	Not in the Frontier LEC Business	To be retained by Seller unless otherwise agreed; Buyer will have to establish independent system.
180 South Clinton Avenue Brighton - Henrietta Town Line Road Training Center	Global Crossing NA (same)	No change; alternatives reflected in agreement To be transferred to the Buyer, with access rights to telephone museum and all contents in Seller, and transition rights for training by Seller on current terms. FIT has assets in this location that have not been fully identified. In addition there are some shared operations within this location. (Payroll)
Fitzhugh St	Generally all in the Frontier LEC Business, however a long distance switch and the main hub for the WAN network are housed at this location.	Buyer will be able to utilize all space. Seller may negotiate for space if it is preferred not to move the switch and WAN hub.
Any other shared facility in the Rochester area	Generally all in the Frontier LEC Business	Buyer will be able to utilize all space, and Sellers will move any personnel currently located there except: Bausch and Lomb, One City Center, and Basin Tech. Real Estate lists should be reviewed to eliminate risk of liability. Final list will be approved by transition team.
Internet dial-up and other IT Help Desk	Not in the Frontier LEC Business - Internet services	Separate Phoenix help desk and Plymouth Ave (Rochester) help desk ownership, with Buyer to establish its own system to replicate Phoenix, or procure services needed for a fee, and Seller to take functions performed at Plymouth elsewhere so Plymouth is solely for Frontier LEC Business
LAN / WAN Help Desk (NCC) Network Computing Center	(same)	No transfer - Buyer must establish its own system
Domain names (all) (including "frontiercorp.com", "frontiernet.net", "frontiercom.com")	(same)	Initially retained by Seller with links to be negotiated. Domain names must be treated independently. Domain names should have all goodwill associated with assignment of the ownership. Objective is to permit transfer of "frontiercorp.com" to Buyer over a period of time, and also "frontiernet.net" in the event that customer issues can be adequately addressed. "frontiercom.com" is already being used by the ILECs and will transfer with other property. Any shared use of frontiercom.com will be phased out (See reference on "frontiercorp.com" elsewhere, indicating need for adequate transition time, in a way transparent to customers and users.)
Class B and Class C Internet IP addresses	(same)	Buyer to procure own licenses and complete assignment of new IP addresses prior to corporate network separation
VPN System	(same)	TBD; if not able to be separated, to remain with Seller, and transition by Buyer to its own system
Microwave Towers in Baker Hill, NY, Canandaigua, NY, and Walden (Junction) NY	No change in ownership	The allocation will be based on the existing ownership and licensing agreements. Towers near Rochester tend to be owned by FTR with affiliate and other users, and towers away from Rochester tend to be owned by non-ILECs with occasional ILEC use.

Section 2.8

Absence of Certain Changes, Events and Conditions

(a) The transfers of assets described in the Schedule to Section 2.7 and 2.16 will take place between the date hereof and Closing.

As disclosed in the Schedule to Section 2.11, Sellers intend to take action to cause a certain Loan Agreement dated April 7, 2000 from Global Crossing North American Networks, Inc. to Frontier Cellular of Alabama, Inc. to cease to exist prior to the Closing Date.

(b) In the normal course of business Sellers regularly review and modify compensation and benefits programs. Seller has announced or is in the process of announcing certain changes to the compensation and benefits with respect to employees of the Frontier LEC Business which are expected to become effective in 2001. These include, among other things, one additional day of Paid Time Off for employees with fewer than 25 years of service, the establishment of Martin Luther King Day as a recognized company holiday, and the establishment of a Domestic Partner Benefits Program. Additionally, Seller shall establish a retention bonus program providing payments not to exceed \$2.5 million in the aggregate to select employees of the Frontier LEC Business as of the Closing Date. As an additional retention tool, Sellers have undertaken to accelerate as of the Closing Date the vesting of certain options for the common stock of Global Crossing Ltd. held by the employees of the Frontier LEC Business. In connection therewith, Seller shall take such actions as may be necessary to provide for the foregoing acceleration, which may include, without limitation, amending certain stock option plans and grant agreements. These changes will be announced after the date hereof.

Certain employees of the Companies and the Company Subsidiaries who, as of September 28, 1999 were employees of Sellers or certain of Sellers' affiliates, will receive a retention bonus if on September 28, 2000 such employee remains employed by an affiliate of Sellers and such employment continues through the payment date of the bonus to be paid by the Sellers (or Affiliates thereof).

Frontier Telephone of Rochester, Inc. employees received a bonus payment in February 2000 for performance related to achieving pre-established bonus targets for the performance year ending December 31, 1999.

Certain of the collective bargaining agreements applicable to covered employees of the Frontier LEC Business became renewable during Year 2000 and other collective bargaining agreements may expire in advance of the Closing Date. In the normal course of business and in accordance with general past practice, Sellers have negotiated and shall continue to negotiate renewals to these collective bargaining agreements. All collective bargaining agreements were amended to include a successorship clause.

Prior to Closing, Sellers anticipate transferring to the Frontier LEC Business certain employees of the Sellers and/or its affiliates who are principally engaged in the Frontier LEC Business as of the date hereof or whose costs are currently allocated fully to the Frontier LEC Business.

Prior to Closing, with respect to up to ten (10) employees (which group of employees shall include Martin Mucci and Gregg C. Sayre and others selected by the operating head of the Frontier LEC Business), the Sellers shall cause the Frontier LEC Business to either enter into severance protection agreements, or amend the existing Change in Control Enhanced Severance Plan, to provide, generally, that, upon a termination of employment without cause by the Company or any Company Subsidiary, or by any such employee for good reason, which termination occurs after the Closing, such employees will receive the following: (i) a lump sum payment equal to an applicable multiplier (not to exceed three times) of the sum of an employee's base salary plus the greater of most recent actual or then-target annual bonus; (ii) continuation of benefits for same number of years as severance multiplier; (iii) excise tax gross up, if applicable; and (iv) outplacement services.

Prior to the Closing, the Sellers may amend the Supplemental Management Pension Plan and/or the Supplemental Retirement Savings Plan to provide that: (i) each Business Employee who participates in such plan(s) shall become fully vested in all benefits accrued as of the Closing Date, (ii) no distributions shall be made out of such plan(s) to the Business Employees in connection with their termination of employment with GCNA resulting from the transactions contemplated in this Agreement, and (iii) distributions shall only be made at such time as a Business Employee's employment with the Buyer, the Company, the Company Subsidiaries and/or any other member of the Buyer Group, after notice is provided by such employee of such termination.

Prior to the Closing the Sellers will pay out to certain employees of the Companies and Company Subsidiaries the monetary value of "banked vacation," elected by the employees to date.

(c) On May 31, 2000, the Federal Communications Commission adopted a proposal for access charge and universal service reform advocated by the Coalition for Affordable Local and Long Distance Services ("CALLS"). Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low Volume Long Distance Users, Federal-State Joint Board on Universal Services, CC Docket Nos. 96-262, 94-1, 99-249, and 96-45 Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45 FCC 00-193 (released May 31, 2000) Under the FCC's Order, price-cap-regulated incumbent local exchange carriers, including most of the Frontier LECs, were to reduce average traffic sensitive intrastate access charges by an industry-aggregate total of \$2.1 billion. The affected Frontier LECs filed the necessary tariff revisions to implement the FCC's order effective July 1, 2000. The FCC's Order contained certain provisions that permitted the Frontier LECs to ameliorate the negative financial effect of the FCC's Order and the

Frontier LECs have implemented such steps as they deemed appropriate under the circumstances.

(d) Currently, the Frontier LECs act as billing and collection agents and as agents, and also perform certain other ancillary services with respect to long distance services provided by Global Crossing Telecommunications, Inc. ("GCTI") to business and residential customers that reside within the franchised territories of the Frontier LECs for which they are compensated pursuant to intercompany agreements. The Frontier LECs, through their affiliate Frontier Communications of America, Inc. ("FCA"), intend to enter the long distance business directly as a reseller providing retail long distance service to their customers. Toward that end, FCA: (a) has entered into a Carrier Services Agreement with Global Crossing Bandwidth, Inc. to acquire rights to resell long distance capacity or services for resale to end-user customers which will be modified prior to Closing; (b) will enter into an Asset Purchase Agreement to acquire from GCTI the retail business and retail residential customer base of those customers that reside within the franchised territory of the Frontier LECs with the exception of certain nonregulated business services; (c) has initiated the process of seeking federal and state approvals to consummate the transaction described in (b) above; and (d) has initiated the process of applying for the necessary regulatory certifications and other authorizations to serve as a long distance carrier in the states in which it currently intends to operate as a long distance carrier where it does not possess such certifications or authorizations.

Currently, the Frontier LECs provide certain services to the competitive local exchange carrier ("CLEC") operations provided by Global Crossing Local Services, Inc., Global Crossing Telemanagement, Inc. and Global Crossing Telemanagement of Virginia, LLC. The Frontier LECs, through FCA, intend to enter the CLEC business directly. Toward that end, FCA has initiated the process of applying for the necessary regulatory certifications and authorizations to offer CLEC services in the states in which it presently intends to operate.

The Frontier LECs have recently begun to offer Web Hosting and related services and presently intend to expand this business.

The Frontier LECs are in the process of negotiating an agreement that will facilitate their entry into the Internet Yellow Pages Business.

As described in (1) and (2) above, the Frontier LECs provide certain services to Global Crossing's long distance and CLEC operations. These include, but are not necessarily limited to, billing, provisioning, call center services, engineering, 911 administration and related functions which will continue on the same conditions after Closing for a period of two (2) years.

(e) Sellers, Companies and Company Subsidiaries have regularly entered into compromises, settlements, waivers, releases, or adjustments with third parties. This is considered in the ordinary course of business. Other than a pending settlement with the

New York State Office of Real Property Services, relating to New York property taxes, none of these compromises, settlements, waivers, releases, or adjustments, individually is believed to be in excess of \$2.0 million.

- (i) See Schedule 2.9.1. attached hereto.

On July 16, 1996, AT&T Corp. filed formal complaints with the Federal Communications Commission against Frontier Communications of Mt. Pulaski, Inc., Frontier Communications - Midland, Inc. and Frontier Communications-Schuyler, Inc. AT&T Corp. v. Frontier Communications of Mt. Pulaski, Inc., et al., File No. E-96-36. In the complaints, AT&T alleged that these three Frontier LECs had entered into certain unlawful "revenue-sharing" agreements with certain information services providers ("ISPs") pursuant to which these Frontier LECs agreed to pay commissions to the ISPs based upon terminating access revenues that their services generated. The face amount of AT&T's claims is for approximately \$3.6 million plus prejudgment interest. The three Frontier LECs have denied any wrongdoing. This matter has been fully briefed to the FCC and is pending decision.

On June 2, 2000, Audiobridge of Illinois, Inc. -- one of the ISPs described in the preceding paragraph -- filed suit in the United States District Court for the Western District of New York against Frontier Communications-Midland, Inc., seeking unpaid commissions in the amount of approximately \$750,000 based upon the transactions described in the preceding paragraph. See Audiobridge of Illinois v. Frontier Communications-Midland, Inc., No. 00 CV 6203T(F). The Frontier LECs previously have received the benefit of any such payments.

During the past few years, a number of patent holders have contacted the Sellers asserting that certain business processes and systems used by the Frontier LECs may be infringing on those patents. Some of the patent holders have demanded that the Seller enter into licensing agreements covering all of its subsidiaries, and some have threatened patent infringement litigation. To the extent that Sellers enter into any license with respect to such patents that includes the Frontier LECs, Sellers will allocate the cost of such license on a relative use or other identified basis.

Global Crossing North America, Inc. or a subsidiary of Global Crossing North America, Inc. is defending a patent infringement suit in federal district court in Indianapolis relating to certain billing and call provisioning software and processes. It is uncertain whether those claims will implicate the Frontier LECs.

- (ii) In 1994, the New York State Public Service Commission approved the Open Market Plan.

Under the Open Market Plan, dividend payments from Frontier Telephone of Rochester, Inc. ("FTR") are temporarily prohibited until FTR receives clearance from the New York State Public Service Commission that service and debt rating requirements are being met or waived. Also, certain cash management agreements mandated by regulatory decisions in New York State and Illinois restrict short-term cash advances to affiliates.

The telephone industry is regulated by various agencies of the federal and state governments. A variety of regulatory plans impose certain obligations upon regulated companies. Plans specific to the Frontier LEC Business are in place in Minnesota, Wisconsin, Iowa, Pennsylvania and New York. From time to time, in the ordinary course of business, some of these regulatory plans are changed, amended, modified, updated or renegotiated. If approved, certain elements of these proposed plans may have an adverse impact on the Frontier LEC Business, even though such impact is not anticipated to constitute a Material Adverse Event.

As a regulated business, the operations of the Frontier LEC Business are subject to various orders of governmental regulatory agencies with responsibility to oversee their operations. In the normal course of business, various of the Companies and Company Subsidiaries have received public service commission orders which control various aspects of their business.

See also Schedule to Section 2.20.

Schedule 2.9.1

LITIGATION INVOLVING THE FRONTIER LEC BUSINESS:

CASE NAME	DATE FILED	POSITION IN CASE	TYPE OF CASE	NATURE OF CLAIM	AMOUNT OF CLAIM
RTC v. CC&E	Served in 1997	Plaintiff	Property Damage	Claim against bankrupt insurer to collect on earlier judgement, now pending against successor insurer CNA	\$3,055
RTC v. CC&E	1995	Plaintiff	Property Damage	Claim against bankrupt insurer to collect on earlier judgement, disclaimed, and now pending	\$273
RTC v. Scott Ervine	1996	Plaintiff	Property Damage	Small claims case settled in past but defendant has not made payments	\$1,031
Village of Fairport v. FTR	1999	Defendant	Property Damage	Company is codefendant in suit for damages in connection with damage to municipal electrical facilities during excavation. Company has demanded that primary defendant assume defense.	\$39,589
RTC v. Nory Construction	1998	Plaintiff	Property Damage	Claim for property damage against contractor, currently near final settlement.	\$39,135
Tim Thompson v. RTC	1996	Defendant	Personal Injury	Worksite fall. RTC is entitled to indemnification from plaintiff's employer who is a defendant. Matter is being handled by insurer, and company's maximum exposure is limited to the deductible.	\$1,000,000
Starwise Communications v. RTC	1996	Defendant	Breach of Contract (for telephone services)	Claim of loss based on telephone service problems. Company received summary judgement in mid-2000. Time for appeal has not yet expired.	\$5,000,000
RTC v. Lakeview Lawn	1999	Plaintiff	Property Damage	Subcontractor damaged company's underground cable and conduit. Claim to be amended to add additional \$16,000.	\$57,643
James Jordan v. FTR	1999	Defendant	Breach of Contract (telephone service interruptions)	Claimed loss due to interruptions and disconnections, likely subject to dismissal on tariff grounds	\$15,000
FTR v. Rochester Utility Contractors	1999	Plaintiff	Property Damage	Three claims for damage caused by subcontractor in outside plant construction	\$16,334
FTR v. Angelica Boring	1999	Plaintiff	Property Damage	Property damage claim against contractor where dispute is over existence and accuracy of stakeout.	\$124,945
FTR v. Madden Construction	1999	Plaintiff	Property Damage	Contractor damaged underground conduit	\$7,811
FTR v. Hal Kemp	2000	Plaintiff	Property Damage	Sewer construction led to cable cuts. Pending motion for default.	\$6,863
Passafiume v. Frontier and Vangalio	2000	Defendant	Personal Injury	Employee of company was hit by auto driven by unrelated third party during work hours.	\$126,000

Thomas Green v. RTC	1995	Defendant	EEOC claim	Termination and discrimination based on age, still under investigation at EEOC	None stated
CWA Unfair Labor Practice Charge	1996	(Defendant)	NLRB appeal	NLRB itself is pursuing an appeal of rejection of CWA's unfair labor practice claim arising out of 1995-96 labor relations and contract negotiations dispute. An ALJ has rejected the claim, and ordered dismissal of the complaint. This appeal within the agency to the full NLRB has been pending since early 1999.	None stated – exposure reflected in Schedules
Fred Lennon v. RTC	1996	Defendant	NY Div. Of Human Rights (NYDHR) claim	EEO-type claim of discrimination based on non-clinical weight problems. Probable cause determination was made in 1997, and public hearing was ordered, but it is unlikely to be held for some time.	None stated
Lorenzo Williams v. RTC	1996	Defendant	NYDHR claim	Sexual harassment claim awaiting conciliation conference	None stated
Shauna Cirafisi v. RTC	1998	Defendant	Sexual harassment	Temporary employee claims harassment while working at company. In discovery.	None stated
Pannelli v. FTR	1999	Defendant	NYDHR claim on disability accommodation	Dismissal for nonperformance is subject of complaint.	None stated
Leon Johnson v. FTR	1999	Defendant	Discrimination on basis of race	Claim based on treatment in job duties and assignments	N/A
MacDougal v. FTR	1999	Defendant	Discrimination on basis of age	Claim based on economic reduction in force	N/A
Morrissey v. FCNY	1998	Defendant	Personal Injury	Plaintiff seeking to hold company liable for fall from ladder to facilitate service visit	\$1,250,000
Rejto and Blaustein v. FCNY	1998	Defendant	Personal Injury	Auto accident claim based on Company truck backing into plaintiff's car, is presently near settlement.	\$850,000
Orange and Rockland Utilities v. Frontier Corp., et.al.	1999	Defendant	Property Damage	Plaintiff claims damages based on low hanging wires below PSC requirements.	\$11,616
Orange Devt. Assn. v. FCNY	1999	Defendant	Property Damage	Claims of property damage that occurred in connection with construction project in Orange County	\$1,000,000
Pronet Computer Systems v. FCNY	1999	Defendant	Breach of Contract (service disruption)	ISP claims that dedicated services did not perform, causing loss to Internet service business	\$250,000
Larry Dise v. FCNY	1999	Defendant	Unpaid Wages	Retirees seek compensation for nonpayment of unused vacation at time of retirement	\$28,848
Frontier Comm of Mt. Pulaski and Frontier Comm. - Schuyler v. AT&T	1996	Plaintiff and Defendant	Access Charge and Regulatory Dispute	Referenced on other schedule sections – related to claim of AT&T that company paid commissions to a third party for certain information services billed in the territory, with associated claims of the ISP. Pending at FCC since 1998, with new claim just filed by ISP.	\$3,600,000

James Fitzgerald and Ernest Kerchen v. FC Iowa	1999	Defendant	Breach of Contract (Directory Advertising Error)	Claim based on failure to include listing in directory. Company is seeking indemnification from LM Berry Co.	N/A
Cook v. RGE and FTR	2000	Defendant	Personal Injury	Claim of cable TV installer based on injury sustained while climbing jointly owned pole.	N/A
Wilson v. FTR	Threat of suit	(Defendant)	Property Damage	Water damage resulting from underground repairs	N/A
David Ceracci v. FTR	Threat of suit	(Defendant)	Personal Injury	Claimant's snowmobile hit unmarked guy wire for pole.	N/A

Section 2.10

Insurance

None.

The following is a list of current interconnection, collocation and resale agreements entered into between the Frontier LECs and affiliated or unaffiliated third parties:

1. Resale Agreement between Global Crossing Local Services, Inc. and Frontier Communications of America, Inc.
2. Interconnection Agreement between Frontier Communications of Minnesota, Inc. and US West Communications, Inc. for Minnesota
3. Interconnection Agreement between Frontier Communications of Iowa, Inc. and CommChoice of Iowa, LLC
4. Frontier Telephone of Rochester Interconnection Agreement 2000 by and between Digital Broadband Communications, Inc. and Frontier Telephone of Rochester, Inc.
5. Frontier Telephone of Rochester Interconnection Agreement 1999 by and between PaeTec Communications, Inc. and Frontier Telephone of Rochester, Inc.
6. Frontier Telephone of Rochester Interconnection Agreement 1999 by and between AT&T Wireless Services, Inc. and Frontier Telephone of Rochester, Inc.
7. CMRS Interconnection Agreement by and between Sprint Spectrum L.P., d/b/a Sprint PCS, and Frontier Telephone of Rochester, Inc.
8. Frontier Telephone of Rochester Interconnection Agreement 1999 by and between Choice One Communications of New York, Inc. and Frontier Telephone of Rochester, Inc.
9. Frontier Telephone of Rochester Switched Access Meet Point Billing Agreement 1999 between Choice One Communications of New York, Inc. and Frontier Telephone of Rochester, Inc.
10. Frontier Telephone of Rochester Interconnection Agreement 1998 by and between Nextel of New York, Inc. and Frontier Telephone of Rochester, Inc.
11. Frontier Telephone of Rochester Interconnection Agreement 1998 by and between Genesee Telephone Company and Frontier Telephone of Rochester, Inc.
12. Frontier Telephone of Rochester Interconnection Agreement 1998 by and between Upstate Cellular Network, a New York general partnership, d.b.a. Frontier Cellular, and Frontier Telephone of Rochester, Inc.
13. Interconnection Agreement 1998 by and between Time Warner AxS of Rochester, L.P. and Frontier Telephone of Rochester Inc.
14. Frontier Communications of Georgia Interconnection Agreement 1999 by and between Hargray Wireless LLC and Frontier Communications of Georgia, Inc.
15. Frontier Communications of Georgia Interconnection Agreement 1999 by and between Bell South Personal Communications, Inc. for and on behalf of itself and on behalf of BellSouth Carolinas PCS, L.P. collectively doing

- business as BellSouth Mobility DCS, and Frontier Communications of Georgia, Inc.
16. CLEC/Frontier Communications of Iowa Interconnection Agreement 1999 by and between CommChoice of Iowa, LLC and Frontier Communications of Iowa, Inc.
 17. DTI/Frontier Communications of Minnesota Interconnection Agreement 1999 by and between Dakota Telcom, Inc and Frontier Communications of Minnesota, Inc.
 18. CLEC/Frontier Communications of Minnesota Interconnection Agreement 1998 by and between Crystal Communications, Inc. and Frontier Communications of Minnesota, Inc.
 19. CLEC/Frontier Communications of Iowa, Inc. Interconnection Agreement 1999 by and between Crystal Communications, Inc. and Frontier Communications of Iowa, Inc.
 20. Frontier Communications of New York Interconnection Agreement 1999 by and between Warwick Valley Telephone Company and Frontier Communications of New York, Inc.
 21. Interim Local Traffic Exchange Agreement by and between D&E Systems, Inc. d/b/a D&E Communications and Frontier Communications of Pennsylvania, Inc.
 22. CMRS Frontier Communications of Wisconsin, Inc. Interconnection Agreement 1998 by and between NEW-CELL Inc., and Frontier Communications of Wisconsin, Inc.
 23. PurePacket Communications, Inc. Request for Initiation of Interconnection Negotiations with Frontier Telephone of Rochester, Inc.
 24. Interim Local Meet Point Agreement by and between ACC National Telecomm Corp. and Frontier Telephone of Rochester, Inc.; terminated at the end of 12/31/99 but the parties still operate under the contract and are negotiating a new contract
 25. Collocation Agreement between Rochester Telephone Corporation and Time Warner AxS of Rochester, LP dated October 20, 1994
 26. Collocation Agreement between Frontier Communications of Iowa, Inc. and Crystal Communications, Inc.
 27. Collocation Agreement between Frontier Communications of Iowa, Inc. and CommChoice of Iowa, L.L.P.
 28. Master Collocation License Agreement between Frontier Telephone of Rochester, Inc. and Digital Broadband Communications, Inc., effective as of April 19, 2000
 29. Master Collocation License Agreement between Frontier Telephone of Rochester, Inc. and Choice One Communications of New York, Inc. effective as of January 27, 2000
 30. Lease Agreement (Rochester Switch) between Frontier Telephone of Rochester, Inc. and Rochester Telephone Mobile Communications, dated as of November 1, 1999

Various retention bonus opportunities will be made available to executive officers and key employees of the Frontier LEC Business. See Schedule to Section 2.8(b).

The following is a list of certain financial obligations of certain of the Companies or Company Subsidiaries:

1. Frontier Telephone of Rochester, Inc. 7.51% Medium Term Notes in the aggregate amount of \$40 million.
2. Vista Telephone Company of Minnesota, Inc. (now named Frontier Communications of Minnesota, Inc.) 7.61% Private Placement Notes in the aggregate amount of \$35 million.
3. RUS Loans at various Companies and Company Subsidiaries in an aggregate amount of approximately \$46.5 million. See Schedule 2.11.3 attached hereto.
4. Promissory Note dated July 6, 1993 from Highland Telephone Company (now named Frontier Communications of New York, Inc.) to Rochester Telephone Corporation (now named Global Crossing North America, Inc.) in the principal amount of \$3 million, plus interest at 6.5% from July 6, 1993, due and payable on July 6, 2003.
5. Promissory Note dated January 1, 1995 from Frontier Communications of New York, Inc. to Frontier Corporation (now named Global Crossing North America, Inc.) in the principal amount of \$5.9 million, plus interest at 8.4% from January 1, 1995, due and payable on January 1, 2005.
6. Promissory Note dated January 12, 1990 from Sylvan Lake Telephone Company, Inc. (now named Frontier Communications of Sylvan Lake, Inc.) to Rochester Telephone Corporation (now named Global Crossing North America, Inc.) in the principal amount of \$2.3 million, plus interest at 9.25% from January 12, 1990, due and payable on January 1, 2020.
7. Loan Agreement dated April 7, 2000 from Frontier Communications of Sylvan Lake, Inc. to Frontier Corporation (now named Global Crossing North America, Inc.) in the principal amount of \$2.4 million, plus interest at 8.4% from January 1, 1995, due and payable on January 1, 2005.
8. Loan Agreement dated April 7, 2000 from Global Crossing North American Networks, Inc. to Frontier Cellular of Alabama, Inc. in the principal amount of \$24,023,377 million, plus interest at 7.0% from January 31, 1997, due and payable on January 30, 2007. This Loan Agreement either will not be in existence as of the Closing Date or the right to receive loan repayments will be transferred, prior to the Closing Date, to an affiliate of Sellers which is neither a Company nor a Company Subsidiary.
9. In the normal and ordinary course of their business, intercompany advances are made from Sellers' subsidiaries to their parents. These amounts regularly fluctuate. As of May 31, 2000, approximately \$369,549,918 was advanced to Global Crossing North America, Inc. from the Companies and/or Company Subsidiaries.

Covenants not to compete:

- Frontier Telephone of Rochester and Roblen, Inc. (d/b/a Secrephone) entered into a noncompete agreement which will terminate on April 15, 2001 which provides that Frontier Telephone of Rochester will not enter the stand-alone answering service business in the Rochester market
- Frontier Telephone of Rochester and its affiliates have a noncompete agreement with ComExpo, Inc. which will terminate on June 15, 2002 which provides that such entities cannot sell or lease complex customer premises equipment ("CPE") as it was conducted by Frontier Network Systems prior to June 15, 1999 in Rochester, New York; Buffalo, New York; Syracuse, New York; Albany, New York; Highland, New York; Washington, D.C.; New York City, New York; Boston, Massachusetts; and Shelton, Connecticut; provided, however, that complex CPE does not include Centrex or similar network-based offerings.

Fairmount Cellular, Inc. owns a 25% interest in Georgia RSA 3.

The following cellular partnerships interests are held by Frontier Communications of DePue, Inc.:

Illinois Valley Cellular RSA 2-I Partnership (6.66% interest)
Illinois Valley Cellular RSA 2-II Partnership (6.66% interest)
Illinois Valley Cellular RSA 2-III Partnership (6.66% interest)

See also Schedules 2.11.1, 2.11.2., 2.11.3 and 2.14.

See also Schedule 2.7.1 for Contracts identified as material to be transferred to Buyer.

Schedule 2.11.1

MATERIAL CONTRACTS

The following contracts are material to the operation of the Frontier LEC Business. However, it is not always the case that a Company or a Company Subsidiary is a party to each of these contracts. Often, Sellers have entered into contractual relationships which benefit their subsidiaries and affiliates on an enterprise-wide basis. It may not be possible for the Frontier LEC Business to continue enjoying the benefits of such contracts following the Closing Date.

1. MIPS Based License Agreement between Frontier Information Technologies, Inc. and Computer Associates International, Inc. dated September 30, 1999
2. Master Software License Agreement between Software 2000, Inc. and Frontier Corporation dated June 29, 1995
3. Hyperion Software License Agreement between Hyperion Software Corporation and Frontier Corporation dated March 31, 1995
4. Corporate End User Software Order Form (with terms and conditions between Frontier Information Technologies and Netscape dated 5/29/98
5. Software License between NYNEX DPI Company and Rochester Telephone Corporation dated August 8, 1994
6. Software License and Services Agreement between Frontier Information Technologies, Inc. and Oracle Corp.
7. IBM Managed Hardware Services Agreement dated Oct. 10, 1998
8. Contract for Services between Frontier Communications Services, Inc. and Ambassador Communications, Inc. d/b/a Voice-Net dated April 7, 1998)
9. Master Services Agreement between Saville Systems US, Inc. and Frontier Communications of Rochester, Inc. dated September 15, 1994
10. Processing Services Agreement between Saville Systems US, Inc. and Frontier Communications of Rochester, Inc. dated September 15, 1994
11. Statement of Work 01 for Frontier Telephone of Rochester, Inc. by Bell Communications Research, Inc. dated December 22, 1998

12. Communications Data Group CABS License Agreement between Communications Data Group, Inc. and Rochester Telephone Corporation dated as of March 6, 1992
13. U.S. Intelco Networks, Inc. Master Service Agreement for the provision of SS-7 based services between U.S. Intelco Networks, Inc. and Frontier Telephone of Rochester, Inc., et al. dated October 5, 1993 and Modules thereto
14. Illuminet, Inc. Standard Terms and Conditions for the provision of SS-7 based services between Illuminet, Inc. and Frontier Telephone of Rochester, Inc., et al. effective as of December 29, 1997 and Modules thereto
15. Material Supply/Integrated Supply Agreement between Frontier Corporation and Anixter, Inc. dated January 1, 1999
16. Purchase Agreement between Fujitsu Network Communications, Inc. and Frontier Telephone of Rochester, Inc. dated January 1, 1999 for the purchase of network management software and hardware
17. General Agreement between Frontier Telephone of Rochester and Lucent Technologies, Inc.
18. Microsoft Select Enterprise Enrollment Agreement between Frontier Information Technologies, Inc. and Microsoft Corporation
19. Global Purchase Agreement between Frontier Communications International Inc. and Nortel Networks, Inc. effective January 1, 1999 for the purchase of telecommunications equipment
20. Master Directory Printing Agreement between Rochester Telephone Corporation and R.R. Donnelly & Sons Co. dated as of December 31, 1995
21. Purchase Agreement for Telecommunications Systems between Siemens Stromberg-Carlson and Frontier Communications-Midland, Inc. dated November 15, 1996
22. Directory Advertising Sales and Marketing Agreement between Frontier Corporation and L.M. Berry and Company dated July 9, 1998
23. Independent Contractor/Consultant Agreement between Frontier Corporation and Tridec Development Corporation dated May 14, 1998 for the provision of engineering database services.

Schedule 2.11.2

ADDITIONAL CONTRACTS ENTERPRISE

The following contracts do not fall within the definition of a Material Contract. It is not always the case that a Company or a Company Subsidiary is a party to each of these contracts. Often, Sellers have entered into contractual relationships which benefit their subsidiaries and affiliates on an enterprise-wide basis. It may not be possible for the Frontier LEC Business to continue enjoying the benefits of these contracts following the Closing Date.

1. Master Consulting and System Support Agreement between Access Data Consulting Corporation and Frontier Telephone of Rochester dated as of January 1, 2000
2. Software License Agreement between Cincom Systems, Inc. and Rochester Tel Information Services and Technologies, Inc. dated January 7, 1991
3. Master License Agreement between Systems Software Marketing, Inc. and Rochester Telephone Corporation dated March 5, 1990
4. Global License Program Foundation Agreement between Symantec Corporation et al. and Frontier Information Technologies dated 12/29/99
5. Individual Service Agreement between Frontier Corporation and Rochester Gas and Electric Corporation dated June 1, 1996
6. Agency Agreement between Mark Russell & Associates, Inc. and Frontier Corporation dated Oct. 10, 1997
7. U.S. End-User License Agreement for Proprietary between Electronic Data Systems Corporation and Frontier Information Technologies, Inc. dated June 30, 1998
8. Term Lease Master Agreement between Frontier Information Technologies, Inc. and IBM Credit Corp.

Schedule 2.11.3

ILEC Debt Summary

Medium Term Notes

Frontier Telephone of Rochester, Inc.	7.51% 3/27/1002	40,000,000
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Private Placement Notes

FC- of Minnesota, Inc.	7.61% 2/01/2003	35,000,000
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RUS Aggregated Loans (including RTB and FFB) 2.00%-9.00% 2000-2026

FC- of AuSable Valley, Inc.	-	-	3,701,259
FC- of Seneca-Gorham, Inc.	-	-	1,807,668
FC- of Breezewood, Inc.	-	-	2,181,507
FC- of Canton, Inc.	-	-	821,263
FC- of Oswayo River, Inc.	-	-	908,294
FC- of Alabama, Inc.	-	-	6,996,746
FC- of Lamar County, Inc.	-	-	2,329,272
FC- of the South, Inc.	-	-	8,722,057
FC- of Fairmount, Inc.	-	-	2,543,561
FC- of Mississippi, Inc.	-	-	6,295,008
FC- of Illinois, Inc.	-	-	806,575
FC- of Lakeside, Inc.	-	-	131,594
FC- - Midland, Inc.	-	-	1,085,418
FC- - Prairie, Inc.	-	-	52,778
FC- of Thorntown, Inc.	-	-	148,703
FC- of Mondovi, Inc.	-	-	1,316,757
FC- - St. Croix, Inc.	-	-	1,869,042
FC- of Viroqua, Inc.	-	-	285,522
FC- of Michigan, Inc.	-	-	<u>4,508,787</u>
Total RUS			46,511,811

Section 2.12

Permits and Licenses: Compliance with Law

The entities which constitute the Frontier LEC Business may not possess all local franchises, business licenses, street occupancy permits and the like to conduct their incumbent local exchange and/or cable television operations. It is believed that such franchise, licenses and/or permits could be obtained or reinstated and that the absence of such is not believed material to the Frontier LEC Business.

Certain of the individual microwave, paging and land mobile licenses held by a Company or a Company Subsidiary may lapse or have lapsed due to inactivity with respect to the frequencies or other incidental noncompliance with FCC rules and regulations. It is believed that, to the extent that this may have occurred, these licenses may be reinstated or other noncompliance may be cured.

See the Schedule to Section 2.13.

1. Materials associated with motor vehicle service center operations were discharged through a trench-type floor drain into a storm water drainage ditch at the 3441 West Henrietta Road leased facility. The contaminated soils were excavated and disposed as part of a remediation project undertaken by an environmental engineering firm on behalf of Sellers in 1995.
2. Underground Storage Tanks (USTs) were removed from Sellers' facilities from the late 1980's through 1997. In the following locations, hazardous materials were released from the tanks, and remediation efforts were undertaken as part of the tank removals: Ashton, Corning and Early, Iowa in 1997; Fairmont, Rosemount and Okabena, Minnesota in 1997; New Holland, Pennsylvania in 1990; West Henrietta Road, Rochester, New York in 1990; and Union Street and Whitney Road sites in Rochester, New York in 1989. In Atmore, Alabama, an underground storage tank was removed in 1991 and the State Agency is requesting monitoring wells. In Vredenber and Thomaston, Alabama, two (approximately) 75 gallon USTs were removed in 1991 with indications of minor leakage, and no remediation.
3. Gasoline has been detected in the soil and groundwater at the Union Street garage facility, in Rochester, New York. A leaking oil / water separator has also resulted in a release of waste oil to the environment. Sellers have recently completed preliminary soil and ground water testing and are about to commence an evaluation of possible remediation response alternatives.
4. It is standard in the local telephone company industry to treat telephone poles with creosote or some other preservative material. Although Sellers have no specific knowledge of any release of this material to the environment, it is possible that a release may have occurred at the location of individual poles or at pole yards. Sellers never treated the poles, as this was done at the manufacturer's site.
5. Sellers operate fleet vehicles that periodically release gasoline or hydraulic fluids to the environment in the event of a tank or hose malfunction. It has been the practice of Sellers to have an environmental cleanup company respond to these incidents.
6. In accordance with the Superfund Amendments and Reauthorization Act of 1986 (SARA) Title III, Sections 311 and 312, all filings for Sellers have been completed for the past three years (Reporting years 1997, 1998 and 1999) with the exception of Frontier Communications of Michigan. Filings for SARA Title III in Michigan were not submitted for reporting years 1997 and 1998, but will be completed and submitted to the respective SERCs/LEPC's by week ending July 14, 2000.

7. Fleet Service Operations are or have been conducted at Mt. Morris, Whitney Road, Union Street and West Henrietta Road garages in Western, New York. Although Sellers have no specific knowledge of such occurrences, incidental releases to the environment may have occurred at these sites.
8. Sellers, Companies and Company Subsidiaries have not treated obsolete computer equipment as a hazardous material for disposal purposes.

Section 2.14

Employee Benefit Matters

1. Change of Control Severance Plan for Salary Band Levels 25 and Above Maintained by GCNA
2. Global Crossing Ltd. Stock Incentive Plan
3. Human Resources Bulletin (11/97)
4. Human Resources Bulletin (3/97)
5. Bargaining Unit Employees' Retirement Savings Plan
6. Craft Pension Plan - I
7. CWA AFL-CIO Local 1170 Retirement Plan
8. CWA Adoption Assistance Plan
9. CWA Family Care Leave Plan
10. CWA Termination and Separation Allowance Policy
11. Craft Pension Plan - II
12. Craft - II Termination and Separation Allowance Policy
13. Trust Agreement Under the Deferred Compensation Plan for Executive Salaries, Plan for the Deferral of Officer and Department Head Bonuses
14. Plan for the Deferral of Directors' Fees
15. Directors' Common Stock Deferred Growth Plan
16. Directors' Stock Incentive Plan
 - Non-Qualified Stock Option Agreement
 - Stock Award Agreement
17. Educational Assistance Fund
18. Educational Assistance Program
19. Employee Assistance Program
20. Global Crossing Employees' Stock Option Plan/Frontier Corp. Employees' Stock Option Plan
 - Non-Qualified Stock Option Agreement
21. Employees' Retirement Savings Plan
22. Extraordinary Medical Expense Plan
23. Frontier Corporation Management Stock Incentive Plan
 - Restricted Stock Agreement
 - Non-Qualified Stock Option Agreement
 - Incentive Stock Option Agreement
24. Non-Union Severance Policy
25. Frontier Omnibus Incentive Plan
26. Frontier Corporation Plan for Welfare Benefit Policies
27. Pension Plan for Non-Bargaining Employees
28. Pre-Tax Parking / Mass Transit Benefit
29. Paid Time Off (PTO)
30. RTWA Adoption Assistance Plan
31. RTWA Family Care Leave Plan
32. Share Builder Plan (payroll deduction feature)
33. Supplemental Management Pension Plan
34. Supplemental Retirement Savings Plan

35. Telecommunications Benefit Program
36. Frontier Tel Flex Plan (includes medical, dental, vision, life insurance, flexible spending accounts, short and long term disability, AD&D)
37. Adoption Financial Support Program
38. AYCO Survivor Support Program
39. Employee Referral Program
40. Vision in Action Program
41. Executive Development Program
42. Frontier Executive Compensation and Perquisite Program
43. Frontier Salary Treatment and Bonus Program
44. Frontier Sales Incentive Programs
45. Parking Allowance
46. Travel Insurance
47. Frontier Communications of Minnesota, Inc. Retirement Pension Plan for Bargaining Unit Employees
48. Frontier Communications of New York, Inc. Craft Employee Benefit and Retirement Plan
49. Frontier Communications of Sylvan Lake, Inc. Craft Retirement Plan
50. Frontier Communications of Minnesota, Inc. & Frontier Communications of Iowa, Inc. - VEBA's Bargaining and Non-Bargaining

The CWA AFL-CIO Local 1170 Retirement Plan was established as a defined contribution plan on December 30, 1998. CWA Local 1170 and Frontier LEC management continue to discuss alternative plan designs and administration for the plan. Consequently, plan account statements have not been sent to participants.

Section 2.15

Labor Relations

The labor organizations recognized as representing the employees of the Frontier LEC Business are:

LOCATION	UNION	CONTRACT TERM	NO. OF MEMBERS
Frontier Communications of AuSable Valley, Inc.	Local 2176 International Brotherhood of Electrical Workers (IBEW)	05/11/98-05/10/02	10
Frontier Communications of Iowa, Inc.	Local 7171 Communicaitons Workers of America (CWA)	06/01/00-05/31/03	69
Frontier Communications of Lakeside, Midland, Illinois, Mt. Pulaski and Prairie	Local 51 International Brotherhood of Electrical Workers (IBEW)	12/18/97-02/28/01	18
Frontier Communications of Michigan, Inc.	Local 1106 International Brotherhood of Electircal Workers (IBEW)	10/05/97-10/07/00	17
Frontier Communications of Minnesota, Inc.	Local 7270 Communications Workers of America (CWA)	06/01/00-05/31/03	240
Frontier Communications of New York, Inc.	Local 503 International Brotherhood of Electrical Workers (IBEW)	02/14/97-01/31/01	176
Frontier Communications of Sylvan Lake, Inc.	Local 320 International Brotherhood of Electrical Workers (IBEW)	11/10/97-01/31/01	13
Frontier Telephone of Rochester, Inc.	Local 1170 Communications Workers of America (CWA)	12/14/98-01/31/02	821
Frontier Telephone of Rochester, Inc.	Rochester Telephone Workers Association	01/26/00-02/28/03	642

All of the Frontier LEC collective bargaining agreements contain a successorship clause which requires the Buyer to assume the respective agreements and maintain all of the terms and conditions contained therein. Written notice to the Unions of the Buyer's acceptance is required thirty (30) days prior to the Closing Date.

Local 1170 CWA of Rochester, New York and Global Crossing North America, Inc. entered into a Partnership for Progress Agreement dated June 3, 1993. This Partnership for Progress Agreement contains commitments between the CWA and Global Crossing North America, Inc. with respect to employment security, successorship, arbitration and

union affiliation. This Partnership for Progress Agreement supplements the Local 1170 collective bargaining agreement.

(iii) Pending Unfair Labor Practice Charges: On April 8, 1996 FTR (Formerly Rochester Telephone Corp.) declared impasse and unilaterally implemented its final contract offer with respect to the contract negotiations with Local 1170 of the Communications Workers of America in Rochester, New York. In response, CWA Local 1170 filed four unfair labor practice charges against FTR. On June 28, 1996 the Regional Director of Region 3 of the NLRB dismissed two bargaining related charges, i.e., charges related to bargaining in bad faith and surface bargaining. (The other two charges dealt with the use of contractors and with an information request. The charge involving the contractors was dismissed by the Regional Director and affirmed by the General Counsel. The other charge was not related to the bargaining issues and was resolved between the parties.)

On appeal, the General Counsel affirmed the dismissal of the bad faith and surface bargaining charge, but directed that a Complaint issue on the question of impasse. The case, (NLRB Case No. 3-CA-2004-2) was tried before ALJ Robert T. Snyder in May and June 1997. On October 30, 1998, ALJ Snyder issued his Decision and Order dismissing the Complaint. Exceptions have been filed to the Decision by both the Counsel for General Counsel and the Union. FTR filed cross exceptions in March 1999. This matter is currently awaiting decision by the National Labor Relations Board.

Despite the pending appeal of the decision to declare impasse, the parties have reached two successive negotiated collective bargaining agreements. The current agreement does not expire until January 31, 2002. As a result, any potential exposure to the Company is limited to a fixed period of time should the Board reverse the ALJ's decision.

(iv) Compliance with all Laws and Government Orders: Currently, Sellers are in the process of completing a Cultural/Diversity audit and employment practices review. It is anticipated that recommendations to amend or supplement existing employment practices and procedures will be contained in the issued report, and if so, management will act in connection with such recommendations as it deems appropriate.

Section 2.16

Intellectual Property

Certain trademarks are currently held by Sellers. At Closing Sellers will transfer to the Companies or Company Subsidiaries or Buyer trademarks which use the word "Frontier" with exception of "Frontier GlobalCenter", "Frontier Optronics Network" and "Internet at Frontier." Sellers will transfer the mark "Orange County Insights." No additional marks owned by the Sellers will be transferred to the Companies or Company Subsidiaries whether or not other marks currently used by the Frontier LEC Business are required for the business' continued operations, nor is any representation made that Sellers will transfer any additional required marks since they may be also shared by other of Sellers' companies.

See Schedule to Section 2.9.

Section 2.17

Taxes

The IRS began field work on audits of the 1996 and 1997 returns on Wednesday July 5, 2000. No issues have been identified at the present time.

A Company Subsidiary previously held a cellular partnership interest in Wisconsin RSA #8 Limited Partnership. This partnership interest was sold in 1998. The Wisconsin RSA #8 is under an IRS audit of its 1996 tax return.

Sellers are contesting a forced deconsolidation in Indiana. The amount in dispute is \$4,923.

Sellers record tax reserves on a consolidated basis. The Sellers represent that the closing balance sheet will record all material tax reserves on the Frontier LEC Business in accordance with GAAP.

Sales and Use Tax Audits:

Frontier Communications of Fairmount: Sales and use tax audit for period October, 1996 through September, 1999. Audit in progress, no issues are identified yet.

Frontier Communications of Minnesota : Sales and use tax audit for period July, 1995 through May, 1997. Audit scheduled to begin September, 2000.

Frontier Communications of Seneca-Gorham: Sales and use tax audit for period September, 1996 through August, 1999. Audit not yet scheduled to begin.

Frontier Telephone of Rochester: Sales and use tax audit for period January, 1995 through February, 1999. Audit in progress, no issues identified yet.

State Income Tax

A portion of the Frontier LEC Business is currently under audit in New York State for the period 1995 through 1998. Sellers do not know the potential liabilities.

Property Tax

Sellers have filed a complaint with the New York State Board of Real Property Services requesting a 50% reduction in the tentative assessment for Special Franchise Property in the City of Rochester.

Various Frontier LECs hold, or have held, minority interests in partnerships that are subject to TEFRA audits. To the best of Sellers' knowledge, the following audits/appeals may be open:

1. GTE Mobilenet of Fort Wayne (FC of Indiana, partner) -- 1993/1994
2. Georgia RSA #3 LP (Fairmount Cellular, partner) -- 1991 thru 1997
3. Georgia RSA #1 LP (Fairmount Cellular, partner) -- 1991 thru 1994
4. Georgia RSA #8 LP (Statesboro Cellular, partner) -- 1994 thru 1996
5. Illinois Independent RSA #3 GP (OT Cellular, partner) -- 1993/1994
6. Des Moines MSA GP (Schuyler Telephone, partner) -- 1992/1993

Certain tax returns due by certain Companies and Company Subsidiaries may not have been timely filed, but these are not material to the Frontier LEC Business taken as a whole.

Sellers are currently contesting real property assessments in a number of locations in New York State and elsewhere. These assessments have been paid and refunds are currently being sought through the appropriate appeals or litigation process. Refunds received after Closing related to any overpayments allocated to the Frontier LEC Business will become the property of the Buyer.

The Sellers have entered (or plan to enter into) the following affiliate transactions which, other than agreements among and terminable by the Sellers, are expected to continue after the Closing Date:

Provisioning and dial tone services provided by the Minnesota Frontier LEC to Sellers' Competitive LEC and long distance entities.

CABS (Carrier Access Billing System) billing services provided by the Minnesota and New York Frontier LECs to Sellers' Competitive LEC entity.

Wholesale contract between Sellers and Frontier Communications of America (FCA), part of the Frontier LEC business, covering services to be resold by FCA.

Accounting Instruction No. 1, which provides for allocations of the costs of centrally provided services to the New York Frontier LEC business entities by their affiliates, predominantly from the holding company level.

Market development work for 911 information feed for Sellers' CLEC operations.

Billing integrity services provided to Sellers' CLEC operations.

Billing and collection and customer service arrangements between FCA and Sellers, which will provide for Sellers to perform billing and collection and customer services for long distance customers to be sold by an affiliate of Seller to FCA but will require such customer to be billed and served from Seller billing and customer service platforms that are not part of the Frontier LEC business.

In addition to the affiliate transactions described above, certain affiliates of FTR lease space in certain of FTR's central office buildings or on FTR-owned towers and rooftops for the placement of transmission, switching and related equipment.

See also the financial obligation contracts disclosed at Section 2.11.

1. Agreement for the Provision of Billing and Collection Services (G2 Customers) between Frontier Communications of Rochester, Inc. and Rochester Telephone Corp., and Amendment to G2 Billing and Collection Agreement. G2 Customers are Frontier Communications of Rochester Centrex customers temporarily billed by RTC pending transfer to Frontier's billing system. The contract provides for billing and collection services from RTC. The amendment includes Frontier Communications International toll messages on RTC bills for G2 customers.
2. Agreement for the Provision of Repair Answer Services between Frontier Communications of Rochester, Inc. and Rochester Telephone Corp. This contract provides for

RTC to answer after-hours repair calls from customers of Frontier Communications of Rochester.

3. Toll Clearinghouse Agreement (Type B) between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. This contract sets up a Clearinghouse under which RTC purchases messages from long distance and local exchange carriers (Type A arrangements) and sells them to local exchange carriers (Type B arrangements). This Clearinghouse is one alternative to allow billing where it becomes convoluted and difficult, e.g., an FCR customer accepts a collect intraLATA toll call from a Time Warner customer with an RTC ported number; an FCR customer accepts a collect interLATA toll call made over the facilities of a long distance carrier other than the customer's presubscribed carrier. The originating carrier may know only that the terminating number is an RTC number, not that the customer is served by FCR. This type of Clearinghouse requires originating carriers to sign Type A arrangements and the billing carriers to sign Type B arrangements.
4. Agreement for the Provision of Data Collection Services between Frontier Communications of Rochester, Inc. and Rochester Telephone Corp. Under this contract, FCR establishes customer profiles for RTC using RTC data as well as data from other affiliates. All data are treated as RTC data, and no Frontier personnel are allowed access except to perform the contract.
5. Calling Card Information Services Supplement to Operating Agreement for the Provision of Billing and Collection Services between Frontier Communications International Inc. and Rochester Telephone Corp. Under this contract, when RTC issues a calling card with which a customer may make FCI calls using an FCI "800" number, RTC provides FCI with the customer's billing name and address, billing telephone number and card PIN number.
6. Agreement for the Provision of Credit Application Services between Frontier Communications International Inc. and Rochester Telephone Corp., and a similar agreement with Frontier Communications of Rochester, Inc. Under these contracts, RTC verifies FCI or FCR customer names and addresses at the affiliate's request. RTC will notify FCI or FCR on a yes or no basis whether the investigation indicates fraud or unpaid claims but provides FCI or FCR no detailed information or credit history.
7. Agreement for the Provision of Customer Service Representatives between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. This is a restatement of the "rent-a-rep" agreement filed 1/30/95. The terms and conditions for work assignments and payment are simplified.
8. Facilities Agreement between Frontier Communications of Rochester, Inc. and Rochester Telephone Corp. This contract is a sublease of a portion of FCR's Frontier stores to give RTC space for an RTC customer service representative to take orders and payments for RTC services.
9. Agreement for the Provision of Credit and Collection Services between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. This contract is an expansion

of the "rent-a-rep" contract filed 1/30/95 to include customer service representatives to perform credit and collection work for FCR.

10. Supplement to Toll Clearinghouse Agreement (Type A) between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. The contract provides for RTC to rate all "0+" intraLATA operator service messages that originate from FCR's end users served by resold RTC facilities and pass the rating to FCR's billing system in a mutually agreeable format.

11. Services Agreement between Frontier Communications of Rochester, Inc. and Rochester Telephone Corp. The contract provides general terms and conditions for the provision of local telephone, Centrex, Centrex Management System and Special Facilities and Equipment services by RTC to FCR.

12. Agreement for the Provision of Network Monitoring Services between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. The contract states prices, terms and conditions for the provision of network monitoring services for Off Track Betting's Newbridge network by RTC to FCR.

13. Amendment Number One to Lease Between Rochester Telephone Corp. and Rochester Telephone Mobile Communications. The contract provides price, terms and conditions for the extension of a ten year lease covering a cellular tower site, originally effective as of July 1, 1986.

14. Amendment to Billing and Collection Services Agreements Between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. The contract revises the calculation of estimated actual uncollectibles applicable to FCR customers billed by RTC to make the calculation consistent with that used for interexchange carriers for which RTC performs billing and collection services.

15. Agreement for the Provision of Call Center Services Between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. The contract establishes prices, terms and conditions for call center services (including customer service, billing inquiries, provisioning and implementer service) provided by RTC to FCR.

16. Agreement for the Provision of Local Usage Detail Elimination Between Rochester Telephone Corp. and Frontier Communications of Rochester, Inc. The contract establishes prices, terms and conditions for the elimination of local usage detail on RTC's daily detailed billings to FCR with respect to customer accounts specified by FCR.

17. Indemnification Agreement between Rochester Telephone Mobile Communications and Rochester Telephone Corp. The contract requires RTC to perform all tenant's obligations under a lease, originally between Pioneer Properties Company of Rochester as landlord and RTMC as tenant, that RTMC assigned to RTC. The leased premises are office space now being used by RTC.

18. Provisioning Services Agreement between Frontier Communications of New York, Inc., Frontier Communications International Inc. and Frontier Telemanagement Inc. The contract establishes terms, conditions and pricing for FCNY to provide order processing, coordination, provisioning and customer services for FCI's and FTI's competitive local exchange carrier activities in a number of states other than New York.
19. Provisioning and Engineering Services Agreement between Frontier Communications of New York, Inc. and Frontier Local Services Inc. The contract establishes terms, conditions and pricing for FCNY to provide order processing, coordination, provisioning, data processing, network engineering, host switching and customer services for FLS's competitive local exchange carrier activities in New York City.
20. Regional Telephone Company and Frontier Communications Services Inc. Sales and Marketing Services Agreement. The contract establishes terms, conditions and pricing for Frontier Communications of AuSable Valley, Inc., Frontier Communications of Seneca-Gorham, Inc., Frontier Communications of Sylvan Lake, Inc. and Frontier Communications of New York, Inc. to market FCSI's interexchange telephone services.
21. Amended Agreement for the Provision of Repair Answer Services between Frontier Communications of Rochester and Rochester Telephone Corp. (now Frontier Telephone of Rochester, Inc.). The contract restates the terms, conditions and pricing for FTR to answer and respond to after-hours repair calls from FCR's customers.
22. Agreement for the Provision of Telecommunications Services by Rochester Telephone Corp. The contract establishes terms, conditions and pricing for provision of directory assistance and directory assistance call completion services by FTR to Upstate Cellular Network (Frontier Cellular).
23. Provisioning Services Agreements between Rochester Telephone Corp. and Frontier Telemanagement Inc. The contracts establish terms, conditions and pricing for FTR to provide order processing, coordination and provisioning services for FTI's competitive local exchange carrier activities in a number of states other than New York State.
24. Agreement for the Provision of Telecommunications Services by Rochester Telephone Corp. The contract establishes terms, conditions and pricing for FTR to provide operator, directory assistance and directory assistance call completion services to Frontier Local Services, Inc., for areas outside of FTR's service area.
25. Pole Attachment Agreement by and between Frontier Telephone of Rochester, Inc. and Frontier Communications of Rochester, Inc. The contract establishes terms, conditions and pricing for FCR to attach telecommunications facilities to FTR's telephone poles.
26. CARE Clearinghouse Agreement between Frontier Telephone of Rochester, Inc. and Frontier Communications Services Inc. The contract establishes terms, conditions and pricing

for FTR to handle Billing Name and Address requests from interexchange carriers to FCS's Competitive Local Exchange Carrier operations.

27. Agreement for the Provision of Advertising Billing Service between Frontier Communications of Rochester, Inc. and Frontier Telephone of Rochester, Inc. The contract establishes terms, conditions and pricing for FCR to bill and collect directory advertising charges on behalf of FTR from FCR's customers advertising in FTR's directories.

28. Agreement for the Provision of Telecommunications Services between Frontier Telephone of Rochester, Inc. and Frontier Communications Services Inc. The contract establishes terms, conditions and pricing for FTR to provide directory assistance services to FCSI.

29. Interconnection Agreement between Frontier Telephone of Rochester, Inc. and Upstate Cellular Network (Frontier Cellular). This interconnection agreement pursuant to the Telecommunications Act of 1996 was filed with the Public Service Commission and approved by order issued October 8, 1998 in Case 98-C-1044.

30. Underground Conduit Agreement between Frontier Telephone of Rochester, Inc. and Frontier Communications of Rochester, Inc. The contract establishes terms, conditions and pricing for FCR to occupy space in FTR's conduit systems.

31. Lease between Frontier Telephone of Rochester, Inc. and Rochester Telephone Mobile Communications. The lease establishes terms, conditions and pricing for RTMC to occupy space for cellular communications equipment on and alongside a tower in the Village of Caledonia, Livingston County, New York.

32. Agreement for the Provision of Call Center Services between Frontier Telephone of Rochester, Inc. and Frontier Communications International, Inc. The contract establishes terms, conditions and pricing for FTR to provide call center services for the purpose of provisioning services for FCI's end users.

33. Cellular Agreement and Paging Services Agreement between Upstate Cellular Network (Frontier Cellular) and Frontier Telephone of Rochester, Inc. These contracts establish the terms, conditions and pricing for cellular and paging services provided by Frontier Cellular to FTR.

34. Facilities and Maintenance Agreement between FTR and Upstate Cellular Network. The contract provides prices, terms and conditions for DS-3 communications service between UCN's location at 133 Calkins Road, Rochester, NY and the interface between UCN and FTR at FTR's Plymouth CO, and associated terminal equipment.

35. Sales and Marketing Services Agreement between Frontier Communications of New York, Sylvan Lake, AuSable Valley and Seneca-Gorham and Frontier Communications Services Inc. The contract provides prices, terms and conditions for the Frontier incumbent local exchange carriers to sell the long distance services of Frontier Communications Services Inc.

36. Provision of Billing and Collection Services between Frontier Telephone Companies and Frontier Communications Services Inc. The contract amends the previous billing and collection agreement and provides new prices, terms and conditions for billing and collection services provided by Frontier Communications of New York, Sylvan Lake, AuSable Valley and Seneca-Gorham to Frontier Communications Services Inc.
37. Agreement for the Resale of Internet Services between Frontier Communications of Rochester, Inc. and Frontier Telephone of Rochester, Inc. The contract provides prices, terms and conditions for FCR's resale of FTR's Internet services.
38. Agreement for the Provision of Software between Frontier Telephone of Rochester, Inc. and Frontier Communications Services Inc. The contract provides prices, terms and conditions for the license of software by FTR to FCSI that converts the format of AMA data with respect to FCSI's operator services calls.
39. Agreement for the Provision of Voice Mail Services between Frontier Communications Services Inc. and Frontier Telephone of Rochester, Inc. The contract provides prices, terms and conditions for the provision of voice mail services by FCSI to FTR.
40. Revised Addendum to Agreement for the Provision of Telecommunications Services by Rochester Telephone Corp. (now Frontier Telephone of Rochester, Inc.). This Revised Addendum to the 1997 Agreement changes the pricing for directory assistance and directory assistance call completion services provided by FTR to Upstate Cellular Network.

Section 2.20 Telephone Operations

Section 2.20(g) Rate Reductions or Moratorium
and (h)

There are a number of federal and state regulatory initiatives that require or may require reductions in rates or preclude the filing of requests to increase rates. The major ones are:

The FCC's adoption of the CALLS initiative;

State Alternative Form of Regulation plans that are company-specific: Minnesota, Wisconsin, Iowa, Pennsylvania and New York;

The Rochester Open Market Plan and any amendments or extensions thereto;

Illinois order approving the 1999 Global Crossing/Frontier merger.

In addition, a number of state regulatory initiatives have or may restrict the Sellers' ability to dividend or otherwise flow cash to the parent company. These include, but are not necessarily limited to:

State Alternative Form of Regulation plans that are currently in effect or may be up for renegotiations;

Cash management arrangements that are in effect for the Frontier New York and Illinois LECs;

The Rochester Open Market Plan or other extensions or renewals thereof;

Iowa and Illinois orders approving the 1999 Global Crossing / Frontier merger.

In addition, the terms of the RUS or RTB loans may restrict the issuance of dividends. A loan for the Minnesota properties may also restrict the issuance of dividends.

Schedule 2.20(i) Improvements Required by Governmental Authorities

There are a number of federal and state regulatory initiatives that will require the Company or Company Subsidiaries to make upgrades, enhancements or changes to physical plant. These include, but are not necessarily limited to:

State Alternative Form of Regulation plans that may be company-specific;

The Rochester Open Market Plan and restated orders and any amendments of or extensions thereto (including requirements that Frontier Telephone of Rochester,

Inc. deploy a flow-through Operational Support System ("OSS") and deload loops of less than 18,000 feet in length among others);

State or company specific service standards requirements;

Certain orders approving the 1999 Global Crossing/Frontier merger;

The FCC's Truth-in Billing Orders any similar state orders or initiatives;

The FCC's Slamming Orders and any similar state slamming, cramming, and related initiatives;

Orders, regulations or requirements emanating from the Carrier Assistance to Law Enforcement Act;

The FCC's Wireless E911 Orders;

The FCC's Local Number Portability Number Orders;

The FCC's Unbundled Network Elements and Collocation Orders.

Schedule 2.20(j) Access Lines

Attached hereto is the May 2000 Access Line Count Report for the Frontier LECs. See Schedule 2.20.1.

Telephone Operations – May 2000 Access Lines by Segment

	May 2000							YTD Growth						
	Basic							Basic						
	Res	Business	Centrex	PBX/T1	Coin	WATS	Total	Res	Business	Centrex	PBX/T1	Coin	WATS	Total
Alabama														
FC of Alabama	10,750	1,580	780	221	139	2	13,472	237	-10	21	0	-1	0	247
FC of Lamar County	2,111	294	0	19	15	0	2,439	44	-2	0	0	0	0	42
FC of the South-AL	9,075	1,837	180	176	167	0	11,435	217	-24	-25	11	-3	0	176
Total Alabama	21,936	3,711	960	416	321	2	27,346	498	-36	-4	11	-4	0	465
Florida														
FC of the South-FL	4,219	345	8	3	24	0	4,599	117	12	0	0	-1	0	128
Total Florida	4,219	345	8	3	24	0	4,599	117	12	0	0	-1	0	128
Georgia														
FC of Fairmount	2,330	265	0	12	23	5	2,636	153	11	0	0	3	0	167
FC of Georgia	12,845	5,882	5,341	244	374	15	24,701	-442	152	63	3	-2	0	-226
Total Georgia	15,175	6,148	5,341	256	397	20	27,337	-289	163	63	3	1	0	-59
Iowa														
FC of Iowa	42,584	12,834	3,159	1,204	243	9	60,033	548	135	55	-7	4	0	735
FC of Schuyler-IA	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Iowa	42,584	12,834	3,159	1,204	243	9	60,033	548	135	55	-7	4	0	735
Illinois														
FC of Depue	733	83	0	0	9	0	825	6	-26	0	0	0	0	-20
FC of Illinois	4,186	571	65	384	18	0	5,224	23	14	3	96	0	0	136
FC of Lakeside	749	132	10	0	17	0	908	11	7	0	0	0	0	18
FC of Midland	4,203	394	15	120	22	0	4,754	57	25	0	24	0	0	106
FC of Mt. Pulaski	1,603	346	121	0	4	0	2,074	8	13	0	0	0	0	21
FC of Orion	1,647	400	0	0	7	0	2,054	18	13	0	0	0	0	31
FC of Prairie	918	176	8	0	7	0	1,109	15	2	0	0	0	0	17
FC of Schuyler-IL	2,304	716	58	0	14	0	3,092	-24	7	-11	0	-2	0	-30
Total Illinois	16,343	2,818	277	504	98	0	20,040	114	55	-8	120	-2	0	279
Indiana														
FC of Indiana	2,364	421	0	0	14	0	2,799	24	106	0	0	-2	0	128
FC of Thorntown	2,419	354	0	108	20	0	2,901	60	12	0	52	0	-3	121
Total Indiana	4,783	775	0	108	34	0	5,700	84	118	0	52	-2	-3	249
Michigan														
FC of Michigan	22,611	1,722	2,037	768	203	0	27,341	268	171	138	240	5	0	822
Total Michigan	22,611	1,722	2,037	768	203	0	27,341	268	171	138	240	5	0	822
Minnesota														
FC of Minnesota	99,357	19,532	7,955	1,196	594	12	128,646	977	307	101	-99	-5	0	1,281
Total Minnesota	99,357	19,532	7,955	1,196	594	12	128,646	977	307	101	-99	-5	0	1,281
Mississippi														
FC of Mississippi	5,721	610	27	19	55	10	6,442	130	101	1	-4	1	0	229
Total Mississippi	5,721	610	27	19	55	10	6,442	130	101	1	-4	1	0	229
New York														
FC of Ausable Valley	5,258	965	274	68	81	1	6,647	250	18	53	0	-2	0	319
FC of New York	54,412	17,368	3,884	509	658	4	76,835	1,594	585	963	-87	-14	0	3,041
FC of Seneca Gorham	8,277	1,333	431	0	29	0	10,070	550	-3	-3	0	0	0	544
FC of Sylvan Lake	16,961	2,724	1,070	36	131	0	20,922	840	46	600	-13	-14	0	1,459
Total New York	84,908	22,390	5,659	613	899	5	114,474	3,234	646	1,613	-100	-30	0	5,363
Pennsylvania														
FC of Breezewood	3,590	688	49	70	40	11	4,448	25	-13	0	-18	2	0	-4
FC of Canton	3,611	564	88	0	28	0	4,291	58	2	-4	0	1	0	57
FC of Lakewood	1,364	240	0	42	13	5	1,664	25	16	0	-3	-1	-1	36
FC of Oswayo River	2,022	301	0	0	14	3	2,340	16	0	0	0	0	0	16
FC of Pennsylvania	18,115	6,088	5,712	191	136	5	30,247	244	119	60	1	-12	-1	411
Total Pennsylvania	28,702	7,881	5,849	303	231	24	42,990	368	124	56	-20	-10	-2	516
Wisconsin														
FC of Lakeshore	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FC of Mondovi	2,090	389	5	179	17	1	2,681	52	-3	0	10	0	0	59
FC of St. Croix	6,678	1,461	1,123	536	66	0	9,864	234	25	19	3	-4	0	277
FC of Viroqua	2,846	1,258	57	31	49	0	4,241	74	52	0	0	-1	0	125
FC of Wisconsin	19,900	2,810	3,770	1,198	167	0	27,845	439	100	-2	26	4	0	567
Total Wisconsin	31,514	5,918	4,955	1,944	299	1	44,631	799	174	17	39	-1	0	1,028
Total Regional Telcos	377,853	84,684	36,227	7,334	3,398	83	509,579	6,848	1,970	2,032	235	-44	-5	11,036
Total FTR	368,509	111,202	57,617	33,629	5,437	186	576,580	2,530	256	-871	1,691	-113	-14	3,479
Total Telephone Operations	746,362	195,886	93,844	40,963	8,835	269	1,086,159	9,378	2,226	1,161	1,926	-157	-19	14,515

Section 2.20 of the Disclosure Schedule

Calculation Methodology

Calculation of 1999 Pro Forma Revenue

1999 Pro Forma Revenue of \$805,204,000 was calculated using actual 1999 revenue for the Frontier LEC Business as reported in conformity with GAAP as applied in the financial statements, which equaled \$729,229,000, adjusted for the following items:

- Addition of Long Distance Revenue: \$88,095,000 of long distance revenue was added in calculating 1999 Pro Forma Revenue. The \$88,095,000 represents the actual long distance revenue that was billed to customers of the Frontier LEC Business on behalf of Global Crossing Telecommunications, Inc., for whom the Frontier LEC Business was acting as agent, net of an assumed provision for uncollectible accounts of \$2,725,000, which represented 3% of the gross long distance revenue.
- Subtraction of Billing and Collection Revenue: \$6,951,000 of billing and collection revenue that was included in the actual revenue of the Frontier LEC Business was subtracted in calculating 1999 Pro Forma Revenue. The \$6,951,000 represents the actual billing and collection revenue that was billed to Global Crossing Telecommunications, Inc. by the Frontier LEC Business.
- Subtraction of Agent Commissions: \$5,169,000 of agent commission revenue that was included in the actual revenue of the LEC Business was subtracted in calculating 1999 Pro Forma Revenue. The \$5,169,000 represents the actual agent commission revenue that was charged to Global Crossing Telecommunications, Inc. by the Frontier LEC Business (except that it represents an estimate for Frontier Communications of Rochester, Inc.).

Calculation of 1999 Pro Forma EBITDA

1999 Pro Forma EBITDA of \$386,769,000 represents 1999 Pro Forma Revenue, as calculated above, less pro forma operating expenses (excluding depreciation, amortization, net interest expense, and income taxes) for the Frontier LEC Business. Pro forma operating expenses equals the actual operating expenses (excluding depreciation, amortization, net interest expense, and income taxes) of \$355,426,000, calculated in conformity with GAAP as applied in the financial statements, adjusted for the following items:

- Inclusion of wholesale long distance expenses: \$47,219,000 of wholesale long distance expenses were added to actual operating expenses in calculating 1999 Pro Forma EBITDA which has the effect of decreasing 1999 Pro Forma EBITDA. The \$47,219,000 represents actual long distance minutes of use by customers of the Frontier LEC Business through Global Crossing Telecommunications, Inc. multiplied by an assumed average cost per minute of 8.26 cents.

Inclusion of other operating expenses: \$15,790,000 of other operating expenses were added to actual operating expenses in calculating 1999 Pro Forma EBITDA which has the effect of decreasing 1999 Pro Forma EBITDA. The \$15,790,000 represents additional costs that might be incurred for marketing and product development, commercial call center operations, billing of commercial accounts, charges to Global Crossing Telecommunications, Inc. for consumer call center services that will no longer be charged to Global Crossing Telecommunications, Inc., and other miscellaneous SG&A expenses.

Annex A to Section 2.20

<i>Dollars in Thousands</i>	Fiscal Year Ending December 31					
	1995A	1996A	1997A	1998A	1999A	1999 PF
Financial Statistics						
Revenue						
Switched Network Access Lines	\$184,026	\$192,204	\$201,635	\$215,527	\$227,522	\$227,522
Switched Network Usage	221,943	220,309	222,632	218,075	214,612	214,612
Non-Switched Circuit Services	30,743	33,502	38,837	45,381	54,081	54,081
Public Telephone	6,634	5,784	6,563	7,325	9,050	9,050
Enhanced Services	30,333	34,533	40,097	47,261	52,698	52,698
Equipment Sales/Lease	34,984	34,753	31,852	31,803	31,896	31,896
Directory	44,799	48,357	50,465	52,913	55,505	55,505
Long Distance	NA	NA	NA	NA	NA	88,096
Operator Services	9,184	10,579	9,959	9,480	10,131	10,131
Other	59,079	63,013	65,036	74,170	73,733	61,612
Total	\$621,725	\$643,013	\$667,078	\$701,935	\$729,229	\$806,204
Expenses						
Personnel Expenses	\$143,207	\$142,375	\$131,404	\$146,429	\$146,337	\$146,337
Corporate / IT Charges	45,964	56,771	65,328	62,484	70,523	70,523
Direct Controllable	140,846	130,788	124,355	134,851	138,984	201,993
Regional Eliminations	(1,047)	(1,644)	(1,987)	(2,107)	(418)	(418)
Total	\$328,970	\$328,290	\$319,101	\$341,658	\$355,426	\$418,435
EBITDA	\$292,755	\$314,723	\$347,975	\$360,277	\$373,803	\$387,769
D&A	104,419	102,349	110,103	112,924	131,175	NA
EBIT	\$188,336	\$212,374	\$237,872	\$247,353	\$242,628	NA
Balance Sheet & Cash Flow Statistics						
Net Working Capital	\$129,199	\$144,321	\$221,615	\$253,398	\$350,596	NA
Capital Expenditures	73,766	101,342	108,782	153,901	177,952	NA
Net PP&E	646,660	639,230	646,807	696,532	966,951	NA
Total Assets	1,142,432	1,076,501	1,105,427	1,245,524	1,680,129	NA
Total Debt	167,257	169,013	141,839	138,914	135,972	NA
Shareholders Equity	710,335	704,008	802,333	892,095	1,109,288	NA
Operating Statistics						
Employees	2,860	2,638	2,485	2,740	2,914	2,914
Access Lines						
Residential	672,956	686,977	700,790	718,113	736,984	736,984
Business	276,034	296,069	306,182	327,008	334,660	334,660
Total	948,990	983,046	1,006,972	1,045,121	1,071,644	1,071,644
Revenue / Avg. Access Line per Month	\$54.60 ²	\$55.47	\$55.81	\$56.95	\$57.42	\$63.40
Access Minutes of Use ('000)	4,031,719	4,299,035	4,526,464	4,682,202	4,909,345	4,909,345
Penetration Rates per Customer						
Internet Dial-Up	NA	1.2%	3.2%	6.1%	8.5%	8.5%
Second Line	NA	NA	NA	NA	11.3%	11.3%

- 1 Pro forma for the purchase from Global Crossing of the rights to the long distance customers that were previously served on an agent basis.
- 2 1995A revenue per average access line per month based on year-end number of access lines.
- 3 Includes net inter-LEC charges and adjustments

Annex B to Section 2.20

The chart below presents charges for shared services and mutually beneficial cost allocations to the Frontier LEC Business in 1998 and 1999 including \$(8,487,000) of net inter-LEC charges and adjustments in 1998 and \$4,129,000 in 1999. Such charges are based on a cost allocation methodology developed in accordance with FCC and state regulatory guideline and consistent with past practices.

<i>(Dollars in Thousands)</i>	1998	1999
Corporate Overhead	\$7,015	\$7,547
Operating Overhead	16,237	17,523
Marketing Costs	6,163	1,985
IT Support	38,507	34,111
Other	(5,439)	9,358
Total Corporate / IT Charges	\$62,484	\$70,523

Annex C to Section 2.20

<i>(Dollars in Thousands)</i>	1999 PF ¹ Revenue	1999 PF ¹ EBITDA ²	Access Lines YE 99
ILEC			
Rochester	\$383,813	\$157,493	573,101
RLEC			
New York	102,679	51,329	109,111
Minnesota	97,382	55,543	127,365
Iowa	44,989	22,928	59,298
Wisconsin	36,009	19,734	43,603
Pennsylvania	31,777	16,889	42,474
Alabama	31,333	17,313	31,352
Georgia	25,434	16,251	27,396
Illinois	22,005	12,626	19,761
Michigan	19,664	10,480	26,519
Mississippi	5,519	3,027	6,213
Indiana	4,600	2,738	5,451
Total RLEC	421,391	228,858	498,543
Total	\$805,204	\$386,769	1,071,644

¹ Pro forma for the purchase from Global Crossing of the rights to the long distance customers that were previously served on an agent basis.

² 1999 PF EBITDA adjusted for regional eliminations.

Page 1 of Annex D to Section 2.20

**LEC Consolidated
Operations Based Build-Up**

(Dollars in thousands, except per line amounts)	1995 A	1996 A	1997 A	1998 A	1999 PF
Total Revenue	\$621,725.4	\$643,013.4	\$647,076.0	\$701,935.0	\$806,203.7
Residence Access Lines	\$94,222.7	\$98,892.9	\$103,014.8	\$107,951.7	\$114,594.9
Business Access Lines	50,709.3	53,022.1	55,985.2	60,077.3	61,560.3
CALC	39,094.0	40,269.0	42,835.0	47,498.0	51,367.1
LNP Surcharge	0.0	0.0	0.0	0.0	0.0
Switched Network Access Lines	\$184,028.0	\$192,204.0	\$201,835.0	\$215,527.0	\$227,522.3
Number of Access Lines - Residence	672,956	686,977	700,790	718,113	736,984
Growth Rate (%) - Residence	--	2.1%	2.0%	2.5%	2.6%
Monthly Revenue per Line - Residence (\$)	\$11.87	\$12.00	\$12.25	\$12.53	\$12.96
Number of Access Lines - Business	276,034	296,069	308,182	327,006	334,660
Growth Rate (%) - Business	--	7.3%	4.1%	6.1%	2.3%
Monthly Revenue per Line - Business (\$)	\$15.31	\$14.82	\$15.14	\$15.31	\$15.33
Number of Access Lines - CALC	948,990	963,046	1,008,972	1,045,121	1,071,644
Monthly Revenue per Line - CALC (\$)	\$3.43	\$3.42	\$3.52	\$3.79	\$3.99
Monthly LNP Surcharge - FTR (\$)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
LMS & LMU	\$32,406.0	\$33,258.0	\$31,957.0	\$31,555.0	\$31,943.3
Switched Access	156,296.0	156,328.0	162,172.0	155,168.0	156,707.3
USF Support Payment	11,016.0	12,156.0	10,858.0	16,390.0	11,858.0
Mutual Compensation (MC)	1,564.0	4,191.0	5,333.0	4,386.0	4,702.0
IntraLATA Toll (ILT)	20,831.0	14,376.0	12,312.0	10,576.0	9,401.2
Switched Network Usage	\$221,943.0	\$220,309.0	\$222,632.0	\$218,075.0	\$214,611.8
Number of Access Lines - LMS & LMU	948,990	963,046	1,008,972	1,045,121	1,071,644
Monthly Revenue per Line - LMS & LMU (\$)	\$2.85	\$2.82	\$2.64	\$2.52	\$2.48
Base LEC Minutes of Use - SASR ('000)	4,031,719	4,299,035	4,526,464	4,682,202	4,909,345
Rate per Minute - SASR (\$)	\$0.039	\$0.036	\$0.036	\$0.033	\$0.032
Growth Rate (%) - USF	--	10.3%	-10.7%	50.9%	-27.7%
Terminating Minutes of Use - MC ('000)	63,720	184,588	245,781	273,840	324,061
Rate per Minute - MC (\$)	\$0.019	\$0.023	\$0.022	\$0.016	\$0.015
Number of Access Lines - ILT	948,990	963,046	1,008,972	1,045,121	1,071,644
Monthly Revenue per Line - ILT (\$)	\$1.81	\$1.22	\$1.02	\$0.84	\$0.73
Non-Switched Circuit Services	\$30,743.0	\$33,501.6	\$39,837.0	\$45,381.0	\$54,060.7
Growth Rate (%)	--	9.0%	15.9%	16.6%	19.2%
Public Telephone	\$6,634.0	\$5,764.0	\$6,563.0	\$7,326.0	\$9,050.2
Growth Rate (%) - PTCR	--	-13.1%	13.9%	11.6%	23.6%

LEC Consolidated Operations Based Build-Up

(Dollars in thousands, except per line amounts)		1995 A	1996 A	1997 A	1998 A	1999 PF
Calling Features (CF)		\$30,329.0	\$32,351.0	\$34,456.0	\$38,182.0	\$39,549.2
Internet - Dial up		4.0	2,182.0	5,641.0	9,079.0	13,149.0
Internet - DSL		0.0	0.0	0.0	0.0	0.0
Web Hosting		0.0	0.0	0.0	0.0	0.0
Enhanced Services		\$30,333.0	\$34,533.0	\$40,097.0	\$47,261.0	\$52,698.2
Number of Access Lines - CF	Months	948,990	983,046	1,008,972	1,045,121	1,071,644
Avg. Monthly Revenue per Line - CF (\$)	12	\$2.66	\$2.74	\$2.85	\$3.04	\$3.08
Number of Customers - Dial up		17	9,281	24,085	47,003	66,599
Penetration Rate - Dial up (%)		0.0%	0.9%	2.4%	4.5%	6.2%
Avg. Monthly Revenue - Dial up (\$)	12	\$333.3	\$181,833.3	\$470,083.3	\$756,583.3	\$1,095,752.5
Dial-Up Price @ Year End		\$19.95	\$19.83	\$19.52	\$16.10	\$16.45
Addressable Lines (% Access Lines)		0.0%	0.0%	0.0%	0.0%	0.0%
Addressable Lines - Potential Market (DSL)		0	0	0	0	0
Penetration Rate - DSL (%)		0.0%	0.0%	0.0%	0.0%	0.0%
DSL Lines (Yr. End)		0	0	0	0	0
Avg. Monthly Revenue per Line - DSL (\$)	12	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DSL Price		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Growth Rate (%) - Web Hosting		--	NM	NM	NM	NM
Equipment Sales/Lease/Maintenance (ESLM)		\$34,984.0	\$34,753.0	\$31,852.0	\$31,803.0	\$31,896.3
Directory / Yellow Pages		\$44,799.0	\$48,357.0	\$50,485.0	\$52,913.0	\$55,504.8
Billing & Collection (B&C)		\$26,417.0	\$27,458.0	\$26,436.0	\$25,321.0	\$13,787.7
Long Distance		\$0.0	\$0.0	\$0.0	\$0.0	\$88,096.0
Growth Rate (%) - ESLM		--	-0.7%	-8.3%	-0.2%	0.3%
Growth Rate (%) - Directory / YP		--	7.9%	4.4%	4.9%	4.9%
Growth Rate (%) - B&C		--	3.9%	-3.7%	-4.2%	-45.5%
Directory Assistance & Other Operator Svcs. (DA&OS)		7,233.0	8,317.0	7,977.0	7,542.0	8,153.0
Third Party Contracts (TPC)		1,951.0	2,262.0	1,982.0	1,938.0	1,978.4
Operator Services		\$9,184.0	\$10,579.0	\$9,959.0	\$9,480.0	\$10,131.4
Number of Access Lines - DA&OS		948,990	983,046	1,008,972	1,045,121	1,071,644
Avg. Monthly Revenue per Line - DA&OS (\$)		\$0.64	\$0.71	\$0.66	\$0.60	\$0.83
Growth Rate (%) - TPC		--	15.9%	-12.4%	-2.2%	2.1%
Other 1		\$16,478.0	\$16,919.0	\$16,722.0	\$24,543.0	\$23,700.1
Other 2		(66.0)	3,334.0	4,029.0	4,541.0	5,145.0
Gross Revenue Surcharge (GRS)		11,305.0	9,821.0	9,664.0	9,758.0	9,821.1
Uncollectibles		(3,504.0)	(5,116.0)	(4,631.0)	(4,998.0)	(4,559.4)
Other 3		8,449.4	10,596.7	12,816.0	15,005.0	13,917.4
Total Other		\$32,662.4	\$35,554.7	\$38,600.0	\$48,849.0	\$47,824.2
Number of Access Lines - Other 1		948,990	983,046	1,008,972	1,045,121	1,071,644
Avg. Monthly Revenue per Line (\$) - Other 1		\$1.45	\$1.43	\$1.38	\$1.98	\$1.84
Growth Rate (%) - Other 2		--	--	20.8%	12.7%	13.3%
GRS (% Revenues)		1.9%	1.6%	1.5%	1.5%	1.4%
Uncollectibles (% Revenues)		-0.6%	-0.6%	-0.7%	-0.8%	-0.7%
Growth Rate (%) - Other 3		--	25.4%	20.9%	17.1%	-7.2%
Total Revenue		\$621,725.4	\$643,013.4	\$647,076.0	\$701,935.0	\$805,203.7

LEC Consolidated Operations Based Build-Up

(Dollars in thousands, except per line amounts)	1995 A	1996 A	1997 A	1998 A	1999 PF
Salary	\$108,824.4	\$109,282.8	\$103,868.1	\$116,448.4	\$113,234.4
Benefits	31,473.6	32,960.2	26,296.0	22,917.3	26,231.0
Bonus	2,909.2	111.7	1,241.9	7,085.5	6,872.0
Personnel Expenses	\$143,207.2	\$142,374.8	\$131,404.1	\$146,429.2	\$146,337.4
Number of Base LEC Employees	2,960	2,638	2,485	2,740	2,914
Avg. Rate / Employee - Salary (\$'000)	\$38.05	\$41.43	\$41.80	\$42.50	\$38.86
Benefits (% Salary)	28.9%	30.2%	25.3%	19.7%	23.2%
Bonus (% Salary)	2.7%	0.1%	1.2%	6.1%	6.1%
Corporate / IT / InterTelco Charges (CIT)	\$45,964.1	\$56,771.1	\$65,328.1	\$62,483.7	\$70,523.0
Growth Rate (%) - CIT	--	23.5%	15.1%	-4.4%	12.9%
Directory / Yellow Pages	\$21,025.0	\$23,005.8	\$24,813.3	\$25,064.2	\$27,559.9
Mutual Compensation (MC)	1,945.6	3,552.3	7,714.0	8,304.4	10,213.7
Rent & Utilities (RU)	9,452.9	10,013.6	10,319.3	10,455.0	12,616.5
Equipment & Materials (E&M)	14,741.9	18,005.3	9,302.1	14,416.9	18,786.7
Voice & Data Com. (VDC)	3,680.9	5,153.9	5,021.7	7,871.9	12,266.4
Marketing & Advertising (Mkt&Ad)	3,166.2	3,759.6	3,943.1	950.0	4,218.9
Long Distance	0.0	0.0	0.0	0.0	83,009.0
Property Taxes (PTx)	15,834.8	15,876.4	16,070.3	16,448.0	16,801.4
Revenue Taxes (RTx)	20,265.1	18,899.8	18,210.1	19,294.3	19,548.0
Other	49,686.9	33,077.8	27,174.7	29,940.0	16,551.8
Direct Controllable Expenses (DCE)	\$139,799.1	\$129,144.2	\$122,388.6	\$132,744.6	\$201,574.2
Directory / YP (% Revenue)	46.9%	47.6%	48.8%	47.4%	49.7%
Originating Minutes of Use - MC ('000)	37,556	172,314	454,003	729,577	1,250,821
Rate per Minute - MC (\$)	\$0.05	\$0.02	\$0.02	\$0.01	\$0.01
Growth Rate (%) - RU	--	5.9%	3.1%	1.3%	20.7%
Growth Rate (%) - E&M	--	22.1%	-48.3%	55.0%	30.3%
Growth Rate (%) - VDC	--	40.0%	-2.6%	56.8%	55.8%
Growth Rate (%) - Mkt&Ad	--	18.7%	4.9%	-75.9%	344.1%
Growth Rate (%) - Property Taxes	--	-1.0%	2.5%	2.3%	2.1%
Revenue Taxes (% Revenue)	3.3%	2.6%	2.7%	2.7%	2.4%
Growth Rate (%) - Other	--	-33.4%	-17.6%	10.2%	-44.7%
Total Expenses	\$328,870.5	\$328,290.0	\$319,100.8	\$341,657.5	\$418,434.7
EBITDA	\$292,755.0	\$314,723.4	\$347,875.2	\$360,277.5	\$386,769.0
Depreciation	104,419.2	102,349.0	110,103.3	112,924.1	131,175.0
Depreciation (% PP&E)	16.1%	16.0%	17.0%	16.2%	13.5%
EBIT	\$188,335.8	\$212,374.3	\$237,871.9	\$247,353.4	\$255,593.9
Capital Expenditures	73,766.2	101,341.5	108,781.9	153,901.2	177,952.0
Number of Access Lines	948,990	983,046	1,006,972	1,045,121	1,071,644
Monthly CapEx per Line (\$)	\$6.48	\$8.59	\$8.98	\$12.27	\$13.84

Section 4.1

Conduct of the Business Prior to Closing - Access

- (a) See Schedules to Sections 2.4; 2.5; 2.8; 2.19

The Frontier LECs note that certain services disclosed in Schedule 2.19 that Frontier LECs provide to current affiliates may be required to be offered to similarly-situated non-affiliates on the same terms and conditions.

Prior to the Closing, Sellers may elect to pay or to net out intercompany debt.

A Company Subsidiary has entertained an offer to sell a parcel of its excess real estate. The market value of the parcel is believed to be less than \$1,000 and the parcel is not of a sufficient size for the Company Subsidiary to use in any of its business operations. Prior to the Closing Date, Frontier Communications of the South, Inc. may accept a purchase offer and sell this parcel of nominal value.

Section 4.9

Use of Global Crossing and Frontier Names

Buyer will assume the contract for the naming rights to Frontier Field.

Sellers will retain the internet domain name frontiercorp.com, frontiernet.net and related names.

Section 8.5 Collective Bargaining Agreements

See Schedule to Section 2.15.

EXHIBIT "D"

CITIZENS' SENIOR MANAGEMENT TEAM

LEONARD TOW has been a member of Citizens' Board of Directors since April 1989. In June 1990, he was elected Chairman of the Board and Chief Executive Officer. He was also Chief Financial Officer from October 1991 through November 1997. He was a Director and Chief Executive Officer of Century Communications Corp. from its incorporation in 1973 and Chairman of its Board of Directors from October 1989 until October 1999. He is Director of Hungarian Telephone and Cable Corp., Chairman of the Board of Electric Lightwave, Inc. and a Director of the United States Telephone Association.

RUDY J. GRAF joined Citizens in September 1999. He is President and Chief Operating Officer of Citizens Communications. He is also Director and Chief Executive Officer of Electric Lightwave, Inc. Prior to joining Citizens; he was Director, President and Chief Operating Officer of Centennial Cellular Corp. and Chief Executive Officer of Centennial de Puerto Rico from November 1990 to August 1999.

ROBERT BRADEN was elected Vice President, Business Development in February 2000. Prior to joining Citizens, he was Vice President, Business Development at Century Communications Corp. from January 1999 to October 1999. He was Senior Vice President, Business Development at Centennial Cellular Corp. from June 1996 to January 1999 and held other officer positions with Centennial since November 1993.

JOHN H. CASEY III joined Citizens Communications in November 1999. He is currently a Vice President of the company and Chief Operating Officer of its local-exchange telephone operations. Prior to joining Citizens, he was Vice President, Operations from January 1995 to January 1997 and then Senior Vice President, Administration of Centennial Cellular until November 1999.

ROBERT J. DESANTIS joined Citizens in January 1986. He was Vice President and Treasurer since October 1991, and Vice President and Chief Financial Officer since November 1997. He is currently Chief Financial Officer, Vice President and Treasurer of Electric Lightwave, Inc.

MICHAEL G. HARRIS joined Citizens Communications in December 1999. He is Vice President, Engineering and New Technology. Prior to joining the Citizens, he was Senior Vice President, Engineering of Centennial Cellular Corp. from August 1991 to December 1999. He was also Senior Vice President, Engineering of Century Communications Corp. from June 1991 to October 1999.

F. WAYNE LAFFERTY has been with Citizens since 1994. He was elected Vice President, Regulatory Affairs in February 2000. He had served as Vice President of the

company's communications subsidiaries since January 1998. Since 1995, he has held senior positions overseeing regulatory affairs of Citizens' communications subsidiaries.

J. MICHAEL LOVE is currently President of Citizens Public Services, responsible for the company's gas, electric and water operations. He rejoined Citizens in May 1990 after having been with the company from November 1984 through January 1988. He was Vice President, Corporate Planning from March 1991 through January 1997. He was appointed Vice President, Public Services in January 1997.

L. RUSSELL MITTEN II joined the company as General Counsel in June 1990. He has been Vice President and General Counsel since June 1991.

RICHARD REICE was appointed Vice President, Human Resources, Labor and Employment Law in June 2000. Prior to this appointment, he was an Associate General Counsel of the company from March 1996 to July 1999.

SCOTT N. SCHNEIDER has been Executive Vice President of Citizens Communications and President, Citizens Capital Ventures, a wholly owned subsidiary of Citizens, since October 1999. He has been a Director of Electric Lightwave, Inc. since December 1999. Prior to joining Citizens, he was Director (from October 1994 to October 1999), Chief Financial Officer (from December 1996 to October 1999), Senior Vice President and Treasurer (from June 1991 to October 1999) of Century Communications Corp. He also served as Director, Chief Financial Officer, Senior Vice President and Treasurer of Centennial Cellular Corp. from August 1991 to October 1999.

DAVID B. SHARKEY has been associated with Citizens since August 1994 as President of Electric Lightwave, Inc. and has been President and Chief Operating Officer of that company since October 1997. He is also a Director of Electric Lightwave, Inc. Since February 2000 he has been a Vice President of Citizens Communications. Prior to joining Electric Lightwave, Inc., he was Vice President and General Manager of Metromedia Paging, a wireless company headquartered in New Jersey, from August 1989 through July 1994.

BRIGID M. SMITH joined Citizens as an attorney in November 1978. She was elected Assistant Vice President, Corporate Communications in February 1996.

STEVEN D. WARD was elected Vice President, Information Technology of Citizens Communications in February 2000. He was Vice President, Information Systems for Century Communications Corp. from June 1996 to December 1999 and Director, Information Services from March 1991 to June 1996.