

Hawke

McKeon

Sniscak &

Kennard LLP

ATTORNEYS AT LAW

William T. Hawke
Kevin J. McKeon
Thomas J. Sniscak
Norman James Kennard
Lillian Smith Harris
Scott T. Wyland
Todd S. Stewart
Craig R. Burgraff

Steven D. Snyder
Janet L. Miller
Steven K. Haas
William E. Lehman
Rikardo J. Hull
Katherine E. Lovette
Amy A. Whitney

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmsk-law.com

January 19, 2007

VIA HAND DELIVERY

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street - Filing Room (2 North)
Harrisburg, PA 17105-3265

**ORIGINAL
DOCUMENT
FOLDER**

Re: Joint Application of Commonwealth Telephone Company CTSI, LLC and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company For All Approvals Under The Public Utility Code for the Acquisition By Citizens Communications Company of All of the Stock of the Joint Applicants' Corporate Parent, Commonwealth Telephone Enterprises, Inc., Docket Nos. A-310800F0010, A-311095F0005 and A-311225F0003; **JOINT PETITION FOR APPROVAL OF UNANIMOUS SETTLEMENT AGREEMENT**

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of the Joint Petition for Approval of Unanimous Settlement Agreement. Please be advised that the statements in support at Appendices "D" and "F" will be filed by the Office of Consumer Advocate and Office of Trial Staff, respectively, under separate cover on Monday, January 22, 2007.

Thank you for your attention to this matter.

Sincerely,



Norman J. Kennard

NJK/ajt

Enclosure

cc: Honorable Susan D. Colwell (with enclosures) - Via Hand Delivery

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MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

36

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of :
:
Commonwealth Telephone Company :
CTSI, LLC, and :
CTE Telecom, LLC d/b/a Commonwealth :
Long Distance Company :
:
For All Approvals Under The Public Utility :
Code for the Acquisition By Citizens :
Communications Company of All of the Stock :
of the Joint Applicants' Corporate Parent, :
Commonwealth Telephone Enterprises, Inc. :

A-310800F0010
A-311095F0005
A-311225F0003

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SECRETARY'S BUREAU

**JOINT PETITION FOR APPROVAL OF
UNANIMOUS SETTLEMENT AGREEMENT**

AND NOW, this 19th day of January 2007, comes Commonwealth Telephone Company ("CTCo"), CTSI, LLC ("CTSI"), and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company ("CLD"), (hereinafter collectively referred to as the "Applicants" or "Joint Applicants"), Citizens Communications Company ("Citizens"), the Communications Workers of America ("CWA"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA") and the Office of Trial Staff ("OTS") (collectively "Parties" or "Petitioners"), these being all of the parties to this proceeding, and jointly submit this Settlement Petition to the Pennsylvania Public Utility Commission ("Commission") for its approval as being in the public interest:

BACKGROUND

1. On September 17, 2006, an Agreement and Plan of Merger (“Merger Agreement”) was signed pursuant to which Citizens will acquire the stock of Commonwealth Telephone Enterprises, Inc. (“CTE”) and, indirectly, the stock of Applicants. CTE owns and controls all of the outstanding common stock of CTCo. In turn, CTCo owns and controls all of the stock of CTSI and CLD. That is, pursuant to the Merger Agreement, the Joint Applicants’ corporate parent, CTE, will become a wholly-owned, direct subsidiary of Citizens and the Joint Applicants will become indirect subsidiaries of Citizens.

2. The Joint Applicants filed an Application requesting the issuance of a certificate of public convenience on September 29, 2006 approving the transaction as described therein (the “Transaction”).¹

3. The Commission published notice of the Joint Application by the CTE Companies in the *Pennsylvania Bulletin* on October 14, 2006 (36 Pa. B. 6355), which required protests and petitions to intervene to be filed on or before October 30, 2006.

4. The CWA, OCA, OSBA and OTS are the remaining protesting parties to this case. The CWA filed a protest on October 27, 2006. The OCA and OSBA filed protests on October 30, 2006. The OTS filed an Entry of Appearance on November 2, 2006.²

5. Blue Ridge Digital Phone Company (“Blue Ridge”), Sprint Communications Company LP (“Sprint”), and RCN Corporation and RCN Telecom

¹ Commission approval is required under a Policy Statement applying the certification requirements of 66 Pa.C.S. §1102(a)(3) where a stock transaction or series of stock transactions results in a change of control of a public utility regardless of ownership tier.

² Citizens also filed a Petition to Intervene on October 30, 2006.

Services, Inc. ("RCN") (collectively "CLECs") had previously filed protests to the Joint Application and been accepted into the proceeding.³ These CLEC protests were subsequently settled and the protests withdrawn.⁴ The Joint Applicants have satisfied any competitive concerns associated with the Transaction.

6. In support of the Joint Application, the Joint Applicants and Citizens distributed Direct Testimony to the parties on November 10, 2006.

7. A prehearing conference was held on November 29, 2006 at which a procedural schedule was established. ALJ Colwell entered a Scheduling Order dated November 30, 2006.

8. In developing their testimony and preparing for hearings, the parties propounded extensive discovery on the Joint Applicants and Citizens, including data requests, interrogatories and requests for the production of documents.

UNANIMOUS SETTLEMENT OF ALL PARTIES

9. The Parties thereafter held several meetings to discuss potential settlement of this proceeding, consistent with the Commission's Rules of Practice and Procedure, 52 Pa. Code § 5.231. As explained more fully below, the result of these efforts is that the Parties have reached a full, complete, and comprehensive settlement of all issues.

10. This is a unanimous settlement as it encompasses all remaining parties to this case. The CWA, OCA, OSBA and OTS are the remaining protesting participants in this case. As noted previously, the CLECs in this case, Blue Ridge, Sprint, and RCN,

³ Broadband Cable Association of Pennsylvania filed a protest, but it was dismissed as legally insufficient.

⁴ Sprint filed a Motion to Withdraw its Petition on January 9, 2007. Blue Ridge filed a Petition for Leave to Withdraw on January 12, 2007. RCN filed a Motion to Withdraw on January 17, 2007.

have separately settled and withdrawn their Protests. Therefore, this is an “all parties” Settlement Petition, encompassing all issues in the case.

SUBSTANCE OF THE SETTLEMENT

11. The settlement process, fostered and encouraged by the Commission, is the art of compromise. The Parties agree that the proposed Settlement is in the best interest of the public and that the Transaction, as modified by this Settlement, meets the standards of the *City of York*. In consideration of the mutual promises and provisions contained in this Settlement Petition, Petitioners desire to conclude litigation of the above-docketed matters and to settle the contested issues, as follows:

12. **Transaction Approval by March 1, 2007.** The Transaction, as proposed in the Application and as modified by the terms of this Settlement Petition, must be approved without modification or change by the Commission in an Order adopted on or before the Commission’s Public Meeting of March 1, 2007 with an Order entered shortly thereafter. Should the Commission not approve the Settlement Petition by March 1, 2007, CTCo and Citizens reserve the right to withdraw from the Petition.

13. **Post-Closing Conditions.** Upon closing of the Transaction, the following requirements will become operative. In the event of a failure to close the Transaction, then the items agreed to herein will terminate and be of no force or effect.

a. **Rate Caps/Freezes** – The exercise by CTCo and Citizens Communications Company’s five Pennsylvania-located Frontier ILECs⁵ (CCC) of

⁵ The Citizens Communications Company Pennsylvania ILECs are comprised of the Frontier Communications Companies of: Breezewood, Canton, Lakewood, Oswayo River, and Pennsylvania.

their price cap formula is restricted during the next three years (2007 (the current year), and the 2008 and 2009 filings following) as follows:

- i. 2007 – Increase in monthly charge for residential primary limited to \$.90 and for B-1 to \$.50.⁶
- ii. 2008 – Increase in monthly charge for residential primary limited to \$.50 and for B-1 to \$.25.
- iii. 2009 – No increases in residential primary or B-1 rates.

In no event, however, will R-1 rates for CTCo or any CCC company exceed \$18.00 during these periods. CTCo and CCC may request increases in non-access line rates. CTCo and CCC shall not be permitted to bank any rate increases which they forego in years 2007, 2008 and 2009. Notwithstanding any of the foregoing, CTCo and CCC may increase residential and business basic, unbundled local dial tone rates beyond these limitations as a result of generic federal and state required changes to access charges and/or universal service funding or an exogenous event as defined in CTCo's and CCC's Chapter 30 Plan.

b. **DSL** - CTCo and CCC agree to provide stand-alone⁷ high speed internet service (DSL and ISP service) to their customers for a period of two years from the date of Commission approval of the Joint Application. Nothing in this Agreement shall restrict or limit CTCo's and CCC's pricing flexibility on DSL and DSL-related services.

⁶ The companies will file rate changes consistent with this provision on February 1, 2007 (the timing required under their Chapter 30 plans) and bank any unused amount. Upon approval of this Settlement and closing of the Transaction, the companies will revise their banks in accordance with the provisions of this Settlement.

⁷ Stand-alone high speed internet service is a service sold on a CTCo or CCC line without any requirement that such customer need purchase any other service.

c. **Bandwidth Availability** - CTCo agrees to provide bandwidth availability equal to or greater than 3 megabits per second in the downstream direction to a total of at least 88,000 lines within three years of closing of the Transaction.

d. **Lifeline** – CTCo and CCC will produce and distribute at their expense a Lifeline brochure explaining Lifeline and explaining how to apply for lifeline by telephone. The companies will provide these brochures to:

i. Counties - County assistance offices and County agencies in their territories. The Companies will agree to provide those offices with sufficient brochures for a three year period following closing of the Transaction.

ii. Local Assistance Agencies and Organizations, whether government affiliated or not, such as United Way and Meals on Wheels. Within 30 days of Commission approval of the Joint Application, the OCA, OSBA, OTS CTCo and Citizens will work to develop a list of local assistance agencies and organizations that should be supplied with these materials for the three year period following closing of the Transaction. .

e. **Employment** - CTCo and CCC will continue to employ the appropriate level of resources, including workforce, employee benefits, network and investment, necessary to achieve the continuation of quality service to their existing and prospective Pennsylvania customers while remaining competitive. CTCo shall

maintain the level of CWA-represented positions⁸ through the end of the current contract period (ending 11/30/08) at a minimum of 95% of the current level except for bona fide attrition.⁹ As part of this job level guarantee, the CTCo call center shall remain open during this period. All terms of existing bargaining agreements will be honored.

f. **Service Quality Reporting** - CTCo and CCC will provide the following reports to the OCA, OSBA and OTS for calendar years 2006, 2007, and 2008. The OCA, OSBA and OTS agree that any information provided pursuant to this Paragraph will be treated in a confidential manner and agree not to use or release such information for any purpose. Nonetheless, if the OCA, OSBA or OTS believe that CTCo or CCC service quality has declined such that it is necessary to bring this data to the attention of the Commission, such party may file such data under protective restrictions and may seek to have it publicly disclosed pursuant to 52 Pa. Code §5.423. A party seeking to notify the Commission will attempt to resolve any service concerns with CTCo or CCC prior to taking any action at the Commission pursuant to this Paragraph.

1. Annually -- CTCo and CCC will report the service metrics stipulated below in the month of June following the calendar year reporting period.¹⁰

i. Trouble report rate (measured per 100 access lines);

⁸ Includes positions in the following categories: construction, central office, installation and repair, splicer, customer service representative, collections, repair dispatch, telesales and network operation center.

⁹ Bona fide attrition means reduction in the size of the CWA-represented workforce due to a separation from employment that does not constitute a layoff and that results from one of the following: discharge for cause, voluntary resignation, retirement, or death. It shall not include employees leaving the payroll in response to any company-induced offer.

¹⁰ So, for example, the calendar year 2007 results will be included in a report due in June 2008.

- ii. Number of missed appointments;
- iii. Average interval (number of days) between a request for new basic service and installation. Metrics will be based on 52 Pa. Code § 63.58 rules regarding installation of service. CTCo and CCC will provide an annual average interval of days for installation of residential and single line business service and an annual average interval of days for installation of non-primary service orders.
- iv. Copies of the annual reports filed with the Commission's Bureau of Consumer services.

2. As Required -- CTCo and CCC agree to advise the OCA and OSBA if either the CTCo or CCC service repair outage index falls below 80% restored/repared within 24 hours for reasons not attributable to customer requests for a later time: (a) in any month across either the CTCo and CCC systems; and (b) for three consecutive months in any one CTCo district or CCC exchange.¹¹ In the event of a notification under this section, CTCo and CCC commit to meeting with the OCA and OSBA to discuss and address possible remedies or actions to be taken.

g. **Debt and Transaction Costs.** The Joint Applicants will not seek to recover in rates any costs of the Transaction, including any associated increase in debt costs. In addition, the Joint Applicants agree not to seek recovery of any costs resulting from implementing the stipulations set forth above. After closing and for a period of three (3) years following closing of the Transaction, CTCo shall not:

¹¹ CTCo districts are identified in "Appendix A"

- i. Guarantee the debt or credit instruments of Citizens Communications Company or any affiliate not regulated by the Commission; or
- ii. Grant a mortgage or other lien or otherwise pledge as security for repayment of the principal or interest of any loan or credit instrument of Citizens Communications Company or any affiliate not regulated by the Commission any property used and useful in providing utility service to the public subject to the Commission's jurisdiction.

OTHER ASPECTS OF THE SETTLEMENT

14. If Administrative Law Judge Colwell recommends approval of this Petition without modification, the Parties waive the filing of Exceptions and, in such event, request that the Commission's Secretary not provide an exception period prior to Commission consideration pursuant to 52 Pa. Code § 5.232(e).

15. This Settlement Petition is conditioned upon, and subject to, acceptance and adoption by the Commission. If this Settlement Petition or any part thereof is for any reason modified in any respect by the Commission, any Party may withdraw from this Petition in which case the Settlement shall be of no force or effect. If any Party withdraws from this Petition, it must do so in a written document, filed with the Commission and served upon the Parties within five (5) business days after the entry of the Order modifying the proposed Settlement. If the Petition is disapproved, or if any Party withdraws from the Petition following modification thereof by the Commission, the above-captioned proceeding will continue with litigation on the Joint Application as originally filed.

16. This Settlement is proposed by the Parties to settle the litigation involved in the instant proceeding, and is made without any admission against or prejudice to any positions which any Party might adopt during subsequent litigation, including further litigation in this case, if the Settlement is rejected by the Commission or if any of the Parties withdraw from the Settlement as provided herein above. No prejudice is intended to the positions of the Parties as a result of the Commission's approval of this Settlement except to the extent necessary to implement the terms of the Settlement.

17. Upon the acceptance and adoption by the Commission of this Settlement Petition without modification, the Protests of the CWA, OCA, OSBA and OTS shall be deemed satisfied and closed.

18. The Statements in Support of Settlement of the Joint Applicants and Citizens ("B"), CWA ("C"), OCA ("D"), OSBA ("E"), and OTS ("F"), setting forth the bases upon which they believe that the Settlement promotes the public interest shall be filed in this docket no later than Monday, January 22, 2007.

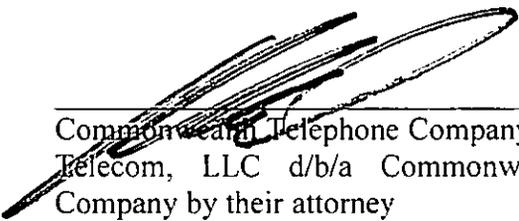
19. This Settlement Petition may be signed in counterparts.

WHEREFORE, Commonwealth Telephone Company, CTSI, LLC, CTE Telecom, LLC d/b/a Commonwealth Long Distance Company, Citizens Communications Company, the Communications Workers of America, the Office of Consumer Advocate, the Office of Small Business Advocate and the Office of Trial Staff request the Commission issue an Order approving the above-captioned Application, granting the

requested Certificate of Public Convenience and incorporating the above-stated terms of this Settlement Petition.

Respectfully submitted,

January 19, 2007


Commonwealth Telephone Company, CTSI, LLC and CTE
Telecom, LLC d/b/a Commonwealth Long Distance
Company by their attorney
Norman J. Kennard
Hawke McKeon Sniscak & Kennard LLP
Harrisburg Energy Center
100 North Tenth Street
Harrisburg, PA 17101

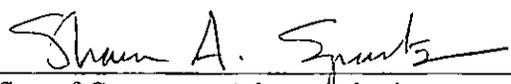
January 19, 2007


Citizens Communications Company by its attorney
Lillian S. Harris
Hawke McKeon Sniscak & Kennard LLP
Harrisburg Energy Center
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17101

January 19, 2007


Communications Workers of America by its attorney
Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870

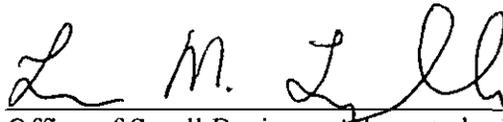
January 19, 2007


Office of Consumer Advocate by its attorney
Shaun Sparks
Joel Cheskis
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1921

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SECRETARY'S BUREAU

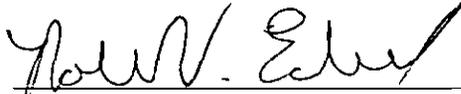
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January 19, 2007



Office of Small Business Advocate by its attorney
Lauren M. Lepkoski
Office of Small Business Advocate
Suite 1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101

January 19, 2007



Office of Trial Staff by its attorney
Robert V. Eckenrod
Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Commonwealth Telephone Company

District/Exchange Listings

District	AreaCode/Exch	Exchange	District	AreaCode/Exch	Exchange	
BANGOR	484499	COOPERSBURG	POCONO LAKE	570355	POCONO LAKE	
	570897	PORTLAND		570402	SAYLORSBURG	
	610110	BANGOR		570643	POCONO LAKE	
	610282	COOPERSBURG		570646	POCONO LAKE	
	610294	UHLERSTOWN		570992	SAYLORSBURG	
	610498	BELVIDERE				
	610588	BANGOR		QUARRYVILLE	610593	ATGLEN
	610599	BANGOR			717284	RAWLINSVILLE
	610847	FERNDALE			717442	GAP
	610863	PEN ARGYL			717529	KIRKWOOD
	610881	PEN ARGYL		717548	HENSEL	
				717786	QUARRYVILLE	
CLARKS SUMMIT	570378	LAKE WINOLA		717806	QUARRYVILLE	
	570563	DALTON				
	570585	CLARKS SUMMIT	SHICKSHINNY	570256	MUHLNBURG	
	570586	CLARKS SUMMIT		570542	SHICKSHINNY	
	570587	CLARKS SUMMIT		570683	ORANGEVILLE	
	570942	NICHOLSON		570864	HUNTINGTON MILLS	
	570945	FACTORYVILLE		570925	BENTON	
CONYNGHAM	570379	WAPWALLOPEN	TOWANDA	570219	ULSTER	
	570384	NUREMBERG		570247	ROME	
	570678	NUANGOLA		570265	TOWANDA	
	570708	CONYNGHAM		570268	TOWANDA	
	570788	CONYNGHAM		570297	TROY	
	570868	NUANGOLA		570358	ULSTER	
	570889	RINGTOWN		570363	NEW ALBANY	
				570395	WARREN CENTER	
DALLAS	570255	DALLAS		570482	MUNCY VALLEY	
	570298	NOXEN		570525	EAGLES MERE	
	570333	CENTERMORELAND		570744	LERAYSVILLE	
	570388	HARDING		570746	WYALUSING	
	570477	SWEET VALLEY		570924	ESTELLA	
	570631	DALLAS		570928	DUSHORE	
	570639	HARVEYS LAKE		570946	LAPORTE	
	570674	DALLAS				
	570675	DALLAS	TUNKHANNOCK	570833	MEHOOPANY	
	570896	TRUCKSVILLE		570836	TUNKHANNOCK	
ELIZABETHVILLE	570682	VALLEY VIEW		570869	LACEYVILLE	
	570895	TREMONT		570996	TUNKHANNOCK	
	717362	ELIZABETHVILLE	WELLSBORO	570324	LIBERTY	
	717365	GRATZ		570353	MORRIS	
	717453	LYKENS		570376	MIDDLEBURY CTR	
	717647	TOWER CITY		570513	MANSFIELD	
	717692	MILLERSBURG		570638	BLOSSBURG	
	717695	ELIZABETHVILLE		570659	COVINGTON	
			570662	MANSFIELD		
LEESPORT	484248	LEESPORT		570723	WELLSBORO	
	610916	LEESPORT		570724	WELLSBORO	
	610926	LEESPORT		570827	LAWRENCEVILLE	
			570835	TIOGA		
LEWISBERRY	717109	LEWISBERRY				
	717932	LEWISBERRY				
	717938	LEWISBERRY				
MONTROSE	570278	MONTROSE				
	570289	BROOKLYN				
	570553	ST. JOSEPH				
	570853	SUSQUEHANNA				
	570879	HALLSTEAD				
	570934	RUSH				
	570965	SPRINGVILLE				
	570967	LAWSVILLE				

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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SECRETARY'S BUREAU

In re Joint Application of	:	
	:	
Commonwealth Telephone Company	:	A-310800F0010
CTSI, LLC, and	:	A-311095F0005
CTE Telecom, LLC d/b/a Commonwealth	:	A-311225F0003
Long Distance Company	:	
	:	
For All Approvals Under The Public Utility	:	
Code for the Acquisition By Citizens	:	
Communications Company of All of the Stock	:	
of the Joint Applicants' Corporate Parent,	:	
Commonwealth Telephone Enterprises, Inc.	:	

**STATEMENT OF COMMONWEALTH TELEPHONE
COMPANY, CTSI, LLC, AND CTE TELECOM, LLC d/b/a
COMMONWEALTH LONG DISTANCE COMPANY AND
CITIZENS COMMUNICATIONS COMPANY IN SUPPORT OF
JOINT PETITION FOR APPROVAL OF UNANIMOUS
SETTLEMENT AGREEMENT**

Commonwealth Telephone Company ("CTCo"), CTSI, LLC ("CTSI"), and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company ("CLD"), (hereinafter collectively referred to as the "Applicants" or "Joint Applicants") and Citizens Communications Company ("Citizens") jointly file this Statement In Support of the "Joint Petition For Approval Of Unanimous Settlement Agreement."

PROCEDURAL BACKGROUND

On September 17, 2006, an Agreement and Plan of Merger ("Merger Agreement") was signed pursuant to which Citizens will acquire the stock of Commonwealth Telephone Enterprises, Inc. ("CTE") and, indirectly, the stock of the Joint Applicants. That is, pursuant

to the Merger Agreement, the Joint Applicants' corporate parent, CTE, will become a wholly-owned, direct subsidiary of Citizens.

CTCo, CTSI and CLD filed this Application requesting the issuance of a certificate of public convenience on September 29, 2006. Approval is required under a Commission Policy Statement applying the certification requirements of 66 Pa. C.S. §1102(a)(3) where a stock transaction or series of stock transactions results in a change of control of a public utility regardless of ownership tier.

The Commission published notice of the Joint Application by the CTE Companies in the *Pennsylvania Bulletin* on October 14, 2006 (36 Pa. B. 6355), which required protests and petitions to intervene to be filed on or before October 30, 2006.

The Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") filed protests on October 30, 2006. The Office of Trial Staff ("OTS") filed an Entry of Appearance on November 2, 2006. The Communications Workers of America ("CWA"), Blue Ridge Digital Phone Company ("Blue Ridge"), Sprint Communications Company LP ("Sprint"), the Broadband Cable Association of Pennsylvania ("BCAP") and RCN Corporation and RCN Telecom Services, Inc. ("RCN") filed protests and/or interventions to the Joint Application. Citizens also filed a Petition to Intervene on October 30, 2006.

In support of the Application, the Joint Applicants and Citizens distributed the Direct Testimonies of: Scott Burnside, Senior Vice President of Regulatory Affairs for Commonwealth Telephone Enterprises, Inc.; and Daniel McCarthy, Executive Vice President

and Chief Operating Officer of Citizens Communications Company to the parties on November 10, 2006.¹

Also on November 10, 2006, the Joint Applicants and Citizens filed Joint Answers and Preliminary Objections addressed to the Protests and Petitions to Intervene of Blue Ridge Digital Phone Company, Sprint Communications Company L.P., the Broadband Cable Association of Pennsylvania, RCN Corporation, and RCN Telecom Services, Inc (“CLECs”). Answers were filed by the CLECs on November 20, 2006. The Joint Applicants and Citizens also filed Preliminary Objections seeking to limit the participation of CWA to employment-related issues. An answer was filed by CWA on November 20, 2006. On November 20, 2006, the Joint Applicants submitted a letter stating that they did not oppose the participation of the OCA, OSBA and OTS.

On November 13, 2006, ALJ Colwell issued a Prehearing Conference Order, which reviewed various procedural issues related to this proceeding and asked that each party distribute, at least three business days prior to the prehearing conference, a prehearing memorandum.

On November 21, 2006 a Motion was submitted to admit Jennifer Duane, counsel for Sprint Communications Company, L.P., *pro hac vice*.

A Scheduling Order was issued by Judge Colwell on November 30, 2006 setting the dates for the submission of testimony, hearings and submittal of briefs.

ALJ Colwell issued an Initial Decision, along with accompanying Orders on December 14, 2006,² disposing of the Joint Applicants’ Preliminary Objections. The Initial

¹ By separate motion filed along with the Settlement Petition, the Joint Applicants and Citizens have requested that Mssrs. Burnside and McCarthy’s testimony be marked and admitted as Joint Petitioners’ St. 1.0 and Citizens’ St. 1.0, respectively. Further, the Application filed September 29, 2006 is introduced as Joint Petitioners’ Exhibit 1. No party opposes that motion.

² Due to an administrative error, the Initial Decision was reissued and re-served on January 4, 2007.

Decision and Orders dismissed the protests of RCN Corporation (RCN's parent company) and the Broadband Cable Association but denied the Preliminary Objections as they related to the CWA and the remaining CLECs, Sprint, RCN (the operating company) and Blue Ridge.

On December 21, 2006 the Joint Applicants and Citizens filed a Motion for a Protective Order, to which RCN Telecom Services, Inc. filed an Answer on December 22, 2006. The Joint Applicants filed a response to RCN Telecom Services, Inc.'s Answer on December 29, 2006.

On January 3, 2007, a motion was submitted to admit Michael W. Fleming, counsel for RCN Telecom Services, Inc., *pro hac vice*.

Judge Colwell issued an Order granting the requested Protective Order on January 4, 2007.

The protests of the two cable companies and a third filed by a cable wholesale service provider have been settled. On January 9, 2007, Sprint Communications Company, L.P. moved for leave to withdraw its Petition to Intervene and gave notice of the withdrawal of its protest. On January 12, 2007, Blue Ridge Digital Phone Company submitted a Petition for Leave to Withdraw its Intervention and gave notice of the withdrawal of its protest. RCN Telecom Services, Inc. similarly submitted a Petition for Leave to Withdraw its Intervention and gave notice of the withdrawal of its protest on January 17, 2007.

On January 19, 2007, a unanimous settlement of all remaining parties was submitted for Your Honor's and the Commission's approval.

COMMONWEALTH TELEPHONE, CITIZENS COMMUNICATIONS AND THE TRANSACTION

Commonwealth Telephone Enterprises, Inc. and Joint Applicants

Commonwealth Telephone Enterprises, Inc. ("CTE") is a publicly traded Pennsylvania company (NASDAQ: CTCO), which owns and controls all of the outstanding common stock of CTCO. In turn, CTCO owns and controls all of the outstanding common stock of CTSI and CLD, all three of which are regulated telecommunications companies. Joint Petitioners' Exh. No. 1 at 2 and St. 1.0.

CTCO is a rural local exchange carrier incorporated in Pennsylvania, which provides local, vertical and regional long distance as well as broadband services over a network established in Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, Wyoming, and York Counties, an approximately 5,000-square mile service territory. As of September 30, 2006, CTCO provided local exchange service to 312,376 access lines in 79 telephone exchanges. CTCO holds Letters Patent and Certificates of Public Convenience to offer telephone service in Pennsylvania at Commission Docket Nos. A-9610, A-76155, A-80433, A-81356, A-82106, A-83156, A-85690, A-96978, A-96933, A-99981, A-00101891, A-00102711, and A-310800. CTCO is a "Rural Telecommunications Carrier" as defined in Section 3 of the Telecommunications Act of 1996 (Public Law 104-104, 110 Stat. 56) which this Commission has recognized in its Orders entered at Docket No. M-00960799,³ and for the purposes of Act 183, 66 Pa. C.S. §3011 *et seq.*⁴ Joint Petitioners' Exh. No. 1 at 5.

³ *Re: Implementation of the Telecommunication Act of 1996*, Docket No. M-00960799; Orders entered June 3, 1996 and September 9, 1996.

⁴ See, CTCO Chapter 30 Plan at 1.

CTSI, a competitive local exchange carrier ("CLEC") operating in the service territories of Verizon Pennsylvania, Inc., Verizon North, Inc. and The United Telephone Company d/b/a Embarq Pennsylvania, is incorporated as a Pennsylvania corporation and is a full-service, facilities-based CLEC offering bundled local and long distance telephone services, vertical services, and Internet access. CTSI holds a Certificate of Public Convenience issued by this Commission at Docket No. A-311095 (Order entered June 22, 2001). As of September 30, 2006, CTSI provided competitive local exchange service to 138,806 access lines in 18 Pennsylvania counties. Joint Petitioners' Exh. No. 1 at 5.

CLD, organized as CTE Telecom, LLC in the Commonwealth of Pennsylvania, provides long distance telephone service as a switched-based reseller in portions of Pennsylvania pursuant to a Certificate of Public Convenience issued by Commission Order entered on December 23, 2002 at Docket No. A- 311225. Joint Petitioners' Exh. No. 1 at 5.

CTCo utilizes a technologically-advanced, fiber-rich network that is based on 100% digital-switching, integrated DWDM-Sonet transport and host/remote (TR 303 Standards Based) architecture. It was the first telephone company to deploy fiber optics in a toll application and was one of the first local exchange carriers in the nation to deploy a network of all digitally-switched central offices. CTCo operates its own Signaling System 7, STP-based network, which provides efficient call set-up and routing of telephone calls. Throughout its market, CTCo has 11 digital host switches and about 500 remotes. All of the trunks between the hosts and the remote wire centers are connected with fiber optic cable. The network architecture provides for short loop lengths in the "last mile" copper plant, which allows CTCo to aggregate customer lines at the remote wire centers for transport, and concentrates costly network intelligence in a small number of host offices. CTCo has undertaken a three-year network upgrade

initiative that will deliver broadband capability to 100% of households and businesses in its service area by year-end 2008. Joint Petitioners' St. 1.0 at 4-5.

CTCo has committed to 100% broadband availability by December 31, 2008 under Act 183. This commitment is not affected by the transaction. CTCo is ahead of schedule in delivering its Chapter 30 commitments. Presently, approximately 90% of the households and business establishments in CTCo's territory have broadband available to them. CTCo's Plan requires that broadband be 80% available at the end of 2006. Joint Petitioners' St. 1.0 at 5.

CTE and its affiliates, regulated and unregulated, currently employ a total work force of approximately 1,130. Approximately 38% of these employees are covered under collective bargaining agreements. CTCo's bargaining employees' principle current labor contract with the Communications Workers of America became effective on December 1, 2005 and remains in effect for an initial period through November 30, 2008, continuing in effect thereafter unless terminated by sixty days' prior written notice. Joint Petitioners' St. 1.0 at 6.

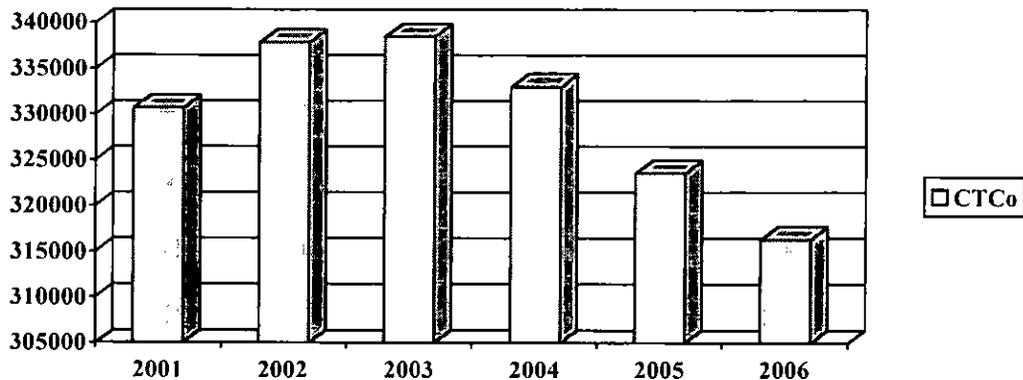
Competition in the CTCo and CTSI service areas is vibrant and expanding every day. The communications industry is in the midst of a radical transformation that is providing customers of every type, whether business or residential, with an ever-increasing array of communications options, while forcing traditional wireline service providers to meet new competitive challenges. Joint Petitioners' St. 1.0 at 9.

Wireless service is widely available in the service territories of the Joint Applicants. On the cable company side, most residential customers in CTCo's territory now have two wires into their home to provide communications service. So that many customers now have three distinct options. Broadband cable companies pass approximately 90% of the homes in Pennsylvania. Joint Petitioners' St. 1.0 at 11 and 12.

New technologies enable various providers – many of which are not traditional wireline telecommunications providers – to offer services using their existing platforms. These competitors to traditional land line service are relying on unregulated technologies and applications that make possible such services as messaging on the go, high speed data connections, cable telephone, VoIP, e-mail and instant messaging. Joint Petitioners’ St. 1.0 at 9.

The effect of competition on CTCo has been significant. Over the last three or four years, after decades of uninterrupted line gain, access lines losses are now the norm for CTCo. The following represents a graph showing the reversal of growth over the last six years:

CTCo Access Line Counts 2001 – 2006*



* 2006 data through end of second quarter.

CTCo is losing lines while the number of lines in the market is growing. Joint Petitioners’ St. 1.0 at 14.

As one means by which to maintain profitability, CTCo has consistently emphasized the penetration of second lines in the residential market. CTCo’s residential additional line penetration rate is decreasing, however, as customers find alternatives to traditional dial-up Internet access. As a corollary to this, within the total Internet access market, the market for

traditional, narrowband dial-up access services is shrinking. By way of example, traditional dial-up Internet service provided by an unregulated CTE affiliate, epix[®] Internet Services, has been declining since its peak at nearly 50,000 subscribers in 2001. As of December 31, 2005, epix[®] had approximately 22,400 dial-up subscribers. Joint Petitioners' St. 1.0 at 14.

The effect of the current business environment on CTE and the Joint Applicants is increasingly negative. Revenues have been stagnant or declining since 2004, and EBITDA and Free Cash Flow, both widely accepted indicators of financial performance, have declined. "EBITDA" is earnings before interest, taxes, depreciation and amortization whereas "Free Cash Flow" is EBITDA less capital expenditures. These are important financial measures of profitability relied upon by investors and management to evaluate financial health in capital intensive industries, particularly in the telecommunications sector. From 2004 through 2005, CTE's EBITDA declined from \$176.6M to \$169.9M, and is projected to decline to \$161.4M in 2006 as of the end of the third quarter 2006, Mr. Burnside reported in his testimony. Similarly, Free Cash Flow declined from \$133.1M in 2004 to \$126.1M in 2005 and, also at the end of the third quarter 2006, Mr. Burnside reported in his testimony, was projected to decline to \$114.8M in 2006. The decline in these indicators has occurred despite management's best efforts to reverse these trends, which CTE management expects will continue. Joint Petitioners' St. 1.0 at 14-15.

This competition has substantially increased the risk factors of CTE's business units. It is now much more difficult to successfully anticipate and respond to various competitive factors affecting the industry, including regulatory changes that may affect CTE's competitors and CTE differently, new technologies and services that may be introduced, changes in consumer preferences, demographic trends and discount pricing strategies by competitors. Joint Petitioners' St. 1.0 at 16.

The telecommunications industry is subject to rapid and significant changes in technology. If the Applicants do not replace or upgrade technology and equipment that becomes obsolete, they will be unable to compete effectively, as they will not be able to meet customers' needs or expectations. Joint Petitioners' St. 1.0 at 16. At the same time, as competition is increasing, it is more difficult to maintain profitability, particularly as compared to other carriers with larger scope and scale. This adversely affects the Joint Applicants' ability to attract investment and debt capital at competitive rates. Joint Petitioners' St. 1.0 at 14.

In addition to line loss and the continued penetration of wireless and facilities-based competition, CTCo is seeing a decline in its revenue streams that are derived from other than the end user. Federal "average schedule" settlements from which CTCo derives its interstate revenue flow are declining on a per line basis. In addition, as lines are lost to competition and minutes of use decline, the company has experienced even greater revenue loss from its average schedule settlements. Joint Petitioners' St. 1.0 at 17.

Citizens Communications Company

Citizens, a publicly-traded Delaware company (NYSE: CZN), is a highly-regarded, full-service communications service provider, and the seventh-largest local exchange telephone company in the country. Citizens, under the Frontier Communications Solutions brand, offers telephone, television and Internet services, as well as bundled offerings, ESPN360 streaming video, security solutions and specialized bundles for residences, small businesses and home offices. Joint Petitioners' Exh. No. 1 at 6 and Citizens' St. 1.0 at 6.

Citizens provides services predominantly to small and medium-sized rural markets. During the last eight years, Citizens has grown to become a substantial presence in the rural

local exchange carrier segment of the telecommunications market through the targeted acquisition of rural companies, and the successful integration of operations and support functions. During this time frame, Citizens has effectively and efficiently grown its operations nearly three-fold. Citizens believes that the key to its continued success is focus on its core mission: "to be the leader in providing communications services to residential and business customers in our markets." Citizens' St. 1.0 at 6-7.

Citizens is typically the incumbent carrier and provider of last resort in the markets it serves and provides the "last mile" of telecommunications services to residential and business customers in these markets. Citizens provides services primarily to residential customers and, to a lesser extent, non-residential customers. Citizens' St. 1.0 at 7.

In Pennsylvania, Citizens owns and operates five local exchange companies (the "Frontier Companies"): Frontier Communications of Breezewood, LLC; Frontier Communications of Canton, LLC; Frontier Communications of Lakewood, LLC; Frontier Communications of Oswayo River, LLC; and Frontier Communications of Pennsylvania, LLC (collectively the "Frontier Companies").⁵ Joint Petitioners' Exh. No. 1 at 6-7. Frontier Communications of Breezewood, LLC serves approximately 4,102 access lines in Bedford and Fulton Counties in 314 square miles of service territory. Frontier Communications of Canton, LLC provides service to approximately 4,061 access lines, divided into two

⁵ Citizens' acquisition of Frontier Subsidiary Telco, LLC, the immediate parent of the five Frontier companies operating in Pennsylvania, was approved by the Commission by Order entered December 8, 2000. *Joint Application of Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., Frontier Communications of America, Inc., For All Approvals Under the Public Utility Code To Complete the Merger with and Transfer of all of the Utilities' Stock of the Corporate Parent, Frontier Subsidiary Telco, Inc. by Citizens Communications Co.*, Docket Nos. A-310400F003; A-310550F003; A-311750F003; A-312600F002; A-311250F003; and A-310153F003, Order entered December 8, 2000 ("Citizens Frontier Acquisition Order"). These companies are wholly owned by Frontier Subsidiary Telco, LLC by virtue of transactions previously approved by this Commission. Frontier Communications of Breezewood, Inc. (Docket No. A-310400F500, Dec. 18, 1986); Frontier Communications of Canton, Inc. (Docket No. A-310550F500, June 11, 1987); Frontier Communications of Lakewood, Inc. (Docket No. A-311750F500, Sept. 1, 1988); Frontier Communications of Oswayo River, Inc. (Docket No. A-105765F500, Dec. 7, 1984); and Frontier Communications of Pennsylvania, Inc. (Docket No. A-311250F500). Joint Petitioners' Exhibit No. 1 at 7, n.6.

exchanges, in the counties of Bradford, Tioga and Lycoming. Frontier Communications of Lakewood, LLC has one exchange and serves approximately 1,471 lines in Schuylkill County. Frontier Communications of Oswayo River, LLC serves approximately 2,204 lines in 183 square miles of Potter and McKean Counties through three exchanges. Frontier Communications of Pennsylvania, LLC, the largest of the Frontier Companies, serves approximately 26,844 local access lines, divided into four exchanges, located predominantly in Lancaster County and, to a limited degree, in Berks County. Citizens' St. 1.0 at 7-8.

Since being acquired by Rochester Telephone in the 1980s, the Frontier Companies have enjoyed steady improvements in their networks. The Frontier Companies have been upgraded to be 100% digital. As part of its original Chapter 30 commitments, Frontier completed an upgrade to its network to make it 100% SS7 capable for all five companies. Frontier Communications of Breezewood made upgrades to its network to allow for elimination of party-line service. The Frontier Companies also are installing a diverse path for Internet to enhance the reliability of Internet service provided to their customers. This diverse path was installed at year-end 2006. All of these improvements contribute to providing improved service to customers. Citizens' St. 1.0 at 9.

The Frontier Companies currently provide approximately 90% of their customers with broadband availability. The Frontier Companies' Chapter 30 Plan required 90% broadband availability by year-end 2006 and 100% by year-end 2008. They are on track to meet this final benchmark. Citizens St. 1.0 at 9.

The Transaction

On September 17, 2006, Citizens and CTE entered into an Agreement and Plan of Merger ("Merger Agreement") whereby Citizens will acquire control of CTE and, indirectly,

CTE's utility subsidiaries, the Joint Applicants. Joint Petitioners' Exh. No. 1 at 17. A complete copy of the Merger Agreement was attached to the Application as Appendix "B." Joint Petitioners' Exh. No. 1 at 19. Approval of the Commission is requested for the entirety of the transactions set forth therein. Certified copies of Board of Directors' Resolutions of CTE and Citizens authorizing the Merger Agreement were attached to the Application as Appendices "E" and "F," respectively. Joint Petitioners' Exh. No. 1.

As a result of the transaction, CTE will become a wholly-owned, direct subsidiary of Citizens. The transaction represents a change in indirect ownership only. Ownership of the Applicants will continue to reside in the parent company, CTE. At closing, the Joint Applicants will retain the same subsidiary corporate relationships to CTE as they did prior to the proposed CTE stock transfer. Joint Petitioners' Exh. No. 1 at 3. Organizational charts depicting the relationship between CTE and the Joint Applicants pre- and post- transaction were attached to the Application as Appendix "C." Joint Petitioners' Exh. No. 1. These charts demonstrate that there is no change in direct ownership or organization of the Joint Applicants. Joint Petitioners' Exh. No. 1 at 9.

Under the Merger Agreement, Citizens will assume the existing debt and acquire all outstanding shares of CTE for a total consideration of approximately \$1.16 billion in a cash-and-stock transaction determined by arms length negotiation of the parties. Citizens will finance the cash portion of the purchase price with a combination of cash on hand and debt. Citizens has obtained a commitment from Citigroup for the financing necessary to complete the acquisition. Joint Petitioners' Exh. No. 1 at 8-9.

The transaction does not involve assignment or creation of any certificates of public convenience or tariffs held or published by CTE's operating utility subsidiaries. No securities issued by the Joint Applicants are affected. The current financing and capital structure of the

Joint Applicants will not be affected by the transaction. The books of account of the Joint Applicants will not be affected by the transaction. The income statements and balance sheets of Joint Applicants are also not affected by the proposed transaction in any way. Joint Petitioners' Exh. No. 1 at 9.

No customers are proposed to be transferred by this transaction. The Joint Applicants will continue operation. The proposed transaction will not affect the regulatory authority of the Commission over the Joint Applicants. Joint Petitioners' Exh. No. 1 at 9-10.

LEGAL STANDARDS FOR APPROVAL

The applicable legal standard in this proceeding is whether approval of the merger agreement is "necessary and proper for the service, accommodation, convenience and safety of the public."⁶ Moreover, the transaction must "affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way."⁷

The "necessary or proper" standard generally requires a showing of inadequacy of existing service, public need, and fitness to provide service.⁸ Here, the parties need not demonstrate inadequacy of existing service or public need for service, because an existing utility operation exists.⁹ Under Sections 1102 and 1103 of the Public Utility Code ("Code"),¹⁰ the Joint Applicants need only show that the party to whom the control of CTE is being transferred is legally, technically, and financially fit.¹¹

⁶ 66 Pa. C.S. § 1103.

⁷ *City of York v. Pa. P.U.C.*, 295 A.2d 825 (Pa. 1972).

⁸ *Seaboard Tank Lines, Inc. v. Pa. Pub. Util. Comm'n*, 502 A.2d 762 (Pa. Cmwlth. 1985).

⁹ *Re Glenn Yeager, et al.*, 49 Pa. PUC 138 (1975) (continuing public need presumed where public utility service is already being provided in the service territory subject to the application).

¹⁰ 66 Pa. C.S. §§ 1102 and 1103.

¹¹ *Seaboard Tank Lines*, 502 A.2d at 764; *Warminster Twp. Mun. Auth. v. Pa. Pub. Util. Comm'n*, 138 A.2d 240, 243 (Pa. Super. 1958).

Where, as here, Citizens is presently operating entities already certificated by the Commission to provide similar telecommunications services to the public, Citizens is presumed to be technically, financially and legally fit to provide the proposed service.¹²

In addition to the traditional fitness requirements, the Pennsylvania Supreme Court has determined that Section 1103 of the Code requires that applicants proposing mergers and acquisitions demonstrate that the transaction “will affirmatively promote the ‘service, accommodation, convenience, or safety of the public in some substantial way.’”¹³ This burden to prove “affirmative benefits” has been applied by the Commission and upheld by the courts in various consolidation and merger application cases since the *City of York* decision.¹⁴

In order to show affirmative benefits, the Joint Applicants must demonstrate that there are substantial public benefits that will result from the transaction and that those benefits outweigh any detriments that may consequently result.¹⁵ The standard does not require the Commission to disallow a transaction that might be detrimental to one particular party or another; rather, the Commission must weigh and measure how the benefits and detriments “impact on all affected parties.” If the public benefits outweigh any detriments, the

¹² *South Hills Movers, Inc. v. Pa. Pub. Util. Comm’n*, 601 A.2d 1308, 1310 (Pa. Cmwlth. 1992).

¹³ *City of York, supra* (quoting 66 Pa. C.S. § 1103(a)). In *City of York*, the Supreme Court rejected the prior standard for approval of mergers whereby a merger had to be approved *unless* it was established that there would be some substantial public detriment. *City of York*, 295 A.2d at 828 (reversing *Northern Pa. Power Co. v. Pa. Pub. Util. Comm’n*, 5 A.2d 133 (Pa. 1939)).

¹⁴ See, e.g., *Re Verizon Communications, Inc.*, Docket No. A-310580F0009, 2006 WL 995853 at 11 (Pa. P.U.C.) (January 11, 2006); *Joint Application of PECO Energy Co. and Public Service Enterprise Group, Inc. with and into Exelon Corp.*, 2006 WL 559274 (Pa. P.U.C.) (February 1, 2006); *ARIPPA v. Pa. Pub. Util. Comm’n*, 792 A.2d 636, 655 (Pa. Cmwlth. 2002).

¹⁵ *Middletown Twp. v. Pa. Pub. Util. Comm’n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984); *Re GPU, Inc.*, 96 Pa. PUC 1, 14 (2001).

application should be approved.¹⁶

Examples of substantial affirmative benefits that the Commission has accepted as satisfying the standard in *City of York* include: statements that economies of scale will occur in administrative, employee, executive and insurance areas; greater bargaining position for obtaining capital; improved labor market conditions; corporate structure and size more likely to attract investors; improved service; simplified relationships with other businesses and government agencies; and improved administration of tariffs and simplification of regulatory matters.¹⁷ The affirmative benefit standard is a broad standard that does not require specific quantification of synergy savings.¹⁸

Section 1103 also authorizes the Commission to impose “just and reasonable” conditions upon the approval of an application; however, such power is not without limit. Any conditions imposed must be supported by substantial evidence, based upon matters within the Commission’s statutory jurisdiction, and cannot be unreasonably broad or vague.¹⁹

¹⁶ *Id.* If the Section 1103 standard required rejection of an asset acquisition, consolidation, merger, or change in control simply because some detriment to any party could result, then such transactions would never be approved because there are always both benefits and detriments to any change in the status quo. When the overall affirmative public benefits outweigh any possible detriments, the standard has been met; any other conclusion is simply unrealistic and unachievable. As the Commission noted in *Re GPU, Inc.*, the 2001 merger between GPU and FirstEnergy, if the risks posed by possible detriments of the transaction are significant, which they are not here, the Commission can impose conditions on the approval of the merger so that said “risks do not outweigh the merger benefits.” *Re GPU, Inc.*, 96 Pa. PUC at 7.

¹⁷ *City of York*, 295 A.2d at 828-29; *See also, Re PG Energy, supra* (substantial affirmative benefits included: more stable and financially robust company, economies through consolidation of certain public company functions and purchasing practices, enhanced ability to raise and attract capital, diversification of risk associated with smaller service area’s weather and economic conditions).

¹⁸ *Re SBC Communications, Inc.*, 2005 WL 2901682 at 14 (Pa. P.U.C.) (October 6, 2005); *Re Verizon Communications, Inc.*, 2006 WL 995853 at 11. There are many examples of asset acquisition or merger cases in which the Commission did not require quantification of affirmative benefits. *See, e.g., Application of Newtown Artesian Water Co. and Indian Rock Water Co.*, 76 Pa. P.U.C. 260 (1992); *Re PG Energy*, 1999 WL 1036580 (Pa. P.U.C.) (September 15, 1999); *Re Pennsylvania American Water Co.*, 97 Pa. P.U.C. 314 (2000). Indeed, the subjects of quantification of savings and pass-through of those savings to customers are more appropriately addressed in rate proceedings subsequent to application approval proceedings. *See Application of Newtown Artesian Water Co., supra; Re PG Energy, supra.*

¹⁹ *Western Pa. Water Co. v. Pa. Pub. Util. Comm’n*, 311 A.2d 370 (1973) (condition imposed by Commission upon approval of water service application was not just and reasonable because it attempted to require action by the utility that was not within Commission’s jurisdiction to order unilaterally and was not based upon sufficient record evidence).

THE TRANSACTION MEETS THE TESTS OF SECTION 1102 AND *CITY OF YORK*

Citizens is Legally, Technically and Financially Fit

As noted by the Commission in its 2000 *Citizens Frontier Acquisition Order*, there are numerous positive benefits of horizontal alignment among rural local exchange carriers generally, and specifically by Citizens:

Control of the Frontier Utilities will become controlled by a holding company the operational subsidiaries of which are primarily local utilities in many jurisdictions. The applicants have provided in their application evidence of Citizens' financial strength together with evidence of Citizens' experience in managing communications utilities in many states.

The applicants note in their filing that Citizens has specialized in providing local utility service to rural and suburban areas in many jurisdictions. The quality of service that Citizens and Frontier Telco have provided in the past through their jurisdictional subsidiaries promises that their intended expansion of services in Pennsylvania will contribute to more customers in outlying areas having available advanced services. The Chapter 30 Plans of the Frontier ILECs will remain unaffected by the proposed acquisitions, and the applicants aver that such services will include DSL service.²⁰

These same positive attributes are inherent in the proposed parent-level acquisition by Citizens of a sixth rural Pennsylvania local exchange company, and its CLEC and long distance affiliates.

Citizens has a strong income statement and balance sheet and is financially qualified to complete the CTE acquisition and to operate the acquired properties in a manner that is consistent with the public interest.

- **Cash Generation.** Citizens will continue to grow free cash flow through further growth of broadband and value-added services, productivity improvements, and a disciplined capital expenditure program that emphasizes return on investment

²⁰ *Citizens Frontier Acquisition Order*, supra, at 4-5.

while delivering enhanced and broadband services to all markets. For 2004 and 2005, Citizens' EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) was \$1,009.7M and \$1,109M, respectively. Free Cash Flow for those same periods was \$473.9M and \$514.7M. Citizens' St. 1.0 at 10.

- **Stockholder Value.** During 2005, Citizens repurchased \$250.0 million of its common stock and continues to pay an annual dividend of \$1.00 per common share. Citizens' St. 1.0 at 10.
- **Growth.** During 2005 and through September 30, 2006, Citizens added approximately 99,000 and 51,000 new high-speed Internet customers, respectively, and almost 84,000 and 51,000 customers, respectively, began buying a bundle or package of services. On September 30, 2006, Citizens had more than 362,500 high-speed data customers and approximately 492,000 customers buying a bundle or package of services. During 2005, Citizens began offering a television product in partnership with Echostar's DISH Network, and, on September 30, 2006, had approximately 43,000 customers buying a "triple play" package of telephone, television and high-speed Internet service. Citizens' St. 1.0 at 10.

Citizens is very prudent in the management of its capital structure - focusing on the proper mix of debt and equity. The transaction strengthens Citizens' balance sheet with increased free cash flow and diversifies its operations around the country, which makes the enterprise less susceptible to regional downturns. This belief has been validated by the debt ratings agencies that, as a group, have essentially left Citizens' ratings unchanged since the merger agreement was announced. Citizens' St. 1.0 at 13.

The debt associated with this transaction will be unsecured debt held by the parent company. Accordingly, it will have no impact on CTE, any of its assets or its regulated

operations. None of Citizens' existing debt, nor the debt that will be increased as a result of this transaction, will be secured by CTE assets or stock. There is no mortgage security or pledge of any kind. Therefore, CTE will retain the ability to borrow funds on its own if that need were to ever arise. That debt would be structurally senior to the parent company's debt, regardless of the financial condition of the parent company. Citizens' St. 1.0 at 13.

CTE's financial position will be improved by Citizens' acquisition of CTE's stock. Whenever two companies come together in a transaction such as this, there is opportunity to result in margins greater than the sum of what the two companies generated independently, due to the elimination of redundant departments and functions. This is such a transaction. Citizens' St. 1.0 at 11.

Upon closing of this transaction, the combined company will strengthen Citizens' standing as the seventh-largest local telephone exchange company in the United States, with pro forma annual revenues of approximately \$2.4 billion and operations across 24 states. Operations under the Frontier brand name will have approximately 2.6 million ILEC and CLEC access lines, 400,000 high-speed Internet subscribers and 6,400 employees, with a strong concentration in the Northeast (based upon information as of September 30, 2006). Citizens' St. 1.0 at 12.

Positive Benefits of the Transaction

Policymakers who envisioned and encouraged competition in the telecommunications industry should look at the current marketplace as a success. Competition has evolved, including in areas not originally envisioned. Consumers have been the primary beneficiaries. They have seen a growth in options of service providers, the introduction of new technologies

and services, and the ability to purchase their voice, data and video services from a single provider. Citizens' St. 1.0 at 3.

While this change has generally been beneficial, it has created challenges to ILECs like Citizens and CTCo that built and invested in telecommunications networks for years before competition, broadband, and VoIP were even considerations. ILECs like Citizens and CTCo, that have long-standing reputations as companies that have provided high-quality service to customers in rural America, are faced with growing competition, access line loss and regulatory disparities that make it increasingly challenging to compete on a level playing field. Citizens' St. 1.0 at 3.

For a smaller regional company, like CTE and CTCo, growing competition has effected a reversal of decades of line growth. Over the last three or four years, after decades of uninterrupted line gain, access line losses are now the norm for CTCo. Overall, as previously described, CTE's financial position is not improving.

While CTE has managed its costs and expenses well as these changes have occurred, without a merger with a larger and better capitalized partner capable of providing the systems, financial resources and human capital necessary to grow and upgrade the network, CTCo will not be able to maintain shareholder value, attract capital on attractive terms and provide high quality and appealing services to its marketplace. Joint Petitioners' St. 1.0 at 18.

The reasons are clear. The incumbent local exchange company - once the monopoly provider of local voice services - has been facing a growing number of competitors in recent years. Competition now comes from many different forms: from wireless providers and cable companies as well as overbuilders and resellers. Consumers now have an expanded view of what telecommunications means, and today wireless, cable and satellite make up an increasing portion of the product spectrum. Citizens' St. 1.0 at 2.

The ILECs, such as CTCO, have been required by regulatory compact to be ubiquitous in their regulatorily-defined service territories and, for some customers, will continue for some time, albeit probably short, to be the sole carrier of last resort. Moreover, unlike cellular and cable companies operating in the same area, CTCO is the only carrier that has contractually committed to 100% broadband deployment. Joint Petitioners' St. 1.0 at 19.

This Commission must allow CTCO, as the default provider of both voice and broadband, to realize the efficiencies to be gained in this transaction in order to remain an effective competitor. Joint Petitioners' St. 1.0 at 19.

The continued survival of the CTE companies should be considered an "affirmative public benefit" and a reason to approve CTE's parent-level alignment with a much larger multi-state local exchange company, both from the perspective of maintaining the incumbent local exchange company operations and continuing the competitive operations of CTSI. Joint Petitioners' St. 1.0 at 19.

Size and scope are becoming increasingly important. The need to grow the business and take advantage of economies of scale, without sacrificing the quality and depth of service, is a driving force in the consolidation of companies. In such consolidations, companies are able to become more efficient in the governance and shared services departments.

This is true for both the smaller players within the industry as well as the largest players. The recent SBC acquisition of AT&T (and the subsequent re-naming of the enterprise) speaks volumes about the direction of the industry. Verizon's acquisition of MCI is yet another example. In other words, competition is driving horizontal consolidation (e.g., Embarq and Windstream), as well as vertical integration (e.g., AT&T and MCI). Joint Petitioners' St. 1.0 at 17-18.

It is fair to say that small and mid-sized ILECs likewise, and perhaps more so, will continue to evaluate consolidation for the same reasons – that is, to better position themselves to compete, to maximize efficiencies and to enable themselves to provide better value to their customers. Citizens’ St. 1.0 at 5.

In this case, Citizens has identified approximately \$30 million annually in redundant governance and shared services cost savings that it will realize within two years of the transaction closing. This \$30 million amount includes both wage and non-wage expenses. Non-wage expenses such as CTE board of director fees, audit fees, and NASDAQ listing fees are examples of separate expenses that will no longer be incurred. Citizens’ St. 1.0 at 11.

Included in this annual savings, the reduction of positions related to governance and support services will account for the vast majority of the anticipated reduction in positions. Citizens’ St. 1.0 at 11 and Citizens’ Exhibit No. DM-1. Citizens will honor the terms of all existing collective bargaining agreements between the CTE Companies and the union and, in line with the acquisition agreement, Citizens has agreed to honor CTE severance policies for a period of time. Citizens’ St. 1.0 at 11.

On the revenue side of the equation, the combined companies will be better able to focus on continuing to provide their customers with innovative and value-added services. Citizens will apply its “growing market share” approach to new product and service deployment -- a benefit to CTE’s current and future customer base. Joint Petitioners’ St. 1.0 at 18.

Citizens will provide similar value, through its products and periodic promotions to the customers of the CTE Companies. “Take rates” (i.e., penetration) of Citizens’ customers for many services, including Internet and video satellite, are significantly higher than for

CTCo. Citizens' Exhibit No. DM-2 (Highly Confidential) illustrates the customer opportunities in this regard. Citizens' St. 1.0 at 18-19.

Citizens, under the Frontier brand name, has taken significant steps to increase the value delivered to its customers by providing new products and enhancements to its traditional offerings through a strategy of integrating services through bundled and promotional offerings. Frontier seeks to ensure that customers are able to enjoy the benefits of those offerings without inconvenience by performing "full installs" of its products in the customers' homes. When installation technicians leave the customers' homes, all Frontier services are fully functional and ready for use. Citizens' St. 1.0 at 15-16.

Some of the additional features that are provided to high-speed Internet customers include:

ESPN-360

ESPN360 provides Frontier sports fans with exclusive live sporting events, inside analysis from ESPN commentators on all major sports, on-demand access to full-length Sports Center interviews from marquis athletes, and high-quality broadband video games. ESPN360 is available to all Frontier broadband subscribers at no additional charge.

Frontier Secure Connections

Frontier and Computer Associates (a market leader in PC-based protection) have partnered to provide PC-based security services that include Anti-Virus, Personal Firewall, Pop-Up Blocker, Anti-Spam and Anti-Spyware. Frontier Secure Connections security software is available at no additional charge to all Frontier High-Speed Internet residential customers who are currently within at least a one-year term plan and is also available to others for a nominal monthly fee.

Frontier MyWay website

- Search engines from Google, Ask Jeeves, Yahoo, and LookSmart, ensuring users get the most comprehensive answers.
- Content from over 75 Content Providers for news, weather, sports, and entertainment, so users can stay most current.
- Personalization of the home page, including layout, background, fonts, colors, pictures, and content so the page looks exactly the way our users want.
- Tools to help users to lead a more informed, and in some cases, more fun, digital lifestyle (e.g. reminders, dictionaries, and daily diversions)

- Pop-up ad blocking is available so users can cut through third-party marketing clutter to get to the content they want.
- Customer privacy tools along with Frontier Secure Connections to ensure users can participate online in the safest environment possible.

Citizens' St. 1.0 at 16-17.

Citizens has undertaken extensive customer analysis and research to create residential and business bundles that provide feature and cost benefits across all socio-economic demographics. These bundles have been successful in existing markets and Citizens plans to offer the same service to customers in CTCO's service area. Some of the key product bundle offerings include:

Choice of residential packages, features and price points

- Voice only; basic service with minimal additional features.
- Double play; Voice and High-Speed Internet.
- Triple play; Voice, high-speed Internet and television packages.

Frontier Connections

- Telephone, television and Internet on one bill at a discounted rate
 - Telephone - Unlimited local calling and choice of calling features including voice mail, caller ID and more. Includes either 300 or 600 minute blocks of time, or unlimited voice calls within the United States for certain subscribers.
 - Television - Digital satellite TV from Dish Network. All channels are 100% digitally delivered and there is no equipment to purchase. Local channels available in most areas and includes professional installation on up to 4 TVs.
 - High-speed Internet.

Small Business Bundle

- Voice only or Voice and Internet bundles on one bill at a discounted rate
 - Telephone – One or two business lines (or Centrex where available), choice of calling features including voice mail, call-forwarding and more. Includes choice of 300, 600 or 900 minute blocks of Long Distance time.
 - High-speed Internet

Citizens' St. 1.0 at 17.

Citizens' strategy is to create promotions that enable segments of its customer base to experience the benefit of bundled offerings where they previously may not have had such an

opportunity or could not afford the services. As an example, up to 40% of Citizens' rural markets do not have a personal computer (PC) in their household. Citizens believes that the key to crossing the digital divide is to provide all homes with broadband capability and the ability to receive next generation services via this connection. Citizens' St. 1.0 at 17-18.

In response, Citizens created its recent, fourth quarter 2006 promotion titled "Freeride." Under this promotion, any new customer who purchased a voice and HSI (high-speed Internet) package during the quarter at a bundled discounted rate and with a two-year commitment received a free Dell PC. These prices are guaranteed for two years and are extremely competitive in the marketplace. Citizens' St. 1.0 at 18.

The Frontier Companies rolled out their "triple play" offerings for all customers in April 2005. As a result of a partnership with Dish Network, most Frontier customers have access to voice, video and data on their Frontier bill. Frontier also is able to offer innovative marketing programs to its customers through the support of its corporate marketing department. An example of this innovation is the recent "Free Ride" promotion described above. Citizens' St. 1.0 at 18.

An additional benefit is the geographic proximity of the Citizens' New York State and Pennsylvania operations, which enhances the ability to offer inter-company assistance and promotes work force flexibility during emergencies or similar situations. Upon completion of the transaction, approximately 579,000, or 27%, of the combined entity's access lines as well as 490 installation and repair operations employees will be within an approximate 120-mile radius of Dallas, PA (CTE's headquarters). Citizens sees great value in the concentration of lines from an operational efficiency and customer service perspective. A concentration of operations and employees among contiguous geographies allows Citizens to respond to

emergency situations in a timely manner with the appropriate level and quality of resources. Citizens' St. 1.0 at 14.

In summary, the purchase by Citizens offers the Joint Applicants a larger parent organization focused on the local exchange business that shares the CTE Companies' history of commitment to excellent customer service to the customers of rural America. Citizens is and will remain committed to providing new, advanced services to all of its customers wherever technologically feasible and economically reasonable. Citizens' presence and the additional size of the combined entity will help the Joint Applicants anticipate technology changes and build for an evolving marketplace. Citizens' St. 1.0 at 19.

Additional Public Benefits Resulting From Settlement

The Settlement Agreement contains many interlocking provisions that assure that service quality will remain high at CTCO and the five Pennsylvania Frontier local exchange companies, while rates remain comparably low.

Quality of service is addressed through service-related job assurances, as well as specific minimum employment levels set for customer interfacing service jobs represented by the Communications Workers of America. On top of that, service reporting provides a means of monitoring service quality. Services themselves are then enhanced by commitments made to increase the availability of 3 Mbps service and stand-alone high-speed Internet access.

Potential rate increases under the price cap form of regulation applied to CTCO and the five Frontier Companies are restricted by a system of rate caps and freezes for the next three years, while not prohibiting participation in various important access rate reforms under consideration at the Federal Communications Commission and this Commission. Publication

of Lifeline services is enhanced through the distribution of brochures with the expectation that penetration of these services will be enhanced.

Rate Caps/Freezes – CTCo and the Frontier Companies have agreed to restrict dial tone line rate increases during the next three years to:

- 2007 – Increase in monthly charge for residential primary limited to \$.90 and for B-1 to \$.50.
- 2008 – Increase in monthly charge for residential primary limited to \$.50 and for B-1 to \$.25.
- 2009 – No increases in residential primary or B-1 rates.

In making these changes, CTCo and the Frontier Companies will adhere to the \$18.00 residential rate cap. Allowed business rate increases are less than residential increases. CTCo and the Frontier Companies may request increases in non-access line rates. Changes in rates as a result of important generic federal and state required changes to access charges and/or universal service funding or an exogenous event as defined in Chapter 30 Plans is reserved.

Importantly, revenues that CTCo and the Frontier Companies forego as a result of the price caps and freezes may not be preserved and taken later. Under their Chapter 30 Plans, the companies would be permitted to defer (i.e., “bank”) price increases allowed under their price cap formulas and take those increases in later years. For a three-year period, however, the companies are essentially agreeing to waive these Chapter 30 Banking provisions. Under the express limitations contained in the Settlement, the companies are in a position of “take it or leave it.”

Increased 3 Mbps Bandwidth Availability - Under Chapter 30, CTCo agreed to deploy 1.544 megabit per second broadband capacity to 100% of its service territory by year-end 2008. Under the Settlement Agreement, CTCo has now agreed to advance the capacity of its network, by making 3 megabit per second service available to a total of 88,000

households/businesses, 48% of the currently DSL-capable households/businesses, within three years.

Digital Subscriber Lines - Currently, a customer must purchase voice service and high speed Internet service at the same time. Under the Settlement, CTCo and the Frontier Companies agree to provide stand-alone high-speed Internet and ISP service to their customers for a period of two years. This increases customers' options of choosing among retail service providers. This is a federally deregulated service and in recognition of that status, the companies retain pricing flexibility for the service.

Lifeline – CTCo and the Frontier Companies, under the Agreement, will produce and distribute at their expense a Lifeline brochure explaining Lifeline and providing for telephonic application. The companies will provide these brochures to county assistance offices and local assistance agencies and organizations in their territories for a three-year period.

Employment – While Citizens has been candid that duplicative governance, managerial, and support positions will not be retained under this horizontal merger, CTCo and the Frontier Companies have committed to “continue to employ the appropriate level of resources, including workforce, employee benefits, network and investment necessary to achieve the continuation of quality service to their existing and prospective Pennsylvania customers while remaining competitive.” Specifically, CTCo agrees to maintain at least 95% of the level of CWA-represented positions through the end of the current contract period, excepting for bona fide attrition. As part of this job level guarantee, CTCo has agreed that its customer call center will remain open during this period (and not consolidated with other Citizens' call centers). All terms of existing bargaining agreements will be honored.

Service Quality Reporting – In order to monitor service level during the period following closing of the transaction, CTCo and the Frontier Companies have agreed to

provide reports of various service metrics to the OCA, OSBA and OTS. These metrics are trouble report rate, missed appointments, and intervals between a request for new basic service and installation. Further, CTCo and the Frontier Companies agree to advise the OCA and OSBA if the service repair outage index falls below 80% restored/repared within 24 hours for reasons not attributable to customer requests for a later time. The parties agree to resolve and indicate service issues with the companies prior to taking any formal action at the Commission.

Debt and Transaction Costs. Finally, the Joint Applicants have agreed not to seek rate recovery of any costs of the transaction, including recovery of any costs resulting from implementing the agreed-to stipulations. Additionally, CTCo will not guarantee the debt or credit instruments of Citizens or any affiliate not regulated by the Commission or grant a mortgage or other lien or otherwise pledge used and useful property as security for repayment of the principal or interest of any loan or credit instrument of Citizens for a period of three years.

Enhanced Cable Telephony Competition – The resolution of this case has occurred at the same time as the entry of the Commission’s decision of the Sprint “wholesale” case. CTCo, therefore, has also been able to resolve the issue of retail cable telephone service with various pending cable company applications. The Joint Applicants worked with Sprint and the cable companies to advance their competitive plans as facilities-based telephone service providers. CTCo has successfully stipulated its lack of objection to the issuance of CLEC certificates to Sprint, Blue Ridge and RCN. These are substantial, facilities-based carriers who will be offering telephone services in CTCo’s territory in the near future. This will enhance competitive customer choice.

Combined Benefits

In overall effect, the proposed acquisition of CTE by Citizens provides across-the-board benefits to the public. The Joint Petitioners become associated with a strong and viable corporate organization focused on rural telephone service, and able to keep pace with the scale and scope needed in today's highly competitive marketplace. Citizens is a company focused on the rural market whose strategy is a proactive set of customer services that introduce new technologies and bandwidth. At the same time, traditional services are enhanced, monitored and maintained, while rates for traditional, "plain old telephone service" are kept at low levels.

REASONS FOR REQUESTING APPROVAL BY MARCH 1, 2007

The above benefits are not realized until closing occurs. The Joint Applicants and Citizens believe that a parent level merger which makes so much sense operationally and financially and has such obvious customer benefits should be approved on its merits.

As part of the settlement process, the CWA and the statutory advocates have sought and the companies have agreed to provide additional benefits in areas of particular concern to them, many of which have nothing to do with the merits of the transaction itself, including stand-alone high speed internet, greater bandwidth and lifeline services, for example.

Citizens and the Joint Petitioners have made these considerable concessions in order to obtain earlier approval of the transaction. FCC approval is expected within two weeks of the filing of this settlement petition. This case in Pennsylvania, filed at the same time as the FCC proceeding, will be five months old as of March 1, 2007, the date for which Commission approval is sought. In order for Citizens and the Joint Petitioners to receive their bargained-for

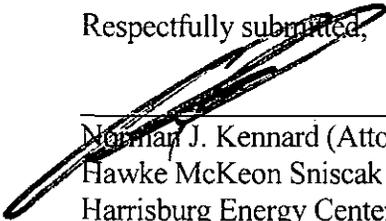
result, approval of an "all parties, all issues" settlement, approximately one and one half months after its filing is appropriate.

Citizens is eager to close the transaction and bring the benefits of its operating and customer-driven philosophies to a broader section of Pennsylvania.

CONCLUSION

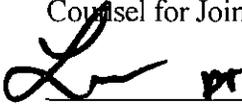
For these reasons, Commonwealth Telephone Company, CTSI, LLC, and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company and Citizens Communications Company request the Commission issue an Order approving the above-captioned Application, granting the requested Certificate of Public Convenience and incorporating the above-stated terms of this Settlement Petition at its Public Meeting of March 1, 2007.

Respectfully submitted,



Norman J. Kennard (Attorney I.D. 29921)
Hawke McKeon Sniscak & Kennard LLP
Harrisburg Energy Center
100 North Tenth Street
Harrisburg, PA 17101
Telephone: (717) 236-1300
[njkenard@hmsk-law.com](mailto:njkennard@hmsk-law.com)

Counsel for Joint Applicants



Lillian S. Harris (Attorney I.D. 50888)
Hawke McKeon Sniscak & Kennard LLP
Harrisburg Energy Center
100 North Tenth Street
Harrisburg, PA 17101
Telephone: (717) 236-1300
lharris@hmsk-law.com

Counsel for Citizens Communications Company

DATED: January 19, 2007

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Commonwealth	:	
Telephone Company, CTSI, LLC and CTE	:	
Telecom, LLC, d/b/a Commonwealth Long	:	
Distance Company for all approvals under	:	Docket No. A-310800F0010
the Public Utility Code for the acquisition	:	Docket No. A-311095F0005
by Citizens Communications Company of	:	Docket No. A-311225F0003
all of the stock of the joint applicants'	:	
corporate parent, Commonwealth	:	
Telephone Enterprises, Inc.	:	

STATEMENT IN SUPPORT OF SETTLEMENT OF
COMMUNICATIONS WORKERS OF AMERICA

On October 26, 2006, Communications Workers of America (CWA) filed a Protest against the proposed acquisition of Commonwealth Telephone Company (Commonwealth) by Citizens Communications Company (Citizens). CWA's Protest raised several concerns with the proposed transaction, including the following:

[T]he Application does not provide any concrete evidence that the transaction will benefit Commonwealth's consumers with increased investment in the network and commitments to maintain, and if necessary increase, staffing levels to ensure quality service and deployment of advanced service to Commonwealth's local telephone customers.

[T]he proposed transaction could result in a financially weaker Commonwealth, with fewer resources to invest in local telephone infrastructure and operations.

[T]he Application does not provide any meaningful information regarding what will happen to Commonwealth's employees. ... CWA is concerned that some of these savings may occur by reducing the number of employees at Commonwealth, including members of CWA. Citizens is in the process of a call center

consolidation, and CWA is particularly concerned about the impact of that consolidation on Commonwealth's Wilkes-Barre call center.

Citizens and Commonwealth have not clearly and unequivocally committed to honoring the collective bargaining agreement with CWA, including all pensions and benefits contained therein.

CWA Protest, ¶¶ 4-7 (emphasis added).

Each of CWA's concerns has been resolved by the Joint Petition for Approval of Unanimous Settlement Agreement (Settlement). Specifically:

- Advanced services deployment: Citizens has committed to enhance the availability of broadband and other advanced services for Commonwealth's customers. Settlement ¶¶ 13.b and 13.c.
- Impacts on service quality: Citizens has agreed to provide service quality reports so that the Pennsylvania Public Utility Commission (Commission) and the government parties can monitor any impacts of the change in ownership on the quality of service received by Commonwealth's customers. Settlement ¶ 13.f.
- Financial effects: Citizens provides assurances that Commonwealth will be insulated from any potential adverse effects on Citizens' credit because (1) Commonwealth will not be permitted to guarantee the debt or credit instruments of Citizens, and (2) Citizens will not be permitted to pledge the assets of Commonwealth to support any Citizens' unregulated or out-of-state operations. Settlement ¶ 13.g.
- Effects on Commonwealth's employees: Citizens has agreed to maintain employment among CWA members at Commonwealth at 95% or more of the current level, except for limited attrition, during the remaining term of the collective bargaining agreement with CWA (which is November 30, 2008). This provides a reasonable transition period during which Citizens can assess its future needs and negotiate any long-term changes with CWA at the time of the next collective bargaining agreement. Settlement ¶ 13.e.
- Wilkes-Barre call center: Citizens has committed to keeping Commonwealth's Wilkes-Barre call center open at least through November 30, 2008. This provides a reasonable transition period during which Citizens can determine how the Commonwealth call center fits into Citizens' long-term plans. Settlement ¶ 13.e.
- Collective bargaining agreement: Citizens has agreed to honor all terms of the existing collective bargaining agreement between Commonwealth and CWA. Settlement ¶ 13.e.

In summary, CWA supports the Settlement because it appropriately resolves the major issues raised in CWA's Protest. With the commitments made by Citizens and Commonwealth in the Settlement, the customers and employees of Commonwealth have received assurances that the acquisition by Citizens (1) will enhance the level and quality of service at Commonwealth; (2) will not adversely affect employment levels or benefits at Commonwealth; (3) will keep the Wilkes-Barre call center open at least through the term of the existing collective bargaining agreement; and (4) will not have an adverse financial impact on Commonwealth. In light of these commitments, CWA submits that the proposed transaction will provide a substantial affirmative benefit to the public. The Commission, therefore, should approve the proposed transaction with the conditions contained in the Settlement.

WHEREFORE, Communications Workers of America respectfully requests the Administrative Law Judge and Pennsylvania Public Utility Commission to approve the proposed transaction subject to all of the terms and conditions of the Joint Petition for Approval of Unanimous Settlement Agreement.

Respectfully submitted,



Scott J. Rubin, Esq.
Pa. Supreme Court ID: 34536
3 Lost Creek Drive
Selinsgrove, PA 17870

Counsel for:
Communications Workers of America

Dated: January 19, 2007

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT APPLICATION OF COMMONWEALTH	:	
TELEPHONE COMPANY, CTSI, LLC, AND	:	
CTE TELECOM, LLC d/b/a COMMONWEALTH	:	
LONG DISTANCE COMPANY FOR ALL	:	Docket Nos.
APPROVALS UNDER THE PUBLIC UTILITY	:	A-310800F0010
CODE FOR THE ACQUISITION BY CITIZENS	:	A-311095F0005
COMMUNICATIONS COMPANY OF ALL	:	A-311225F0003
OF THE STOCK OF THE JOINT APPLICANTS'	:	
CORPORATE PARENT, COMMONWEALTH	:	
TELEPHONE ENTERPRISES, INC.	:	

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

I. Introduction

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

On September 29, 2006, an Application was filed by Commonwealth Telephone Company (“CTCo”); CTSI, LLC (“CTSI”); and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company (“CLD”), (collectively, the “Joint Applicants”), seeking approval under Section 1102 of the Public Utility Code, 66 Pa. C.S. §1102, and Section 69.901 of the Commission’s Rules of Practice and Procedure, 52 Pa. Code §69.901, of the acquisition of their parent company—Commonwealth Telephone Enterprises, Inc. (“CTE”)—by Citizens Communications Company (“Citizens”). The

OSBA filed a Notice of Intervention on October 13, 2006, and a Protest on October 30, 2006.

II. Summary of OSBA's Principal Concerns

The OSBA filed a Prehearing Memo on November 22, 2006. In its Prehearing Memo, the OSBA identified two major issues of concern:

1. The Proposed Acquisition could allow Citizens to divert revenues from CTE in order to service Citizens' \$990 million debt.
2. Citizens projected \$30 million in synergy savings each year but did not propose to share those savings with ratepayers.

To this point in the proceedings, the OSBA has propounded discovery and has been preparing its Direct Testimony. The OSBA has also actively participated in the negotiations which have led to the filing of the Joint Petition for Settlement ("Settlement"). The OSBA is a signatory to the Settlement.

III. Summary of Settlement

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process to address the concerns the OSBA identified in its Prehearing Memo and would have spelled out in more detail in its Direct Testimony. This statement outlines the OSBA's specific reasons for joining the Settlement:

1. The Settlement shares the synergy savings with the residential and business customers of CTCO and Citizens (the five Pennsylvania-located Frontier ILECs), thereby affording "affirmative public benefits" as required by City of York v. Pennsylvania Public Utility Commission, 449 Pa. 136, 141, 295 A.2d 825, 828 (Pa. 1973). The Joint Application did not propose to flow any merger savings directly through

to CTCo and Citizens' ratepayers. However, pursuant to the terms of the Settlement, the merger savings will be directly shared by small business consumers.

2. The Settlement caps basic local exchange rates for residential and business (R1 and B1) customers in 2007 and 2008 and provides a rate freeze for R-1 and B-1 customers in 2009.

3. The Settlement accelerates the availability of greater bandwidth for faster digital services provided to consumers. Specifically, CTCo agrees to provide bandwidth availability equal to or greater than 3 megabits per second to an aggregate of 88,000 lines within three years of closing this transaction.

4. The Settlement allows consumers to obtain DSL services (digital subscriber line, i.e., internet access and VOIP (voice over internet protocol) access) without also purchasing telephone services from CTCo or Citizens. This two year window for standalone DSL service may increase intermodal competition.

5. The Settlement requires CTCo and Citizens to employ the appropriate level of resources, including workforce, network and investment, necessary to achieve the continuation of quality of service to their existing and prospective Pennsylvania customers.

6. The Settlement requires CTCo and Citizens to notify the Office of Consumer Advocate ("OCA") and the OSBA if for three consecutive months in any one CTCo district or CCC exchange, CTCo or Citizens' service outage repair index falls below 80% restored/repaired within 24 hours. The Settlement further requires CTCo and Citizens, in the event such notification is given, to meet with the OCA and the OSBA to

address actions to be undertaken by CTCo and Citizens in order to remedy the problem or problems.

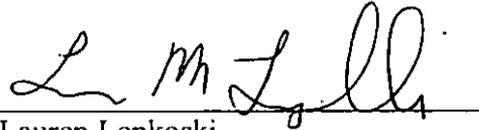
7. The Settlement does not allow the Joint Applicants to recover any costs of this Transaction from ratepayers, including any associated increase in debt costs and also any costs resulting from implementing the stipulations of the Settlement.

8. From the effective date of the closing of this transaction and continuing for three years, CTCo will not guarantee the debt of Citizens nor will CTCo be able to grant a mortgage or lien for the benefit of Citizens.

By resolving the issues of principal concern to the OSBA, the Settlement enables the OSBA to conserve its resources and avoid the uncertainties inherent in fully litigating those issues.

WHEREFORE, the OSBA respectfully requests that the Administrative Law Judge and the Commission approve the Settlement without modification.

Respectfully submitted,



Lauren Lepkoski
Assistant Small Business Advocate
Attorney I.D. No. 94800

For:
William R. Lloyd, Jr.
Small Business Advocate
Attorney I.D. No. 16452

Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101
(717) 783-2525

Date: January 19, 2007

ORIGINAL

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by participant).

Via Electronic Mail and First Class Mail

Shaun A. Sparks
Joel Cheskis
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1921

Johnnie E. Simms
Robert V. Eckenrod
Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Lauren M. Lepkoski
Sharon E. Webb
Office of Small Business Advocate
Suite 1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101

Pamela C. Polacek
McNees Wallace & Nurick
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870

Hilary Glassman
Citizens Communications Co.
3 High Ridge Park
Stamford, CT 06905

Raymond Ostroski
Commonwealth Telephone Enterprises
100 CTE Drive
Dallas, PA 18612

John F. Povilaitis
Ryan, Russell, Ogden & Seltzer, LLP
Suite 101
800 North Third Street
Harrisburg, PA 17102-2025

Jennifer A. Duane
Sprint Nextel
2001 Edmund Halley Drive
Second Floor
Reston, VA 20191

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SECRETARY'S BUREAU



Norman U. Kennard

Dated this 19th day of January, 2007

**Joint Application of Commonwealth Telephone
Company, CTSI, LLC, and CTE Telecom, LLC
d/b/a Commonwealth Long Distance Company
For All Approvals Under The Public Utility Code
for the Acquisition By Citizens Communications
Company of All of the Stock of the Joint Applicants'
Corporate Parent, Commonwealth Telephone
Enterprises, Inc.
Docket Nos. A-310800F0010, A-311095F0005 and
A-311225F0003**

Hawke
 Mckeon
 Sniscak &
 Kennard LLP
ATTORNEYS AT LAW

William T. Hawke
Kevin J. McKeon
Thomas J. Sniscak
Norman James Kennard
Lillian Smith Harris
Scott T. Wyland
Todd S. Stewart
Craig R. Burgraff

Steven D. Snyder
Janet L. Miller
Steven K. Haas
William E. Lehman
Rikardo J. Hull
Katherine E. Lovette
Amy A. Whitney

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmsk-law.com

September 29, 2006

RECEIVED

JAN 19 2007

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street – Filing Room (2 North)
Harrisburg, PA 17105-3265

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

Re: Joint Application of Commonwealth Telephone Company CTSI, LLC and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company For All Approvals Under The Public Utility Code for the Acquisition By Citizens Communications Company of All of the Stock of the Joint Applicants' Corporate Parent, Commonwealth Telephone Enterprises, Inc., Docket Nos. A-310800F0010, A-311095F0005 and A-311225F0003;
APPLICATION

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of the Joint Application of Commonwealth Telephone Company, CTSI, LLC and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company For All Approvals Under The Public Utility Code for the Acquisition By Citizens Communications Company of All of the Stock of the Joint Applicants' Corporate Parent, Commonwealth Telephone Enterprises, Inc. Also enclosed is a check in the amount of \$350.00, which represents the filing fee.

Should you or any member of the Commission Staff have any questions or comments, please do not hesitate to contact me at your convenience.

Sincerely,



Norman J. Kennard

NJK/ajt
Enclosure

MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of	:	
	:	
Commonwealth Telephone Company	:	A-310800F0010
CTSI, LLC, and	:	A-311095F0005
CTE Telecom, LLC d/b/a Commonwealth	:	A-311225F0003
Long Distance Company	:	
	:	
For All Approvals Under The Public Utility	:	
Code for the Acquisition By Citizens	:	
Communications Company of All of the Stock	:	
of the Joint Applicants' Corporate Parent,	:	
Commonwealth Telephone Enterprises, Inc.	:	

AND NOW COME, Commonwealth Telephone Company (“CTCo”), CTSI, LLC (“CTSI”), and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company (“CLD”), (hereinafter collectively referred to as the “Applicants” or “Joint Applicants”) and file, pursuant to the Pennsylvania Public Utility Code and the regulations of the Pennsylvania Public Utility Commission (“Commission”), this Joint Application (“Application”), as a single submittal under 52 Pa. Code §1.34, for all approvals required for the transaction described herein as evidenced by the issuance of a Certificate of Public Convenience and, in support thereof, state as follows:

OVERVIEW

Applicants

1. The names and addresses of the Joint Applicants are:

Commonwealth Telephone Company
39 Public Square
Wilkes-Barre, PA 18702

CTSI, LLC
100 CTE Drive
Dallas, PA 18612

CTE Telecom, LLC
d/b/a Commonwealth Long Distance Company
100 CTE Drive
Dallas, PA 18612

2. The name and address of the Joint Applicants' attorney in this matter is:

Norman J. Kennard
Hawke McKeon Sniscak & Kennard, LLP
Harrisburg Energy Center
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105
(717) 236-1300 (Tel)
(717) 236-4841 (Fax)

3. The Joint Applicants are wholly owned affiliates, either directly or indirectly, of:

Commonwealth Telephone Enterprises, Inc.
100 CTE Drive
Dallas, PA 18612

Commonwealth Telephone Enterprises, Inc. ("CTE"), a publicly traded Pennsylvania company (NASDAQ: CTCO), owns and controls all of the outstanding common stock of CTCO. In turn, CTCO owns and controls all of the stock of CTSI and CLD.

Statement of Jurisdiction

4. In 1994, the Commission formulated a Policy Statement applying the certification requirements of 66 Pa.C.S. §1102(a)(3) where a stock transaction or series of

stock transactions resulted in a change of control of a public utility “regardless of remoteness” (i.e., ownership tier).¹ The Commission determined that:

A transaction or series of transactions which results in a new “controlling interest” requires approval when the transaction results in a different entity becoming the beneficial holder of a largest voting interest in the utility or parent.

A transaction or series of transactions which results in the elimination of a “controlling interest” requires approval when the transaction or transactions results in the dissipation of the largest voting interest in a utility or parent.

The term “controlling interest” is defined to be any interest held by a person or group acting in concert which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent.²

The Transaction Generally

5. This Application is filed as a result of the execution, on September 17, 2006, of an Agreement and Plan of Merger (“Merger Agreement”) pursuant to which Citizens Communications Company (“Citizens”) will acquire the stock of CTE and, indirectly, the stock of Applicants. That is, pursuant to the Merger Agreement, the Joint Applicants’ corporate parent, CTE, will become a wholly-owned, direct subsidiary of Citizens.

6. The transaction represents a change in indirect ownership only. Ownership of the Applicants will continue to reside in the parent company, CTE. The Joint Applicants will retain the same subsidiary corporate relationships to CTE as they did prior to the proposed stock transfer.

¹ 52 Pa. Code § 69.901. While Policy Statements are not legally binding, they are intended to provide guidance regarding how the Commission would decide a particular question.

² 52 Pa. Code § 69.901(b)(2).

Designated Contacts

7. In addition to the undersigned counsel, the designated contacts for questions and correspondence concerning this Application are:

For Commonwealth Telephone Enterprises:

Raymond Ostroski, Esquire
Senior Vice President, General Counsel and Secretary
Commonwealth Telephone Enterprises, Inc.
100 CTE Drive
Dallas, PA 18612
(570) 631-2802 (Tel)
(570) 631-2895 (Fax)

For Citizens Communications:

Hilary Glassman, Esquire
Senior Vice President and General Counsel
Citizens Communications Company
3 High Ridge Park
Stamford, Connecticut 06905
(203) 614-5047 (Tel)
(203) 614-4651 (Fax)

Lillian S. Harris, Esquire
Hawke McKeon Sniscak & Kennard, LLP
Harrisburg Energy Center
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105
(717) 236-1300 (Tel)
(717) 236-4841 (Fax)

DESCRIPTION OF APPLICANTS

8. CTCO, a rural local exchange carrier incorporated in Pennsylvania, provides local, vertical, regional long distance and broadband services over a network established in Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill,

Sullivan, Susquehanna, Tioga, Wyoming, and York Counties, an approximately 5,000-square-mile service territory. CTCo currently provides local exchange service to approximately 313,366 access lines in seventy-nine telephone exchanges. CTCo holds Letters Patent and Certificates of Public Convenience to offer telephone service in Pennsylvania at Commission Docket Nos. A-9610, A-76155, A-80433, A-81356, A-82106, A-83156, A-85690, A-96978, A-96933, A-99981, A-00101891, A-00102711, and A-310800. CTCo is a "Rural Telecommunications Carrier" as defined in section 3 of the Telecommunications Act of 1996 (Public Law 104-104, 110 Stat. 56) which this Commission has recognized in its Orders entered at Docket No. M-00960799,³ and for the purposes of Act 183, 66 Pa. C.S. §3011 *et seq.*⁴

9. CTSI, a competitive local exchange carrier ("CLEC") operating in the service territories of Verizon Pennsylvania, Inc., Verizon North, Inc. and The United Telephone Company d/b/a Embarq Pennsylvania, is incorporated as a Pennsylvania corporation and is a full-service, facilities-based CLEC offering bundled local, long distance telephone, vertical services, DSL and Internet access. CTSI holds a Certificate of Public Convenience issued by this Commission at Docket No. A-311095 Order entered June 22, 2001. CTSI provides competitive local exchange service to approximately 137,821 access lines in 18 Pennsylvania counties.

10. CLD, organized as CTE Telecom, LLC in the Commonwealth of Pennsylvania, provides long distance telephone service as a switched-based reseller in portions of Pennsylvania pursuant to a Certificate of Public Convenience issued by Commission Order entered on December 23, 2002 at Docket No. A- 311225.

³ *Re: Implementation of the Telecommunication Act of 1996*, Docket No. M-00960799; Orders entered June 3, 1996 and September 9, 1996.

⁴ See, CTCo Chapter 30 Plan at 1.

CITIZENS

11. Citizens Communications Company, a publicly traded Delaware company (NYSE: CZN), is a highly-regarded, full-service communications service provider and the seventh largest local exchange telephone companies in the country. Citizens offers telephone, television and internet services, as well as bundled offerings, ESPN360 streaming video, security solutions and specialized bundles for small businesses and home offices.

12. Citizens is focused upon successfully operating telecommunications companies in small and medium-sized rural markets. During the last eight years, Citizens has grown to become a substantial presence in the rural local exchange carrier segment of the telecommunications market. Citizens currently owns incumbent local exchange carrier subsidiaries serving approximately 2,145,000 telephone access lines in twenty-four states: Alabama, Arizona, California, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, Ohio, Oregon, Pennsylvania, Tennessee, Utah, West Virginia and Wisconsin.⁵ Branded as Frontier, Citizens services are provided primarily to residential customers and principally include access services, local services, long distance services, data and internet services, directory services, and television services.

13. In Pennsylvania, Citizens owns and operates five local exchange companies: Frontier Communications of Breezewood, LLC; Frontier Communications of Canton, LLC; Frontier Communications of Lakewood, LLC; Frontier Communications of Oswayo River, LLC; and Frontier Communications of Pennsylvania, LLC (collectively

⁵ Citizens Telecommunications Company of New York, Inc. an original subsidiary of Citizens, provides basic local exchange service in a small portion of Pennsylvania from a switch located in New York State.

the "Frontier Companies").⁶ The smaller companies among these provide local service in portions of some of Pennsylvania's most rural areas, Potter, McKean, Schuylkill, Bedford, Bradford, Tioga, Lycoming and Fulton Counties and operate between one and four exchanges. Frontier Communications of Pennsylvania, Inc., the largest of the Frontier Companies, serves approximately 30,000 local access lines, divided into four exchanges, located predominantly in Lancaster County. Collectively, the Frontier Companies provide local telecommunications service to approximately 39,000 access lines in Pennsylvania. A sixth Citizens subsidiary, Frontier Communications of America, is certified by the Commission as an interexchange reseller, and a facilities-based and resale local exchange carrier.

14. Citizens has a strong income statement and balance sheet and is financially qualified to complete the CTE acquisition and to operate the acquired properties in a manner that is consistent with the public interest. A copy of Citizens' most recent Annual Report to Shareholders, which is the same as its Form 10K as filed with the Securities and Exchange Commission ("SEC"), is attached hereto as **Appendix**

⁶ Citizens' acquisition of Frontier Subsidiary Telco, LLC, the immediate parent of the five Frontier companies operating in Pennsylvania, was approved by the Commission by Order entered December 8, 2000. *Joint Application of Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., Frontier Communications of America, Inc., For All approvals Under the Public Utility Code To Complete the Merger with and Transfer of all of the Utilities' Stock of the Corporate Parent, Frontier Subsidiary Telco, Inc. by Citizens Communications Co.*, Docket Nos. A-310400F003; A-310550F003; A-311750F003; A-312600F002; A-311250F003; and A-310153F003, Order entered December 8, 2000 ("*Citizens Frontier Acquisition Order*"). These companies are wholly owned by Frontier Subsidiary Telco, LLC by virtue of transactions previously approved by this Commission. Frontier Communications of Breezewood, Inc. (Docket No. A-310400F500, Dec. 18, 1986); Frontier Communications of Canton, Inc. (Docket No. A-310550F500, June 11, 1987); Frontier Communications of Lakewood, Inc. (Docket No. A-311750F500, Sept. 1, 1988); Frontier Communications of Oswayo River, Inc. (Docket No. A-105765F500, Dec. 7, 1984); and Frontier Communications of Pennsylvania, Inc. (Docket No. A-311250F500).

“A.”⁷ Similarly, CTE is a financially sound corporation⁸ and, combined, the companies will continue to be financially strong.

15. Upon closing of this transaction, the combined company will strengthen its standing as the 7th largest local telephone exchange company in the United States, with pro forma annual revenues of approximately \$2.4 billion and operations across twenty-four states. Operations under the brand name of Frontier will have approximately 2.6 million access lines, 388,000 High-Speed Internet subscribers and 6,600 employees.

16. As Citizens has stated in its 2005 Annual Report:

Our objective is to be the leading provider of communications services to homes and businesses in our service areas. We are committed to delivering innovative and reliable products and solutions with an emphasis on convenience, service and customer satisfaction. We offer a variety of voice, television and internet services that are available as bundled or package solutions or, for some products, a la carte. We believe that superior customer service and innovative product positioning will continue to differentiate us from our competitors in the marketplace.⁹

REQUEST FOR APPROVAL OF THE TRANSFER OF CONTROL

Description of the Transaction

17. On September 17, 2006, Citizens and CTE entered into an Agreement and Plan of Merger (“Merger Agreement”) whereby Citizens will acquire control of CTE and, indirectly, CTE’s utility subsidiaries, the Joint Applicants. As a result of the transaction, CTE will become a wholly owned, direct subsidiary of Citizens.

18. Under the Agreement, Citizens will assume the existing debt and acquire all outstanding shares of CTE for a total consideration of \$1.16 billion in a cash and

⁷ Citizen’s SEC Form 10Q for the most recent period (second quarter of 2006) is found at <http://czn.com/Invest/SECDocuments.aspx> and incorporated herein by reference.

⁸ CTE’s SEC Form 10Q for the most recent period (second quarter of 2006) is found at http://cte.com/investor/sec_filings.html and incorporated herein by reference.

⁹ Appendix “A” at 3.

stock transaction as determined by the arms length negotiation of the parties. Citizens intends to finance the cash portion of the purchase price with a combination of cash on hand and debt. Citizens has obtained a commitment from Citigroup for the financing necessary to complete the acquisition.

19. **Appendix "B"** hereto is a complete and accurate copy of the Agreement and Plan of Merger dated September 17, 2006 between Citizens and CTE. Approval of this Commission is requested for the entirety of the transactions set forth therein.

20. Organizational charts depicting the transactions described herein are attached as **Appendix "C."** These demonstrate that there is no change in direct ownership or organization of the Joint Applicants.

21. The transaction does not involve assignment or creation of any certificates of public convenience or tariffs held or published by CTE's operating utility subsidiaries. Rather, all shares of CTE will be transferred to Citizens, and Joint Petitioners, upon closing, will retain the same corporate status as they do today.

22. No securities issued by the Joint Applicants are affected. The current financing and capital structure of the Joint Applicants will not be affected by the transaction.

23. The books of account of the Joint Applicants will not be affected by the transaction. The income statements and balance sheets of Joint Applicants are not affected by the proposed transaction in any way.

24. No customers are proposed to be transferred by this transaction. Joint Applicants, including CTSI, the CLEC, will continue operation.

25. The transaction will be transparent to Joint Applicants' customers, who will enjoy the same or better level of service as they do today. All customers will continue to be served in the same manner they are served today, with the same high level of service quality. The Joint Applicants' customers will be notified of the change.

26. The Joint Applicants' rates will not be affected by the transaction.

27. The proposed transaction will not affect the regulatory authority of the Commission over the Joint Applicants.

FINANCIAL INFORMATION AND CORPORATE AUTHORIZATIONS

28. CTE's most recent Annual Report to Shareholders is attached hereto as **Appendix "D"**.

29. Certified copies of Board of Directors' Resolutions of CTE and Citizens authorizing the Merger Agreement are attached hereto as **Appendices "E" and "F,"** respectively.

30. All annual and other reports, tariffs, certificates of notification, applications for certificates of valuation, applications for approval of the issuance of securities, and securities certificates filed with the Commission by CTCo, CTSI, CLD, Citizens or their predecessor and constituent companies are made part hereof by reference.

APPROVAL OF THIS APPLICATION IS IN THE PUBLIC INTEREST

31. The proposed stock acquisition is "necessary and proper for the service, accommodation, convenience and safety of the public."¹⁰ Moreover, the transaction "will affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way."¹¹

32. As noted by the Commission in its 2000 *Citizens Frontier Acquisition Order*, there are numerous positive benefits of horizontal alignment among rural local exchange carriers generally and specifically by Citizens:

Control of the Frontier Utilities will become controlled by a holding company the operational subsidiaries of which are primarily local utilities in many jurisdictions. The applicants have provided in their application evidence of Citizens' financial strength together with evidence of Citizens' experience in managing communications utilities in many states.

The applicants note in their filing that Citizens has specialized in providing local utility service to rural and suburban areas in many jurisdictions. The quality of service that Citizens and Frontier Telco have provided in the past through their jurisdictional subsidiaries promises that their intended expansion of services in Pennsylvania will contribute to more customers in outlying areas having available advanced services. The Chapter 30 Plans of the Frontier ILECs will remain unaffected by the proposed acquisitions, and the applicants aver that such services will include DSL service.¹²

These same positive attributes are inherent in the proposed acquisition by Citizens of a sixth rural Pennsylvania local exchange company, and its CLEC and long distance affiliates.

33. Citizens is a respected, long-time participant in the local exchange marketplace, focusing largely on rural and suburban communities. In recent years, Citizens has determined to emphasize its focus on rural and suburban communities, a

¹⁰ 66 Pa. C.S. §1103.

¹¹ *City of York v. Pa. P.U.C.*, 295 A.2d 825 (Pa. Supreme 1972).

¹² *Citizens Frontier Acquisition Order*, supra, at 4-5.

market, which it believes, has been underserved in the current telecommunications environment. The instant transaction will permit both Citizens and Joint Applicants to sharpen their focus on the areas where they are best able to provide their customers with innovative and value-added services, and the combined size and depth of expertise of the companies will enhance their abilities to provide these services in additional areas.

34. The service territories of the Frontier Companies and CTCo fit together exceptionally well. The combined size and depth of expertise of the companies will help create a “critical mass” of employees, customers and technology. The combined companies' increased size will give them an increased ability to focus on growing their customer base through new business opportunities, expansion of existing services, and new service bundling opportunities and offers.

35. The proposed acquisition of CTE by Citizens will positively benefit Joint Petitioners' local exchange operations and customers. The purchase by Citizens offers the Joint Applicants a larger, parent organization focused on the local exchange business that shares CTE's history of commitment to excellent customer service. The merger will be virtually transparent to CTCo's local telephone subscribers, that is, customers will continue to be physically served by the same people serving them today. Indeed, the proposed stock transfer will produce a more complete and robust set of services for Joint Applicants' customers.

36. One driving force behind the proposed transaction is the need to grow the business.. Applicants believe that the expanded business opportunities of the combined company will enable it to enhance and improve its overall presence in Pennsylvania.

37. Citizens is committed to meeting the needs and telecommunications requirements of small and medium-sized communities and ensuring that these communities become part of the information superhighway. The transaction will permit both Citizens and the Joint Applicants to sharpen their focus on the areas where they are best able to provide their customers with innovative and broad reaching services with bundling choice options. For example, Citizens has a higher penetration of high speed internet access (i.e., DSL) than does CTCo and, therefore, will seek to accomplish higher customer acceptance by CTCo customers, as well.

38. The two companies, in combination, will enhance the range of telecommunications services and choices, regulated and unregulated, available to customers more rapidly. For example, Citizens intends to immediately introduce CTCo subscribers to its ask.com co-branded portal, wireless modem, ESPN 360 (customized sporting event highlights) and Frontier Secure Connections (Computer Associates' firewall, virus and anti-spam software). Further, as bundled packages of telecommunications services are increasingly popular among customers, Citizens intends to improve the scope and value of bundled packages of services available to CTCo customers.

39. Citizens intends to use the Frontier logo in the CTCo, CLD and CTSI operations, thereby identifying customers' services with a well-known and respected national brand.

40. The combination with Citizens will help to ensure continuity of CTE's trend of prudent investment and the commitments that CTCo has made in its Chapter 30 Network Modernization Plan, which remain unaffected by the proposed acquisition.

Citizens is and will remain committed to providing new, advanced services to all of its customers wherever technologically feasible and economically reasonable. Citizens' presence will help the Joint Applicants to anticipate technology changes and build for an evolving marketplace.

41. The transaction will not be the cause of any request for rate increases. CTCo's price cap form of regulation remains unchanged by the transaction. The books and records of the Pennsylvania subsidiaries will continue to be maintained in conformance with the Commission's relevant rules and regulations. Following the proposed transaction, the Pennsylvania utilities will continue to be subject to the Commission's jurisdiction and Pennsylvania regulatory laws.

42. The increased size and depth of expertise of the combined companies will provide the resources needed to reduce the time to market of new service offerings.

43. The combination of the non-duplicative operations of the Frontier Companies with CTCo and CTSI will not adversely affect regulated, wireline local exchange competition, since none of the companies competes in the market areas served by the other and neither is a likely entrant into the other's geographic markets.

44. Competition for telecommunications service will be enhanced, as the combined size and depth of expertise of Citizens and CTE will enable them to compete more effectively with other facilities-based competitors, including cable telephony and wireless carriers.

45. The experience gained by Citizens, across its twenty-four state operation in responding to the forces of competition may enhance CLEC competition in CTCo's territory in two ways: (a) responding effectively to competition by providing new

services and pricing options to customers; and (b) ensuring that CLECs are treated appropriately in accordance with the complex regulatory rules that apply to transactions between ILECs and CLECs.

46. Moreover, by associating Citizens with CTSI, this Pennsylvania CLEC will be a stronger competitor in the telecommunications market. Citizens intends to continue ownership and operation of CTSI.

OTHER PROVISIONS

47. The proposed transaction is effective subject to approval of this Commission and is conditioned upon meeting the requirements and/or receiving the approvals of all regulatory agencies having jurisdiction over the Joint Applicants and the contemplated transaction, as well as obtaining approval of the shareowners of CTE.

48. All Joint Applicants have paid the special and general assessments levied upon them by the Commission pursuant to the Public Utility Code and the Commission's regulations. Any and all lawful future assessments of the Commission, special and general, will be paid.

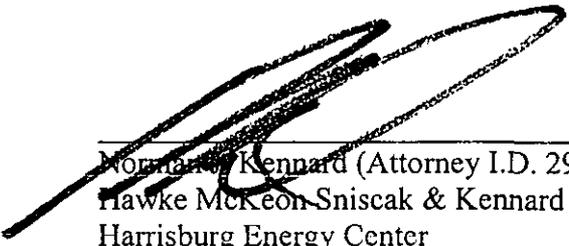
49. As indicated by the attached certificate of service, service of this Joint Application has been made upon the Commission's Office of Trial Staff ("OTS"), the Pennsylvania Office of the Consumer Advocate ("OCA"), and the Pennsylvania Office of the Small Business Advocate ("OSBA").

PRAYER FOR RELIEF AND REQUEST FOR FINDINGS

WHEREFORE, the Joint Applicants respectfully request that the Pennsylvania Public Utility Commission:

1. Find that the Joint Applicants have established that the transaction described by this Application provides affirmative public benefits and that approval of the transaction is in the public interest; and
2. Grant all approvals, as evidenced by the issuance of a Certificate of Public Convenience, required for Citizens and CTE to undertake the transaction described in this Application.

Respectfully submitted,



Norman J. Kennard (Attorney I.D. 29921)
Hawke McKeon Sniscak & Kennard LLP
Harrisburg Energy Center
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105-1778
Telephone: (717) 236-1300
Facsimile: (717) 236-4841
[njkenard@hmsk-law.com](mailto:njkennard@hmsk-law.com)

Counsel for Joint Applicants

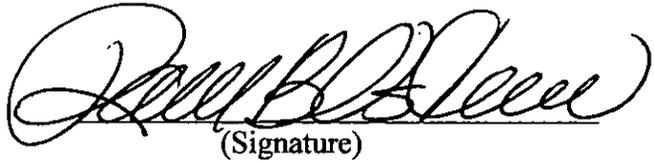
DATED: September 29, 2006

VERIFICATION

I, Raymond B. Ostroski, Senior Vice President, General Counsel and Corporate Secretary, Commonwealth Telephone Enterprises, Inc. and the Joint Applicants, hereby state that the facts above set forth are true and correct to the best of my knowledge, information, and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date:

9/29/06


(Signature)

VERIFICATION

I, Hilary E. Glassman, Senior VP and General Counsel, Citizens Communications Company, hereby state that the facts above set forth are true and correct to the best of my knowledge, information, and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date:

9/29/06



(Signature)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by participant).

By First Class Mail

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1921

Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Office of Small Business Advocate
Suite 1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101



Alan J. Kennard

Dated this 29th day of September, 2006

RECEIVED

JAN 19 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

CITIZENS COMMUNICATIONS COMPANY

2005 ANNUAL REPORT



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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number 001-11001

CITIZENS COMMUNICATIONS 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

Stamford, Connecticut

(Address of principal executive offices)

06905

(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.25 per share	New York Stock Exchange
Guarantee of Convertible Preferred Securities of Citizens Utilities Trust	New York Stock Exchange
Citizens Convertible Debentures	N/A
Guarantee of Partnership Preferred Securities of Citizens Utilities Capital L.P.	N/A

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2005 was approximately \$4,590,836,087 based on the closing price of \$13.44 per share.

The number of shares outstanding of the registrant's Common Stock as of January 31, 2006 was 328,457,505.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2006 Annual Meeting of Stockholders to be held on May 25, 2006 are incorporated by reference into Part III of this Form 10-K.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

PART I

ITEM 1. BUSINESS

Citizens Communications Company and its subsidiaries (Citizens) will be referred to as the "Company," "we," "us" or "our" throughout this report. Citizens was incorporated in the state of Delaware in 1935 as Citizens Utilities Company.

We are a communications company providing services to rural areas and small and medium-sized towns and cities. We offer our services under the "Frontier" name. In addition, we provide competitive local exchange carrier, or CLEC, services to business customers and to other communications carriers in certain metropolitan areas in the western United States through Electric Lightwave, LLC, or ELI, our wholly-owned subsidiary. Revenue from our Frontier and ELI operations was \$2,003.3 million and \$159.2 million, respectively, in 2005. In February 2006, we entered into a definitive agreement to sell ELI and we expect the sale to close in the third quarter of 2006. Among the highlights for 2005:

- *Cash Generation*

We continued to grow free cash flow through further growth of broadband and value added services, productivity improvements, and a disciplined capital expenditure program that emphasizes return on investment.

- *Stockholder Value*

During 2005, we repurchased \$250.0 million of our common stock and we continued to pay an annual dividend of \$1.00 per common share. The share repurchase program was completed during the fourth quarter of 2005.

- *Growth*

During 2005, we added approximately 99,000 new high-speed internet customers and almost 84,000 customers began buying a bundle or package of our services. At December 31, 2005, we had more than 311,000 high-speed data customers and almost 442,000 customers buying a bundle or package of services. During 2005, we also began offering a television product in partnership with Echostar's DISH Network, and at the end of 2005 we had approximately 32,000 customers buying a "triple play" package of telephone, television and high-speed internet service.

Our objective is to be the leading provider of communications services to homes and businesses in our service areas. We are committed to delivering innovative and reliable products and solutions with an emphasis on convenience, service and customer satisfaction. We offer a variety of voice, television and internet services that are available as bundled or package solutions or, for some products, a la carte. We believe that superior customer service and innovative product positioning will continue to differentiate us from our competitors in the marketplace.

TELECOMMUNICATIONS SERVICES

As of December 31, 2005, we operated incumbent local exchange carriers in 23 states. Our CLEC services consist of a variety of integrated telecommunications products.

Frontier is typically the dominant incumbent carrier in the markets we serve and provides the "last mile" of telecommunications services to residential and business customers in these markets. As a CLEC, we provide telecommunications services to businesses and other carriers in competition with the incumbent. As a CLEC, we frequently obtain the "last mile" access to customers through arrangements with the applicable incumbent. Frontier and ELI are subject to different regulatory frameworks of the Federal Communications Commission (FCC). ELI does not compete with our Frontier business.

The telecommunications industry is undergoing significant changes and difficulties and our financial results reflect the impact of this challenging environment. As discussed in more detail in Management's Discussion & Analysis of Financial Condition and Results of Operations (MD&A), we operate in an increasingly challenging environment and our Frontier revenues have not been growing.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Frontier

Frontier accounted for \$2,003.3 million, or 93%, of our total revenues in 2005. Approximately 8% of our 2005 Frontier revenues came from federal and state subsidies and approximately 14% from regulated access charges.

Our Frontier business is primarily with residential customers and, to a lesser extent, non-residential customers. Our Frontier segment principally provides:

- access services,
- local services,
- long distance services,
- data and internet services,
- directory services, and
- television services.

Access services

We provide both switched and non-switched network access services. Switched access services allow other carriers the use of our facilities to originate and terminate their long distance voice and data traffic. These services are generally offered on a month-to-month basis and the service is billed on a minutes-of-use basis and access charges are based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. Non-switched network access services provide other carriers and high-volume commercial customers with dedicated high-capacity circuits. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. In addition, subsidies received from state and federal universal service funds based on the high cost of providing telephone service to certain rural areas are a part of our access services revenue.

Revenue is recognized when services are provided to customers or when products are delivered to customers. Monthly recurring network access service revenue is billed in advance. The unearned portion of this revenue is initially deferred on our balance sheet and recognized in revenue over the period that the services are provided. Non-recurring network access service revenue is billed in arrears. The earned but unbilled portion of this revenue is recognized in revenue in the period that the services are provided.

Local services

We provide basic telephone wireline access services to residential and non-residential customers in our service areas. Our service areas are largely residential and are generally less densely populated than the primary service areas of the largest incumbent local exchange carriers. We also provide enhanced services to our customers by offering a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. We offer packages of communications services. These packages permit customers to bundle their basic telephone line with their choice of enhanced, long distance, television and internet services for a monthly fee and/or usage fee depending on the plan.

We intend to continue to increase the penetration of enhanced services. We believe that increased sales of such services will produce revenue with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. We believe that our ability to integrate these services with other services will provide us with the opportunity to capture an increased percentage of our customers' communications expenditures.

Long distance services

We offer long distance services in our territories to our customers. We believe that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside of our operating territories is provided by interconnection with the facilities of interexchange carriers, or IXC's.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Data and internet services

We offer data services including internet access (via dial up or high-speed internet access), frame relay, ethernet and asynchronous transfer mode (ATM) switching in portions of our system.

Directory services

Directory services involves the provision of white and yellow page directories of residential and business listings. We provide this service through a third-party contractor and are paid a percentage of revenues from the sale of advertising in these directories. Our directory service also includes "Frontier Pages," an internet-based directory service which generates advertising revenue. We recognize the revenue from these services over the life of the related white or yellow pages book.

Television services

During 2005, we began offering a television product in partnership with Echostar's DISH Network. We provide access to all-digital television channels featuring movies, sports, news, music, and high-definition TV programming. We offer packages that include 60, 120 or 180 channels, high-definition channels, family channels and ethnic channels.

Wireless and VOIP services

During 2006, we expect to begin offering wireless data and voice services and commercial voice over internet protocol (VOIP) solutions in certain markets. Our wireless data and VOIP services utilize technologies that are relatively new, and we depend to some degree on the representations of equipment vendors, lab testing and the experiences of others who have been successful at deploying these new technologies. In addition, our success in offering wireless voice service will, to a great extent, be determined by the relationships we are developing with both wireless carriers and third-party wireless support organizations, and is also dependent on their capabilities.

The following table sets forth certain information with respect to our revenue generating units (RGUs), which consists of access lines plus high-speed internet subscribers, as of December 31, 2005 and 2004.

<u>State</u>	<u>Frontier RGUs at December 31,</u>	
	<u>2005</u>	<u>2004</u>
New York	994,600	1,029,700
Minnesota	293,600	289,300
Arizona	191,400	182,000
California	184,100	179,400
West Virginia	169,100	165,000
Illinois	129,200	128,600
Tennessee	108,500	104,500
Wisconsin	78,600	77,600
Iowa	61,900	62,100
Nebraska	54,500	54,400
All other states (13)	264,400	260,400
Total	<u>2,529,900</u>	<u>2,533,000</u>

Change in the number of our access lines is important to our revenue and profitability. We have lost access lines primarily because of competition, changing consumer behavior, economic conditions, changing technology and because some customers disconnect second lines when they add high-speed internet service. We lost approximately 102,000 access lines during the year ended December 31, 2005, but added over 99,000 high-speed internet subscribers during this same period. The loss of lines during 2005 was primarily among residential customers. The non-residential line losses were principally in Rochester, New York, while the residential losses were throughout our markets. We expect to continue to lose access lines but to increase high-speed internet subscribers during 2006. A continued loss of access lines, combined with increased competition and the other factors discussed in MD&A, may cause our profitability and cash flows to decrease during 2006.

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ELI

In February 2006, we entered into a definitive agreement to sell all of the outstanding membership interests in ELI to Integra Telecom Holdings, Inc. (Integra), for \$247.0 million, including \$243.0 million in cash plus the assumption of approximately \$4.0 million in capital lease obligations, subject to customary adjustments under the terms of the agreement. This transaction is expected to close during the third quarter of 2006. The closing of the sale is subject to several conditions, including the funding of Integra's fully committed financing and regulatory approvals.

ELI provides a broad range of wireline communications products and services to businesses and other carriers in the western United States. ELI accounted for \$159.2 million, or 7%, of our total revenues in 2005. Our ELI revenues have declined from a peak of \$240.8 million in 2000, however 2005 revenues were higher than 2004.

ELI's facilities-based network consists of optical fiber and voice and data switches. ELI has a national internet and data network with switches and routers in key cities, linked by leased transport facilities. These assets are not being sold and will continue to be owned and utilized by Frontier to carry our customers' voice, internet and data traffic. In addition, ELI has a long-haul, fiber-optic network connecting the cities it serves in the western United States, which utilizes an optically self-healing Synchronous Optical Network (SONET) architecture. ELI currently provides the full range of its services in the following cities and their surrounding areas: Boise, Idaho; Portland, Oregon; Salt Lake City, Utah; Seattle, Washington; Spokane, Washington; Phoenix, Arizona; and Sacramento, California.

REGULATORY ENVIRONMENT

Frontier Regulation

The majority of our operations are regulated extensively by various state regulatory agencies, often called public service or utility commissions, and the FCC.

Our Frontier segment revenue is subject to regulation by the FCC and various state regulatory agencies. We expect federal and state lawmakers to continue to review the statutes governing the level and type of regulation for telecommunications services.

The Telecommunications Act of 1996, or the 1996 Act, dramatically changed the telecommunications industry. The main purpose of the 1996 Act was to open local telecommunications marketplaces to competition. The 1996 Act preempts state and local laws to the extent that they prevent competition with respect to communications services. Under the 1996 Act, however, states retain authority to impose requirements on carriers necessary to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. States are also responsible for mediating and arbitrating interconnection agreements between CLECs and ILECs if voluntary negotiations fail. In order to create an environment in which local competition is a practical possibility, the 1996 Act imposes a number of requirements for access to network facilities and interconnection on all local communications providers. All incumbent local carriers must interconnect with other carriers, unbundle some of their services at wholesale rates, permit resale of some of their services, enable collocation of equipment, provide local telephone number portability and dialing parity, provide access to poles, ducts, conduits and rights-of-way, and complete calls originated by competing carriers under termination arrangements.

At the federal level and in a number of the states in which we operate, we are subject to price cap or incentive regulation plans under which prices for regulated services are capped in return for the elimination or relaxation of earnings oversight. The goal of these plans is to provide incentives to improve efficiencies and increased pricing flexibility for competitive services while ensuring that customers receive reasonable rates for basic services. Some of these plans have limited terms and, as they expire, we may need to renegotiate with various states. These negotiations could impact rates, service quality and/or infrastructure requirements which could impact our earnings and capital expenditures. In the other states in which we operate, we are subject to rate of return regulation that limits levels of earnings and returns on investments. In some states, we have been required to refund customers as a result of exceeding earnings limitations. We continue to advocate our position of less regulation with various regulatory agencies.

For interstate services regulated by the FCC, we have elected a form of incentive regulation known as "price caps" for most of our operations. In May 2000, the FCC adopted a methodology for regulating the interstate access rates of price cap companies through May 2005. The program, known as the Coalition for Affordable Local and Long

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Distance Services, or CALLS plan, reduced prices for interstate-switched access services and phased out many of the implicit subsidies in interstate access rates. The CALLS program expired in 2005. The FCC may address future changes in interstate access charges during 2006 and such changes may adversely affect our revenues and profitability.

Another goal of the 1996 Act was to remove implicit subsidies from the rates charged by local telecommunications companies. The CALLS plan addressed this requirement for interstate services. State legislatures and regulatory agencies are beginning to reduce the implicit subsidies in intrastate rates. The most common subsidies are in access rates that historically have been priced above their costs to allow basic local rates to be priced below cost. Legislation has been considered in several states to require regulators to eliminate these subsidies and implement state universal service programs where necessary to maintain reasonable basic local rates. However, not all the reductions in access charges would be fully offset. We anticipate additional state legislative and regulatory pressure to lower intrastate access rates.

Some state legislatures and regulators are also examining the provision of telecommunications services to previously unserved areas. Since many unserved areas are located in rural markets, we could be required to expand our service territory into some of these areas.

Recent and Potential Regulatory Developments

Wireline and wireless carriers are required to provide local number portability (LNP). LNP is the ability of customers to switch from a wireline or wireless carrier to another wireline or wireless carrier without changing telephone numbers. We are 100% LNP capable in our largest markets and over 98% of our exchanges are LNP capable. We will upgrade the remaining exchanges in response to bona fide requests as required by the FCC order.

LNP will promote further competition in an environment where the displacement of traditional wireline services has been increasing because of technological substitutions such as cell phones, e-mail, cable telephony and Internet phone calling.

In 1994, Congress passed the Communications Assistance for Law Enforcement Act (CALEA) to ensure that telecommunication networks can meet law enforcement wiretapping needs. We expect to be fully compliant by June 2006.

The FCC is expected to address issues involving inter-carrier compensation, the universal service fund and internet telephony in 2006. The FCC adopted a Further Notice of Proposed Rulemaking (FNPRM) addressing inter-carrier compensation on February 10, 2005. Some of the proposals being discussed with respect to inter-carrier compensation, such as "bill and keep" (under which switched access charges would be reduced or eliminated), could reduce our access revenues and our profitability. The universal service fund is under pressure as local exchange companies lose access lines and more entities, such as wireless companies, seek to receive monies from the fund. The rules surrounding the eligibility of Competitive Eligible Telecommunication Carriers, such as wireless companies, to receive universal service funds are expected to be clarified by the Federal-State Joint Board on Universal Service and the clarification of the rules may heighten the pressures on the fund. Changes in the funding or payout rules of the universal service fund could further reduce our subsidy revenues and our profitability. As discussed in MD&A, our access and subsidy revenues are important to our cash flows and both our access and subsidy revenues declined in 2005 compared to 2004. Our access revenues are likely to decline again in 2006.

The development and growth of internet telephony (also known as VOIP) by cable and other companies has increased the importance of regulators at both the federal and state levels addressing whether such services are subject to the same or different regulatory and financial schemes as traditional telephony. On November 9, 2004, the FCC issued an order in response to a petition by Vonage Holdings Corp. (Vonage), declaring that Vonage-style VOIP services are jurisdictionally interstate in nature and are thereby exempt from state telecommunications regulations. The FCC stated that its order was not limited to Vonage, but rather applied to all Vonage-type VOIP offerings provided over broadband services. The FCC did not address other related issues, such as: whether or under what terms VOIP traffic may be subject to intercarrier compensation; if VOIP services are subject to general state requirements relating to taxation and general commercial business requirements; or whether VOIP is subject to 911, universal service fund (USF), and CALEA obligations. The FCC is planning on addressing these open questions in subsequent orders in its ongoing "IP-Enabled Services Proceeding," which opened in February 2004.

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Internet telephony may have an advantage over our traditional services if it remains less regulated. We are actively participating in the FCC's consideration of all these issues. On June 3, 2005, the FCC issued an order requiring VOIP services interconnected to the public switched telephone network to include E-911 calling capabilities by November 28, 2005. Subsequently, the FCC issued a number of public notices detailing the steps that could be considered sufficient interim compliance. The FCC stated in a public notice that providers not in full compliance would not be required to disconnect existing subscribers but would be expected not to connect new subscribers in areas where they are not transmitting 911 calls in full compliance with the rules. On September 23, 2005, the FCC issued an order stating that both interconnected VOIP services and broadband internet access services will be required to comply with CALEA by May 12, 2007. Both the VOIP E-911 order and the CALEA order are subject to petitions for clarification and reconsideration and both have been appealed and are pending before federal courts.

The FCC's service outage reporting rules require telecommunications providers (regardless of whether they are cable, wireless or wireline communications providers) to report outages of at least a 30 minute duration that potentially affect at least 900,000 user-minutes. The initial FCC order, which included required reporting of certain non-service interrupting network outages, was partially stayed. The network modifications necessary to comply with the stayed portion of the order would cost us in excess of \$16.0 million. The New York Public Service Commission is also considering network reliability requirements. We and other carriers are opposing these proposed requirements.

Some state regulators (including New York and Illinois) have in the past considered imposing on regulated companies (including us) cash management practices that could limit the ability of a company to transfer cash between its subsidiaries or to its parent company. None of the existing state requirements materially affect our cash management but future changes by state regulators could affect our ability to freely transfer cash within our consolidated companies.

ELI Regulation

As a CLEC, ELI is subject to federal, state and local regulation. However, the level of regulation is typically less than that experienced by an incumbent carrier. 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.

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 incumbent's and ELI's networks. The FCC has significantly reduced intercarrier compensation for internet service provider (ISP) traffic, also known as "reciprocal compensation." On December 15, 2004, the FCC adopted rules that will increase costs to ELI for services that it buys from incumbent carriers.

Most state public service commissions require competitive 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. ELI is not currently subject to rate-of-return or price regulation. However, ELI is subject to state-specific quality of service, universal service, periodic reporting and other regulatory requirements, although the extent of these requirements is generally less than those applicable to incumbent carriers.

COMPETITION

Frontier Competition

Competition in the telecommunications industry is intense and increasing. We experience competition from many communications service providers including cable operators, wireless carriers, VOIP providers, long distance providers, competitive local exchange carriers, internet providers and other wireline carriers. We believe that competition will continue to intensify in 2006 across all products and in all of our markets. Our Frontier business experienced erosion in access lines and switched access minutes of use in 2005 as a result of competition. Competition in our markets may result in reduced revenues in 2006.

We are responding to this competitive environment with new product offers and by bundling products and services together with an end user contract term commitment. Revenues from data services and packages continue to increase as a percentage of our total revenues. There will continue to be price and margin pressures in our business that may result in less revenues and profitability.

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The telecommunications industry is undergoing significant changes. The market is extremely competitive, resulting in lower prices, and consumers are changing behavior, such as using wireless in place of wireline services and using e-mail instead of making calls. These trends are likely to continue and result in a challenging revenue environment. These factors could also result in more bankruptcies in the sector and therefore affect our ability to collect money owed to us by bankrupt carriers.

ELI Competition

ELI faces significant competition from incumbents in each of its markets. Principal incumbent competitors include Qwest, at&t and Verizon. ELI also competes with all of the major IXCs, internet access providers and other CLECs. CLEC service providers have generally encountered intense competitive pressures, the result of which is the failure of a number of CLECs and substantial financial pressures on others.

Competitors in ELI's markets include, in addition to the incumbent providers: at&t, Sprint, Time Warner Telecom, Verizon, Integra Telecom and XO 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 services that ELI provides, generally at similar prices.

Competition is based on price, quality, network reliability, customer service, service features and responsiveness to the customer's needs. Many of our competitors have greater market presence and greater financial, technical, marketing and human resources, more extensive infrastructure and stronger customer and strategic relationships than are available to us. Competition in the CLEC industry is intense and pricing continues to decline. ELI's revenues have declined since 2000, however 2005 revenues were higher than 2004.

DIVESTITURE OF PUBLIC UTILITIES SERVICES

In the past we provided public utilities services including natural gas transmission and distribution, electric transmission and distribution, water distribution and wastewater treatment services to primarily rural and suburban customers throughout the United States. In 1999, we announced a plan of divestiture for our public utilities services properties. Since then, we have divested all of our public utility operations for an aggregate of \$1.9 billion.

We have retained a potential payment obligation associated with our previous electric utility activities in the state of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions which state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec, then the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). Paragraph 13 of FIN 45 requires that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 also states that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings that are equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Regardless, despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2007 and remained in default for the duration of the contract (another 9 years), we estimate that our undiscounted purchase obligation for 2007 through 2015 would be approximately \$1.26 billion. In such a scenario we would then own the power and could seek to recover our costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

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SEGMENT INFORMATION

Note 22 to Consolidated Financial Statements provides financial information about our industry segments, *Frontier and ELI*, for the last three fiscal years.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

We have no foreign operations.

GENERAL

Order backlog is not a significant consideration in our businesses. We have no material contracts or subcontracts that may be subject to renegotiation of profits or termination at the election of the Federal government. We hold no patents, licenses or concessions that are material.

EMPLOYEES

As of December 31, 2005, we had 6,103 employees, 5,644 of whom were associated with Frontier operations and 459 were associated with ELI. At December 31, 2005, the total number of our employees affiliated with a union was 3,302, of which approximately 1,400 are covered by agreements set to expire during 2006. We consider our relations with our employees to be good.

AVAILABLE INFORMATION

We make available on our website, free of charge, the periodic reports that we file with or furnish to the Securities and Exchange Commission, or SEC, as well as all amendments to these reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for the Audit, Compensation, and Nominating and Corporate Governance committees of the Board of Directors. Stockholders may request printed copies of these materials by writing to: 3 High Ridge Park, Stamford, Connecticut 06905 Attention: Corporate Secretary. Our website address is <http://www.czn.net>.

ITEM 1A. RISK FACTORS

Before you invest in our securities, you should carefully consider all the information we have included or incorporated by reference in this Form 10-K and our subsequent periodic filings with the SEC. In particular, you should carefully consider the risk factors described below and read the risks and uncertainties related to "forward-looking statements" as set forth in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-K. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial or that are not specific to us, such as general economic conditions, may also adversely affect our business and operations.

RISKS RELATED TO COMPETITION AND OUR INDUSTRY

We face intense competition, which could adversely affect us.

The telecommunications industry is extremely competitive and competition is increasing. The traditional dividing lines between long distance, local, wireless, cable and internet services are becoming increasingly blurred. Through mergers and various service expansion strategies, services providers are striving to provide integrated solutions both within and across geographic markets. Our competitors include CLECs and other providers (or potential providers) of services, such as internet service providers, or ISPs, wireless companies, neighboring incumbents, VOIP providers such as Vonage and cable companies that may provide services competitive with ours or services that we intend to introduce. Competition is intense and increasing and we cannot assure you that we will be able to compete effectively. For example, at December 31, 2005 we had 102,000 fewer access lines than we had at December 31, 2004 and we believe wireless and cable telephony providers have increased their market share in our markets. We expect to continue to lose access lines and that competition with respect to all our products and services will increase.

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We expect competition to intensify as a result of the entrance of new competitors and the development of new technologies, products and services. We cannot predict which of the many possible future technologies, products or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing and on our ability to anticipate and respond to various competitive factors affecting the industry, including a changing regulatory environment that may affect our competitors and us differently, new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and pricing strategies by competitors. Increasing competition may reduce our revenues and increase our costs as well as require us to increase our capital expenditures and thereby decrease our cash flow.

Some of our competitors have superior resources, which may place us at a cost and price disadvantage.

Some of our current and potential competitors have market presence, engineering, technical and marketing capabilities, and financial, personnel and other resources substantially greater than ours. In addition, some of our competitors can raise capital at a lower cost than we can. Consequently, some competitors may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we can. Additionally, the greater brand name recognition of some competitors may require us to price our services at lower levels in order to retain or obtain customers. Finally, the cost advantages of some competitors may give them the ability to reduce their prices for an extended period of time if they so choose.

ELI faces substantial competition for its telecommunications services from larger companies.

ELI's competitors for telecommunications services are primarily larger incumbents, CLECs and IXCs. Because it is not an incumbent provider, ELI's ability to succeed in the telecommunications services market depends to a large extent on its ability to provide differentiated services for business customers and to maintain its customer base and develop additional business customers.

We anticipate that general pricing competition and pressures for CLECs will increase, including ELI. We have not obtained significant market share in any of the areas where we offer our CLEC services, nor do we expect to do so given the size of our ELI markets, the intense competition therein and the diversity of customer requirements. There can be no assurance that ELI will be able to compete effectively in any of our markets. Furthermore, the bankruptcies and weakened financial position of a number of CLECs have resulted in a more demanding operating environment for CLECs, as both customers and suppliers are more concerned about each CLEC's creditworthiness.

RISKS RELATED TO OUR BUSINESS

Decreases in certain types of our revenues will impact our profitability.

Our Frontier business has been experiencing declining access lines, switched access minutes of use, long distance prices and related revenues because of economic conditions, increasing competition, changing consumer behavior (such as wireless displacement of wireline use, email use, instant messaging and increasing use of VOIP), technology changes and regulatory constraints. These factors are likely to cause our local network service, switched network access, long distance and subsidy revenues to continue to decline, and these factors, together with our increasing employee costs, and the potential need to increase our capital spending, may cause our cash generated by operations to decrease.

We may be unable to grow our revenue and cash flow despite the initiatives we have implemented.

We must produce adequate cash flow that, when combined with funds available under our revolving credit facility, will be sufficient to service our debt, fund our capital expenditures, pay our taxes and maintain our current dividend policy. We have implemented several growth initiatives, including increasing our marketing expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand such as high-speed internet. There is no assurance that these initiatives will result in an improvement in our financial position or our results of operations.

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We may complete a significant business combination or other transaction that could increase our shares outstanding, affect our debt, result in a change in control, or both.

From time to time we evaluate potential acquisitions and other arrangements that would extend our geographic markets, expand our services, enlarge the capacity of our networks or increase the types of services provided through our networks. If we complete any acquisition or other arrangement, we may require additional financing that could result in an increase in our shares outstanding and/or debt, result in a change in control, or both. There can be no assurance that we will enter into any transaction.

Our business is sensitive to the creditworthiness of our wholesale customers.

We have substantial business relationships with other telecommunications carriers for whom we provide service. During the past few years, several of our customers have filed for bankruptcy. While these bankruptcies have not had a material adverse effect on our business to date, future bankruptcies in our industry could result in our loss of significant customers, more price competition and uncollectible accounts receivable. As a result, our revenues and results of operations could be materially and adversely affected.

RISKS RELATED TO LIQUIDITY, FINANCIAL RESOURCES, AND CAPITALIZATION

Substantial debt and debt service obligations may adversely affect us.

We have a significant amount of indebtedness. We may also obtain additional long-term debt and working capital lines of credit to meet future financing needs, subject to certain restrictions under our existing indebtedness, which would increase our total debt.

The significant negative consequences on our financial condition and results of operations that could result from our substantial debt include:

- limitations on our ability to obtain additional debt or equity financing;
- instances in which we are unable to meet the financial covenants contained in our debt agreements or to generate cash sufficient to make required debt payments, which circumstances have the potential of accelerating the maturity of some or all of our outstanding indebtedness;
- the allocation of a substantial portion of our cash flow from operations to service our debt, thus reducing the amount of our cash flow available for other purposes, including operating costs, dividends and capital expenditures that could improve our competitive position or results of operations;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- compromising our flexibility to plan for, or react to, competitive challenges in our business and the communications industry; and
- the possibility of our being put at a competitive disadvantage with competitors who do not have as much debt as us, and competitors who may be in a more favorable position to access additional capital resources.

We will require substantial capital to upgrade and enhance our operations.

Replacing or upgrading our infrastructure will result in significant capital expenditures. If this capital is not available when needed, our business will be adversely affected. Increasing competition, offering new services, improving the capabilities or reducing the maintenance costs of our plant may cause our capital expenditures to increase in the future. In addition, our ongoing annual dividend of \$1.00 per share under our current policy utilizes a significant portion of our cash generated by operations and therefore limits our operating and financial flexibility and our ability to significantly increase capital expenditures. While we believe that the amount of our dividend will allow for adequate amounts of cash flow for capital spending and other purposes, any material reduction in cash generated by operations and any increases in capital expenditures, interest expense or cash taxes would reduce the amount of cash generated in excess of dividends. Losses of access lines, increases in competition, lower subsidy and

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

access revenues and the other factors described above may reduce our cash generated by operations and may require us to increase capital expenditures. In addition, we expect our cash paid for taxes to increase significantly over the next several years.

RISKS RELATED TO REGULATION

The access charge revenues we receive may be reduced at any time.

A significant portion of our revenues is derived from access charges paid by IXCs for services we provide in originating and terminating intrastate and interstate traffic. The amount of access charge revenues we receive for these services is regulated by the FCC and state regulatory agencies. Recent rulings regarding access charges have lowered the amount of revenue we receive from this source. Additional actions by these agencies could further reduce the amount of access revenues we receive. In addition, a portion of our access revenues is received from state and federal universal service funds based upon the high cost of providing telephone service to certain rural areas. In the future, there may be proposals by state or federal regulatory agencies to eliminate or reduce these revenues. A material reduction in the revenues we receive from these funds would adversely affect our financial results.

We are reliant on support funds provided under federal and state laws.

We receive a significant portion of our revenues from the federal universal service fund and, to a lesser extent, state support funds. These governmental programs are reviewed and amended from time to time, and we cannot assure you that they will not be changed or impacted in a manner adverse to us.

Our company and industry are highly regulated, imposing substantial compliance costs and restricting our ability to compete in our target markets.

As an incumbent, we are subject to significant regulation from federal, state and local authorities. This regulation restricts our ability to change our rates, especially on our basic services, and imposes substantial compliance costs on us. Regulation restricts our ability to compete and, in some jurisdictions, it may restrict how we are able to expand our service offerings. In addition, changes to the regulations that govern us may have an adverse effect upon our business by reducing the allowable fees that we may charge, imposing additional compliance costs, or otherwise changing the nature of our operations and the competition in our industry.

Recent rule changes now allow customers to retain their wireline number when switching to another service provider. This is likely to increase the number of our customers who decide to disconnect their service from us. Other pending rulemakings, including those relating to intercarrier compensation, universal service and VOIP regulations, could have a substantial adverse impact on our operations.

RISKS RELATED TO TECHNOLOGY

In the future as competition intensifies within our markets, we may be unable to meet the technological needs or expectations of our customers, and may lose customers as a result.

The telecommunications industry is subject to significant changes in technology. If we do not replace or upgrade technology and equipment, we will be unable to compete effectively because we will not be able to meet the needs or expectations of our customers. Replacing or upgrading our infrastructure could result in significant capital expenditures.

In addition, rapidly changing technology in the telecommunications industry may influence our customers to consider other service providers. For example, we may be unable to retain customers who decide to replace their wireline telephone service with wireless telephone service. In addition, VOIP technology, which operates on broadband technology, now provides our competitors with a low-cost alternative to provide voice services to our customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

ITEM 2. PROPERTIES

Our principal corporate offices are located in leased premises at 3 High Ridge Park, Stamford, Connecticut.

An operations support office is currently located in leased premises at 180 South Clinton Avenue, Rochester, New York. In addition, our Frontier segment leases and owns space in various markets throughout the United States.

An operations support office for ELI is located in a building we own at 4400 NE 77th Avenue, Vancouver, Washington. In addition, our ELI segment leases local office space in various markets throughout the United States, and also maintains a warehouse facility in Portland, Oregon. Our ELI segment also leases network hub and network equipment installation sites in various locations throughout the areas in which it provides services. For additional information regarding obligations under lease, see Note 25 to Consolidated Financial Statements.

Our Frontier and ELI segments own telephone properties which include: connecting lines between customers' premises and the central offices; central office switching equipment; fiber-optic and microwave radio facilities; buildings and land; and customer premise equipment. The connecting lines, including aerial and underground cable, conduit, poles, wires and microwave equipment, are located on public streets and highways or on privately owned land. We have permission to use these lands pursuant to local governmental consent or lease, permit, franchise, easement or other agreement.

ITEM 3. LEGAL PROCEEDINGS

The City of Bangor, Maine, filed suit against us on November 22, 2002, in the U.S. District Court for the District of Maine (City of Bangor v. Citizens Communications Company, Civ. Action No. 02-183-B-S). The City alleged, among other things, that we are responsible for the costs of cleaning up environmental contamination alleged to have resulted from the operation of a manufactured gas plant owned by Bangor Gas Company from 1852-1948 and by us from 1948-1963. In acquiring the operation in 1948 we acquired the stock of Bangor Gas Company and merged it into us. The City alleged the existence of extensive contamination of the Penobscot River and asserted that money damages and other relief at issue in the lawsuit could exceed \$50,000,000. The City also requested that punitive damages be assessed against us. We filed an answer denying liability to the City, and asserted a number of counterclaims against the City. In addition, we identified a number of other potentially responsible parties that may be liable for the damages alleged by the City and joined them as parties to the lawsuit. These additional parties include Honeywell Corporation, Guilford Transportation (operating as Maine Central Railroad), UGI Utilities, Inc. and Centerpoint Energy Resources Corporation. The Court dismissed all but two of the City's claims, including its claims for joint and several liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the claim against us for punitive damages. Trial was conducted in September and October 2005 for the first (liability) phase of the case, and a decision from the court is anticipated by the end of the first quarter of 2006. We intend to continue to defend ourselves vigorously against the City's lawsuit. We have demanded that various of our insurance carriers defend and indemnify us with respect to the City's lawsuit, and on December 26, 2002, we filed a declaratory judgment action against those insurance carriers in the Superior Court of Penobscot County, Maine, for the purpose of establishing their obligations to us with respect to the City's lawsuit. We intend to vigorously pursue this lawsuit and to obtain from our insurance carriers indemnification for any damages that may be assessed against us in the City's lawsuit as well as to recover the costs of our defense of that lawsuit.

On June 7, 2004, representatives of Robert A. Katz Technology Licensing, LP, contacted us regarding possible infringement of several patents held by that firm. The patents cover a wide range of operations in which telephony is supported by computers, including obtaining information from databases via telephone, interactive telephone transactions, and customer and technical support applications. We were cooperating with the patent holder to determine if we are currently using any of the processes that are protected by its patents but have not had any communication with them on this issue since mid-2004. If we determine that we are utilizing the patent holder's intellectual property, we expect to commence negotiations on a license agreement.

On June 24, 2004, one of our subsidiaries, Frontier Subsidiary Telco Inc., received a "Notice of Indemnity Claim" from Citibank, N.A., that is related to a complaint pending against Citibank and others in the U.S. Bankruptcy Court for the Southern District of New York as part of the Global Crossing bankruptcy proceeding. Citibank bases its claim for indemnity on the provisions of a credit agreement that was entered into in October 2000 between

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Citibank and our subsidiary. We purchased Frontier Subsidiary Telco, Inc., in June 2001 as part of our acquisition of the Frontier telephone companies. The complaint against Citibank, for which it seeks indemnification, alleges that the seller improperly used a portion of the proceeds from the Frontier transaction to pay off the Citibank credit agreement, thereby defrauding certain debt holders of Global Crossing North America Inc. Although the credit agreement was paid off at the closing of the Frontier transaction, Citibank claims the indemnification obligation survives. Damages sought against Citibank and its co-defendants could exceed \$1.0 billion. In August 2004 we notified Citibank by letter that we believe its claims for indemnification are invalid and are not supported by applicable law. We have received no further communications from Citibank since our August 2004 letter.

We are party to other legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None in fourth quarter 2005.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our Executive Officers as of February 7, 2006 were:

<u>Name</u>	<u>Age</u>	<u>Current Position and Officer</u>
Mary Agnes Wilderotter	51	Chairman of the Board and Chief Executive Officer
John H. Casey, III	49	Executive Vice President
Jerry Elliott	46	President and Acting Chief Financial Officer
Hilary E. Glassman	43	Senior Vice President, General Counsel and Secretary
Peter B. Hayes	48	Executive Vice President Sales, Marketing and Business Development
Robert J. Larson	46	Senior Vice President and Chief Accounting Officer
Daniel J. McCarthy	41	Executive Vice President and Chief Operating Officer
Cecilia K. McKenney	43	Senior Vice President, Human Resources

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

MARY AGNES WILDEROTTER has been associated with Citizens since November 2004. She was elected Chairman of the Board and Chief Executive Officer in December 2005. Previously, she was President and Chief Executive Officer from November 2004 to December 2005. Prior to joining Citizens, she was Senior Vice President – Worldwide Public Sector in 2004, Microsoft Corp. and Senior Vice President – Worldwide Business Strategy, Microsoft Corp., 2002 to 2004. Before that she was President and Chief Executive Officer, Wink Communications, 1997 to 2002.

JOHN H. CASEY, III has been associated with Citizens since November 1999. He is currently Executive Vice President. Previously, he was Executive Vice President and President and Chief Operating Officer of our ILEC Sector from July 2002 to December 2004. He was Vice President of Citizens, President and Chief Operating Officer, ILEC Sector from January 2002 to July 2002, Vice President and Chief Operating Officer, ILEC Sector from February 2000 to January 2002, and Vice President, ILEC Sector from December 1999 to February 2000.

JERRY ELLIOTT has been associated with Citizens since March 2002. He was elected President in December 2005 and remains Acting Chief Financial Officer until a successor Chief Financial Officer joins the Company. Previously, he was Executive Vice President and Chief Financial Officer from July 2004 to December 2005. He was Senior Vice President and Chief Financial Officer from December 2002 to July 2004 and Vice President and Chief Financial Officer from March 2002 to December 2002. Prior to joining Citizens, he was Managing Director of Morgan Stanley's Media and Communications Investment Banking Group.

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HILARY E. GLASSMAN has been associated with Citizens since July 2005. Prior to joining Citizens, from February 2003, she was associated with Sandler O'Neill & Partners, L.P., an investment bank with a specialized financial institutions practice, first as Managing Director, Associate General Counsel and then as Managing Director, Deputy General Counsel. From February 2000 through February 2003, Ms. Glassman was Vice President and General Counsel of Newview Technologies, Inc. (formerly e-Steel Corporation), a privately-held software company.

PETER B. HAYES has been associated with Citizens since February 2005. He is currently Executive Vice President, Sales, Marketing and Business Development. Previously, he was Senior Vice President, Sales, Marketing and Business Development from February 2005 to December 2005. Prior to joining Citizens, he was associated with Microsoft Corp. and served as Vice President, Public Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and General Manager, Microsoft U.S. Government from 1997 to 2003.

ROBERT J. LARSON has been associated with Citizens since July 2000. He was elected Senior Vice President and Chief Accounting Officer of Citizens in December 2002. Previously, he was Vice President and Chief Accounting Officer from July 2000 to December 2002. Prior to joining Citizens, he was Vice President and Controller of Century Communications Corp.

DANIEL J. McCARTHY has been associated with Citizens since December 1990. He is currently Executive Vice President and Chief Operating Officer. Previously, he was Senior Vice President, Field Operations from December 2004 to December 2005. He was Senior Vice President Broadband Operations from January 2004 to December 2004, President and Chief Operating Officer of Electric Lightwave from January 2002 to December 2004, President and Chief Operating Officer, Public Services Sector from November 2001 to January 2002, Vice President and Chief Operating Officer, Public Services Sector from March 2001 to November 2001 and Vice President, Citizens Arizona Energy from April 1998 to March 2001.

CECILIA K. McKENNEY has been associated with Citizens since February 2006. Prior to joining Citizens, she was the Group Vice President, Headquarters Human Resources of The Pepsi Bottling Group (PBG) from 2004 to 2005. Previously at PBG, Ms. McKenney was the Vice President, Headquarters Human Resources from 2000 to 2004.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our 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 during the periods indicated.

	2005		2004	
	High	Low	High	Low
First Quarter	\$14.05	\$12.25	\$13.25	\$11.37
Second Quarter	\$13.74	\$12.16	\$13.54	\$12.06
Third Quarter	\$13.98	\$13.05	\$14.80	\$12.04
Fourth Quarter	\$13.57	\$12.08	\$14.63	\$13.11

As of January 31, 2006, the approximate number of security holders of record of our common stock was 26,226. This information was obtained from our transfer agent.

DIVIDENDS

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors. In 2004, we paid a special, non-recurring dividend of \$2.00 per share of common stock, and instituted a regular annual dividend of \$1.00 per share of common stock to be paid quarterly. Cash dividends paid to shareholders were approximately \$338.4 million and \$832.8 million in 2005 and 2004, respectively. There are no material restrictions on our ability to pay dividends. The table below sets forth dividends paid during the periods indicated.

	2005	2004
First Quarter	\$ 0.25	\$ —
Second Quarter	\$ 0.25	\$ —
Third Quarter	\$ 0.25	\$ 2.25
Fourth Quarter	\$ 0.25	\$ 0.25

RECENT SALES OF UNREGISTERED SECURITIES, USE OF PROCEEDS FROM REGISTERED SECURITIES

None.

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ISSUER PURCHASES OF EQUITY SECURITIES

The following tables display issuer purchases of equity securities for the years ended December 31, 2005 and 2004.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2005 to January 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
February 1, 2005 to February 28, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
March 1, 2005 to March 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	128,049	\$ 12.62	N/A	N/A
Totals January 1, 2005 to March 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	128,049	\$ 12.62	N/A	N/A
April 1, 2005 to April 30, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
May 1, 2005 to May 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
June 1, 2005 to June 30, 2005				
Share Repurchase Program ⁽¹⁾	1,400,000	\$ 13.28	1,400,000	\$ 231,400,000
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
Totals April 1, 2005 to June 30, 2005				
Share Repurchase Program ⁽¹⁾	1,400,000	\$ 13.28	1,400,000	\$ 231,400,000
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
July 1, 2005 to July 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ 231,400,000
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
August 1, 2005 to August 31, 2005				
Share Repurchase Program ⁽¹⁾	6,576,100	\$ 13.68	6,576,100	\$ 141,500,000
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
September 1, 2005 to September 30, 2005				
Share Repurchase Program ⁽¹⁾	4,680,400	\$ 13.56	4,680,400	\$ 78,000,000
Employee Transactions ⁽²⁾	629	\$ 13.51	N/A	N/A

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<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
Totals July 1, 2005 to September 30, 2005				
Share Repurchase Program ⁽¹⁾	11,256,500	\$ 13.62	11,256,500	\$ 78,000,000
Employee Transactions ⁽²⁾	629	\$ 13.51	N/A	N/A
October 1, 2005 to October 31, 2005				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ 78,000,000
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
November 1, 2005 to November 30, 2005				
Share Repurchase Program ⁽¹⁾	375,000	\$ 13.06	375,000	\$ 73,100,000
Employee Transactions ⁽²⁾	12,435	\$ 12.17	N/A	N/A
December 1, 2005 to December 31, 2005				
Share Repurchase Program ⁽¹⁾	5,743,656	\$ 12.73	5,743,656	\$ —
Employee Transactions ⁽²⁾	1,155	\$ 12.85	N/A	N/A
Totals October 1, 2005 to December 31, 2005				
Share Repurchase Program ⁽¹⁾	6,118,656	\$ 12.75	6,118,656	\$ —
Employee Transactions ⁽²⁾	13,590	\$ 12.23	N/A	N/A
Totals January 1, 2005 to December 31, 2005				
Share Repurchase Program ⁽¹⁾	18,775,156	\$ 13.32	18,775,156	\$ —
Employee Transactions ⁽²⁾	142,268	\$ 12.59	N/A	N/A
January 1, 2004 to January 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
February 1, 2004 to February 28, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
March 1, 2004 to March 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	3,123	\$ 12.64	N/A	N/A
Totals January 1, 2004 to March 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	3,123	\$ 12.64	N/A	N/A
April 1, 2004 to April 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
May 1, 2004 to May 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A

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Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
June 1, 2004 to June 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
Totals April 1, 2004 to June 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
July 1, 2004 to July 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
August 1, 2004 to August 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	1,503,748	\$ 14.32	N/A	N/A
September 1, 2004 to September 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
Totals July 1, 2004 to September 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	1,503,748	\$ 14.32	N/A	N/A
October 1, 2004 to October 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
November 1, 2004 to November 30, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
December 1, 2004 to December 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
Totals October 1, 2004 to December 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	—	\$ —	N/A	N/A
Totals January 1, 2004 to December 31, 2004				
Share Repurchase Program ⁽¹⁾	—	\$ —	—	\$ —
Employee Transactions ⁽²⁾	1,506,871	\$ 14.32	N/A	N/A

⁽¹⁾ On May 25, 2005, our Board of Directors authorized the Company to repurchase up to \$250.0 million of the Company's common stock, either in the open market or through negotiated transactions. This share repurchase program commenced on June 13, 2005 and was completed during December of 2005.

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- (2) Includes restricted shares withheld (under the terms of grants under employee stock compensation plans) to offset minimum tax withholding obligations that occur upon the vesting of restricted shares. The Company's stock compensation plans provide that the value of shares withheld shall be the average of the high and low price of the Company's common stock on the date the relevant transaction occurs.

ITEM 6. SELECTED FINANCIAL DATA

(\$ In thousands, except per share amounts)	Year Ended December 31,				
	2005	2004	2003	2002	2001
Revenue ⁽¹⁾	\$ 2,162,479	\$ 2,168,422	\$ 2,424,174	\$ 2,647,671	\$ 2,435,489
Income (loss) from continuing operations before extraordinary expense and cumulative effect of changes in accounting principle ⁽²⁾	\$ 200,168	\$ 66,919	\$ 117,703	\$ (828,140)	\$ (68,434)
Net income (loss)	\$ 202,375	\$ 72,150	\$ 187,852	\$ (682,897)	\$ (89,682)
Basic income (loss) per share of common stock from continuing operations before extraordinary expense and cumulative effect of changes in accounting principle ⁽²⁾	\$ 0.59	\$ 0.22	\$ 0.42	\$ (2.95)	\$ (0.30)
Available for common shareholders per basic share	\$ 0.60	\$ 0.24	\$ 0.67	\$ (2.43)	\$ (0.38)
Available for common shareholders per diluted share	\$ 0.60	\$ 0.23	\$ 0.64	\$ (2.43)	\$ (0.38)
Cash dividends declared (and paid) per common share	\$ 1.00	\$ 2.50	\$ —	\$ —	\$ —

	As of December 31,				
	2005	2004	2003	2002	2001
Total assets	\$ 6,412,109	\$ 6,668,419	\$ 7,445,545	\$ 8,144,502	\$ 10,551,351
Long-term debt	\$ 3,999,376	\$ 4,266,998	\$ 4,195,626	\$ 4,957,338	\$ 5,534,867
Equity units ⁽³⁾	\$ —	\$ —	\$ 460,000	\$ 460,000	\$ 460,000
Company Obligated Mandatorily Redeemable Convertible Preferred Securities ⁽⁴⁾	\$ —	\$ —	\$ 201,250	\$ 201,250	\$ 201,250
Shareholders' equity	\$ 1,041,809	\$ 1,362,240	\$ 1,415,183	\$ 1,172,139	\$ 1,946,142

(1) Represents revenue from continuing operations. Revenue from acquisitions contributed \$569.8 million for the year ended December 31, 2001. Revenue from gas operations sold was \$137.7 million in 2003 and \$218.8 million in 2001. Revenue from electric operations sold was \$9.7 million, \$67.4 million, \$76.6 million and \$94.3 million in 2004, 2003, 2002 and 2001, respectively. Total revenue associated with these operations is available in Note 22, "Segment Information."

(2) Extraordinary expense represents an extraordinary after tax expense of \$43.6 million related to the discontinuance of the application of Statement of Financial Accounting Standards No. 71 to our local exchange telephone operations in 2001. The cumulative effect of changes in accounting principles represents the \$65.8 million after tax non-cash gain resulting from the adoption of Statement of Financial Accounting Standards No. 143 in 2003, and the write-off of ELI's goodwill of \$39.8 million resulting from the adoption of Statement of Financial Accounting Standards No. 142 in 2002.

(3) On August 17, 2004, we issued common stock to equity unit holders in settlement of the equity purchase contract.

(4) The consolidation of this item changed effective January 1, 2004 as a result of the adoption of FIN 46R, "Consolidation of Variable Interest Entities." See Note 15 for a complete discussion.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the Safe Harbor Provisions of the Litigation Reform Act of 1995. Words such as "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, and our future results may be materially affected by, any of the following possibilities:

- Changes in the number of our revenue generating units, which consists of access lines plus high-speed internet subscribers;
- The effects of competition from wireless, other wireline carriers (through voice over internet protocol (VOIP) or otherwise), high speed cable modems and cable telephony;
- The effects of general and local economic and employment conditions on our revenues;
- Our ability to effectively manage our operations, costs, capital spending, regulatory compliance and service quality;
- Our ability to successfully introduce new product offerings including our ability to offer bundled service packages on terms that are both profitable to us and attractive to our customers;
- Our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, access services and subsidies;
- Our ability to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which requires management to assess its internal control systems and disclose whether the internal control systems are effective, and the identification of any material weaknesses in our internal control over financial reporting;
- Changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators;
- The effects of changes in regulation in the communications industry as a result of federal and state legislation and regulation, including potential changes in access charges and subsidy payments, and regulatory network upgrade and reliability requirements;
- Our ability to comply with federal and state regulation (including state rate of return limitations on our earnings) and our ability to successfully renegotiate state regulatory plans as they expire or come up for renewal from time to time;
- Our ability to manage our operating expenses, capital expenditures, pay dividends and reduce or refinance our debt;
- Adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, and/or increase the cost of financing;
- The effects of greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis;
- The effects of bankruptcies in the telecommunications industry which could result in more price competition and potential bad debts;
- The effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;

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- The effects of increased medical, retiree and pension expenses and related funding requirements;
- Changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments;
- The effect of changes in the communications market, including significantly increased price and service competition;
- The effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company;
- Our ability to successfully renegotiate expiring union contracts covering approximately 1,400 employees that are scheduled to expire during 2006;
- Our ability to pay a \$1.00 per common share dividend annually may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in the future) and our liquidity;
- The effects of any future liabilities or compliance costs in connection with worker health and safety matters;
- The effects of any unfavorable outcome with respect to any of our current or future legal, governmental, or regulatory proceedings, audits or disputes; and
- The effects of more general factors, including changes in economic, business and industry conditions.

Any of the foregoing events, or other events, could cause financial information to vary from management's forward-looking statements included in this report. You should consider these important factors, as well as the risks set forth under Item 1A. "Risk Factors" above, in evaluating any statement in this Form 10-K or otherwise made by us or on our behalf. The following information is unaudited and should be read in conjunction with the consolidated financial statements and related notes included in this report. We have no obligation to update or revise these forward-looking statements.

OVERVIEW

We are a communications company providing services to rural areas and small and medium-sized towns and cities as an incumbent local exchange carrier, or ILEC. We offer our ILEC services under the "Frontier" name. In addition, we provide competitive local exchange carrier, or CLEC, services to business customers and to other communications carriers in certain metropolitan areas in the western United States through Electric Lightwave, LLC, or ELI, our wholly-owned subsidiary. In February 2006, we entered into a definitive agreement to sell ELI and we expect the sale to close in the third quarter of 2006.

Competition in the telecommunications industry is intense and increasing. We experience competition from many telecommunications service providers including cable operators, wireless carriers, voice over internet protocol (VOIP) providers, long distance providers, competitive local exchange carriers, internet providers and other wireline carriers. We believe that competition will continue to intensify in 2006 across all products and in all of our markets. Our Frontier business experienced erosion in access lines and switched access minutes in 2005 as a result of competition. Competition in our markets may result in reduced revenues in 2006.

The communications industry is undergoing significant changes. The market is extremely competitive, resulting in lower prices. Demand and pricing for certain CLEC services have decreased substantially, particularly for long-haul services. These trends are likely to continue and result in a challenging revenue environment. These factors could also result in more bankruptcies in the sector and therefore affect our ability to collect money owed to us by carriers.

Revenues from data and internet services such as high-speed internet continue to increase as a percentage of our total revenues and revenues from services such as local line and access charges and subsidies are decreasing as a percentage of our revenues. These factors, along with increasing operating costs, could cause our profitability and our cash generated by operations to decrease.

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(a) LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2005, we used cash flows from continuing operations, the proceeds from the sale of non-strategic assets, stock option exercises and cash and cash equivalents to fund capital expenditures, dividends, interest payments, debt repayments and stock repurchases. As of December 31, 2005, we had cash and cash equivalents aggregating \$265.8 million.

For the year ended December 31, 2005, our capital expenditures were \$268.5 million, including \$252.2 million for the Frontier segment, \$16.1 million for the ELI segment and \$0.2 million of general capital expenditures. We continue to closely scrutinize all of our capital projects, emphasize return on investment and focus our capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. For example, we will allocate significant capital to services such as high-speed internet in areas that are growing or demonstrate meaningful demand as well as the launch of new products such as wireless and VOIP services.

Increasing competition, offering new services such as wireless and VOIP, and improving the capabilities or reducing the maintenance costs of our plant may cause our capital expenditures to increase in the future. For 2006, we expect our capital expenditures to increase in order to build wireless data networks and expand the capabilities of our data networks.

As of December 31, 2005, we have available lines of credit with financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and are 0.375% per annum as of December 31, 2005. The expiration date for the facility is October 29, 2009. During the term of the facility we may borrow, repay and reborrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments. We have never borrowed any money under the facility.

Our ongoing annual dividends of \$1.00 per share under our current policy utilize a significant portion of our cash generated by operations and therefore limits our operating and financial flexibility. While we believe that the amount of our dividends will allow for adequate amounts of cash flow for other purposes, any reduction in cash generated by operations and any increases in capital expenditures, interest expense or cash taxes would reduce the amount of cash generated in excess of dividends. Losses of access lines, increases in competition, lower subsidy and access revenues and the other factors described above are expected to reduce our cash generated by operations and may require us to increase capital expenditures. The downgrades in our credit ratings in July 2004 to below investment grade may make it more difficult and expensive to refinance our maturing debt. We have in recent years paid relatively low amounts of cash taxes. We expect that over the next several years our cash taxes will increase substantially.

We believe our operating cash flows, existing cash balances, and credit facilities will be adequate to finance our working capital requirements, fund capital expenditures, make required debt payments through 2007, pay taxes, pay dividends to our shareholders in accordance with our dividend policy, and support our short-term and long-term operating strategies. We have approximately \$227.8 million, \$37.9 million and \$701.1 million of debt maturing in 2006, 2007 and 2008, respectively.

Share Repurchase Programs

On May 25, 2005, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock. This share repurchase program commenced on June 13, 2005. As of December 31, 2005, we completed the repurchase program and had repurchased a total of 18,775,156 common shares at an aggregate cost of \$250.0 million. In February 2006, our Board of Directors authorized us to repurchase up to \$300.0 million of our common stock in public or private transactions over the following twelve-month period. We may in the future purchase additional shares of our common stock.

Issuance of Common Stock

On August 17, 2004 we issued 32,073,633 shares of common stock, including 3,591,000 treasury shares, to our equity unit holders in settlement of the equity purchase contract component of the equity units. With respect to the \$460.0 million senior note component of the equity units, we repurchased \$300.0 million principal amount of these notes in July 2004. The remaining \$160.0 million of the senior notes were repriced and a portion was remarketed on August 12, 2004 as our 6.75% notes due August 17, 2006.

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Issuance of Debt Securities

On November 8, 2004, we issued an aggregate \$700.0 million principal amount of 6.25% senior notes due January 15, 2013 through a registered underwritten public offering. Proceeds from the sale were used to redeem our outstanding \$700.0 million of 8.50% Notes due 2006.

Debt Reduction and Debt Exchanges

For the year ended December 31, 2005, we retired an aggregate principal amount of \$36.4 million of debt, including \$30.0 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (EPPICS) that were converted into our common stock. During the second quarter of 2005, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$50.0 million of our 7.625% notes due 2008 were exchanged for approximately \$52.2 million of our 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions, however a non-cash pre-tax loss of approximately \$3.2 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net. In February 2006, our Board of Directors authorized us to repurchase up to \$150.0 million of our outstanding debt securities over the following twelve-month period. These repurchases may require us to pay premiums, which would result in pre-tax losses to be recorded in other income (loss), net.

For the year ended December 31, 2004, we retired an aggregate \$1,362.0 million of debt (including \$148.0 million of EPPICS conversions), representing approximately 28% of total debt outstanding at December 31, 2003.

During August and September 2004, we repurchased an additional \$108.2 million of our 6.75% notes which, in addition to the \$300.0 million we purchased in July, resulted in a pre-tax charge of approximately \$20.1 million during the third quarter of 2004, but resulted in an annual reduction in interest expense of about \$27.6 million per year. See the discussion below concerning EPPICS conversions for further information regarding the issuance of common stock.

We may from time to time repurchase our debt in the open market, through tender offers or privately negotiated transactions. We may also exchange existing debt obligations for newly issued debt obligations.

Interest Rate Management

In order to manage our interest expense, we have entered into interest rate swap agreements. Under the terms of the agreements, which qualify for hedge accounting, we make semi-annual, floating rate interest payments based on six month LIBOR and receive a fixed rate on the notional amount. The underlying variable rate on these swaps is set in arrears.

The notional amounts of fixed-rate indebtedness hedged as of December 31, 2005 and December 31, 2004 were \$500.0 million and \$300.0 million, respectively. Such contracts require us to pay variable rates of interest (average pay rates of approximately 8.60% and 6.12% as of December 31, 2005 and 2004, respectively) and receive fixed rates of interest (average receive rates of 8.46% and 8.44% as of December 31, 2005 and 2004, respectively). All swaps are accounted for under SFAS No. 133 (as amended) as fair value hedges. For the years ended December 31, 2005 and 2004, the cash interest savings resulting from these interest rate swaps totaled approximately \$2.5 million and \$9.4 million, respectively.

During September 2005, we entered into a series of forward rate agreements that fixed the underlying variable rate component of some of our swaps at the market rate as of the date of execution for certain future rate-setting dates. At December 31, 2005, the rates obtained under these forward rate agreements were below market rates. Changes in the fair value of these forward rate agreements, which do not qualify for hedge accounting, are recorded in other income (loss), net. Gains of \$1.3 million and \$0.6 million, respectively, were recorded during the third and fourth quarters of 2005.

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Sale of Non-Strategic Investments

In February 2006, we entered into a definitive agreement to sell all of the outstanding membership interests in ELI to Integra Telecom Holdings, Inc. (Integra) for \$247.0 million, including \$243.0 million in cash plus the assumption of approximately \$4.0 million in capital lease obligations, subject to customary adjustments under the terms of the agreement. We anticipate the recognition of a pre-tax gain on the sale of ELI of approximately \$130.0 million. The transaction is expected to close in the third quarter of 2006 and is subject to regulatory and other customary approvals and conditions, as well as the funding of Integra's fully committed financing. We expect that for periods subsequent to December 31, 2005, ELI will be accounted for as a discontinued operation.

On February 1, 2005, we sold shares of Prudential Financial, Inc. for approximately \$1.1 million in cash, and we recognized a pre-tax gain of approximately \$0.5 million that is included in other income (loss), net.

On March 15, 2005, we completed the sale of our conferencing business for approximately \$43.6 million in cash. The pre-tax gain on the sale of CCUSA was \$14.1 million.

In June 2005, we sold for cash our interests in certain key man life insurance policies on the lives of Leonard Tow, our former Chairman and Chief Executive Officer, and his wife, a former director. The cash surrender value of the policies purchased by Dr. Tow totaled approximately \$24.2 million, and we recognized a pre-tax gain of approximately \$457,000 that is included in other income (loss), net.

During 2005, we sold shares of Global Crossing Limited for approximately \$1.1 million in cash, and we recognized a pre-tax gain for the same amount that is included in other income (loss), net.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationship with unconsolidated entities that would be expected to have a material current or future effect upon our financial statements.

Future Commitments

A summary of our future contractual obligations and commercial commitments as of December 31, 2005 is as follows:

<u>Contractual Obligations:</u> (<u>\$ in thousands</u>)	<u>Payment due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long-term debt obligations, excluding interest (see Note 11) ⁽¹⁾	\$ 4,201,730	\$ 227,693	\$ 738,709	\$ 5,393	\$ 3,229,935
ELI capital lease obligations (see Note 25)	4,287	41	236	310	3,700
Operating lease obligations (see Note 25)	92,088	19,062	24,445	19,307	29,274
Purchase obligations (see Note 25).	76,384	30,619	29,354	11,296	5,115
Other long-term liabilities ⁽²⁾	33,785	—	—	—	33,785
Total.	<u>\$ 4,408,274</u>	<u>\$ 277,415</u>	<u>\$ 792,744</u>	<u>\$ 36,306</u>	<u>\$ 3,301,809</u>

⁽¹⁾ Includes interest rate swaps (\$8.7) million.

⁽²⁾ Consists of our Equity Providing Preferred Income Convertible Securities (EPPICS) reflected on our balance sheet.

At December 31, 2005, we have outstanding performance letters of credit totaling \$22.4 million.

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Management Succession and Strategic Alternatives Expenses

On July 11, 2004, our Board of Directors announced that it completed its review of our financial and strategic alternatives. In 2004, we expensed \$90.6 million of costs related to management succession and our exploration of financial and strategic alternatives. Included are \$36.6 million of non-cash expenses for the acceleration of stock benefits, cash expenses of \$19.2 million for advisory fees, \$19.3 million for severance and retention arrangements and \$15.5 million primarily for tax reimbursements.

EPPICS

In 1996, our consolidated wholly-owned subsidiary, 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 \$201.3 million). These securities have an adjusted conversion price of \$11.46 per Citizens common share. The conversion price was reduced from \$13.30 to \$11.46 during the third quarter of 2004 as a result of our \$2.00 per share special, non-recurring dividend paid on our common stock. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase \$207.5 million 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 us \$211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures are substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constitute a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2005, 2004 and 2003. Only cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2005, EPPICS representing a total principal amount of \$178.0 million had been converted into 14,237,807 shares of our common stock, and a total of \$23.3 million remains outstanding to third parties. Our long-term debt footnote indicates \$33.8 million of EPPICS outstanding at December 31, 2005 of which \$10.5 million is intercompany debt. Our accounting treatment of the EPPICS debt is in accordance with FIN 46R (see Notes 2 and 15).

We adopted the provisions of FASB Interpretation No. 46R (revised December 2003) (FIN 46R), "Consolidation of Variable Interest Entities," effective January 1, 2004. Accordingly, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. are deconsolidated.

Covenants

The terms and conditions contained in our indentures and credit facility agreement include the timely payment of principal and interest when due, the maintenance of our corporate existence, keeping proper books and records in accordance with GAAP, restrictions on the allowance of liens on our assets and the provision of guarantees of debt by our subsidiaries, and restrictions on asset sales and transfers, mergers and other changes in corporate control. We currently have no restrictions on the payment of dividends either by contract, rule or regulation.

Our \$200.0 million term loan facility with the Rural Telephone Finance Cooperative (RTFC) contains a maximum leverage ratio covenant. Under the leverage ratio covenant, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters of no greater than 4.00 to 1.

Our \$250.0 million credit facility contains a maximum leverage ratio covenant. Under the leverage ratio covenant, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreement) over the last four quarters of no

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greater than 4.50 to 1. Although the credit facility is unsecured, it will be equally and ratably secured by certain liens and equally and ratably guaranteed by certain of our subsidiaries if we issue debt that is secured or guaranteed. We are in compliance with all of our debt and credit facility covenants.

Divestitures

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public utilities services businesses, which included gas, electric and water and wastewater businesses. We have sold all of these properties. All of the agreements relating to the sales provide that we will indemnify the buyer against certain liabilities (typically liabilities relating to events that occurred prior to sale), including environmental liabilities, for claims made by specified dates and that exceed threshold amounts specified in each agreement.

In February 2006, we entered into a definitive agreement to sell ELI. We anticipate the recognition of a pre-tax gain on the sale of ELI of approximately \$130.0 million. ELI had revenues of \$159.2 million and operating income of \$18.3 million for the year ended December 31, 2005. At December 31, 2005, ELI's net assets totaled \$123.1 million.

Discontinued Operations

On March 15, 2005, we completed the sale of Conference Call USA, LLC (CCUSA) for \$43.6 million in cash, subject to adjustments under the terms of the agreement. The pre-tax gain on the sale of CCUSA was \$14.1 million. Our after-tax gain was \$1.2 million. The book income taxes recorded upon sale are primarily attributable to a low tax basis in the assets sold.

Rural Telephone Bank

In August 2005, the Board of Directors of the Rural Telephone Bank (RTB) voted to dissolve the bank. In November 2005, the Administration approved the appropriate provisions in the 2006 federal budget necessary for dissolution of the RTB. We expect to receive during the second quarter of 2006 approximately \$64.6 million in cash from the dissolution of the RTB, which would result in a pre-tax gain of approximately \$62.0 million when we receive the cash.

Critical Accounting Policies and Estimates

We review all significant estimates affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from those estimates and changes to estimates could occur in the near term. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, employee benefit plans, income taxes, contingencies, and pension and postretirement benefits expenses among others.

Telecommunications Bankruptcies

Our estimate of anticipated losses related to telecommunications bankruptcies is a "critical accounting estimate." We have significant on-going normal course business relationships with many telecom providers, some of which have filed for bankruptcy. We generally reserve approximately 95% of the net outstanding pre-bankruptcy balances owed to us and believe that our estimate of the net realizable value of the amounts owed to us by bankrupt entities is appropriate. In 2005 and 2004, we had no "critical estimates" related to telecommunications bankruptcies.

Asset Impairment

In 2005 and 2004, we had no "critical estimates" related to asset impairments.

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Depreciation and Amortization

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and identifiable intangible assets. An independent study of the estimated useful lives of our plant assets was completed in 2005. We adopted the lives proposed in that study effective October 1, 2005.

Intangibles

Our indefinite lived intangibles consist of goodwill and trade name, which resulted from the purchase of ILEC properties. We test for impairment of these assets annually, or more frequently, as circumstances warrant. All of our ILEC properties share similar economic characteristics and as a result, our reporting unit is the ILEC segment. In determining fair value of goodwill during 2005 we compared the net book value of the ILEC assets to trading values of our publicly traded common stock. Additionally, we utilized a range of prices to gauge sensitivity. Our test determined that fair value exceeded book value of goodwill. An independent third party appraiser analyzed trade name.

Pension and Other Postretirement Benefits

Our estimates of pension expense, other post retirement benefits including retiree medical benefits and related liabilities are "critical accounting estimates." We sponsor a noncontributory defined benefit pension plan covering a significant number of our employees and other post retirement benefit plans that provide medical, dental, life insurance benefits and other benefits for covered retired employees and their beneficiaries and covered dependents. The accounting results for pension and post retirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. We review these assumptions for changes annually with its outside actuaries. We consider our discount rate and expected long-term rate of return on plan assets to be our most critical assumptions.

The discount rate is used to value, on a present basis, our pension and post retirement benefit obligation as of the balance sheet date. The same rate is also used in the interest cost component of the pension and post retirement benefit cost determination for the following year. The measurement date used in the selection of our discount rate is the balance sheet date. Our discount rate assumption is determined annually with assistance from our actuaries based on the duration of our pension and postretirement benefit liabilities, the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination we consider, among other things, the yields on the Citigroup Pension Discount Curve and Bloomberg Finance. This rate can change from year-to-year based on market conditions that impact corporate bond yields. Our discount rate declined from 6.00% at year-end 2004 to 5.625% at year-end 2005.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and post retirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, we considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and our own historical 5-year and 10-year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 30% to 45% in fixed income securities, 45% to 55% in equity securities and 5% to 15% in alternative investments. We review our asset allocation at least annually and make changes when considered appropriate. In 2005, we did not change our expected long-term rate of return from the 8.25% used in 2004. Our pension plan assets are valued at actual market value as of the measurement date.

Accounting standards require that we record an additional minimum pension liability when the plan's "accumulated benefit obligation" exceeds the fair market value of plan assets at the pension plan measurement (balance sheet) date. In the fourth quarter of 2004, mainly due to a decrease in the year-end discount rate, we recorded an additional minimum pension liability in the amount of \$17.4 million with a corresponding charge to shareholders' equity of \$10.7 million, net of taxes of \$6.7 million. In the fourth quarter of 2005, primarily due to

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another decrease in the year-end discount rate, we recorded an additional minimum pension liability in the amount of \$36.4 million with a corresponding charge to shareholders' equity of \$22.5 million, net of taxes of \$13.9 million. These adjustments did not impact our net income or cash flows.

Actual results that differ from our assumptions are added or subtracted to our balance of unrecognized actuarial gains and losses. For example, if the year-end discount rate used to value the plan's projected benefit obligation decreases from the prior year-end then the plan's actuarial loss will increase. If the discount rate increases from the prior year-end then the plan's actuarial loss will decrease. Similarly, the difference generated from the plan's actual asset performance as compared to expected performance would be included in the balance of unrecognized gains and losses.

The impact of the balance of accumulated actuarial gains and losses are recognized in the computation of pension cost only to the extent this balance exceeds 10% of the greater of the plan's projected benefit obligation or market value of plan assets. If this occurs, that portion of gain or loss that is in excess of 10% is amortized over the estimated future service period of plan participants as a component of pension cost. The level of amortization is affected each year by the change in actuarial gains and losses and could potentially be eliminated if the gain/loss activity reduces the net accumulated gain/loss balance to a level below the 10% threshold.

We expect that our pension and other postretirement benefit expenses for 2006 will be \$15.0 million to \$18.0 million (they were \$19.0 million in 2005) and that no contribution will be required to be made by us to the pension plan in 2006. No contribution was made to our pension plan during 2005.

Income Taxes

Our effective tax rate is below statutory rate levels as a result of the completion of audits with federal and state taxing authorities and changes in the structure of certain of our subsidiaries.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and our Audit Committee has reviewed our disclosures relating to them.

New Accounting Pronouncements

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to fiscal years beginning after June 15, 2002, and addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We adopted SFAS No. 143 effective January 1, 2003. The standard applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development or normal use of the assets and requires that a legal liability for an asset retirement obligation be recognized when incurred, recorded at fair value and classified as a liability in the balance sheet. When the liability is initially recorded, the entity will capitalize the cost and increase the carrying value of the related long-lived asset. The liability is then accreted to its present value each period and the capitalized cost is depreciated over the estimated useful life of the related asset. At the settlement date, we will settle the obligation for our recorded amount or recognize a gain or loss upon settlement.

Depreciation expense for our wireline operations had historically included an additional provision for cost of removal. Effective with the adoption of SFAS No. 143, on January 1, 2003, the Company ceased recognition of the cost of removal provision in depreciation expense and eliminated the cumulative cost of removal included in accumulated depreciation, as the Company has no legal obligation to remove certain long-lived assets. The cumulative effect of retroactively applying these changes to periods prior to January 1, 2003, resulted in an after tax non-cash gain of approximately \$65.8 million recognized in 2003.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting

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for stock-based compensation and amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. This statement is effective for fiscal years ending after December 15, 2002. We have adopted the expanded disclosure requirements of SFAS No. 148.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R). SFAS No. 123R requires that stock-based employee compensation be recorded as a charge to earnings. In April 2005, the Securities and Exchange Commission required adoption of SFAS No. 123R for annual periods beginning after June 15, 2005. Accordingly, we will adopt SFAS 123R commencing January 1, 2006 and expect to recognize approximately \$2.8 million of expense related to the non-vested portion of previously granted stock options for the year ended December 31, 2006.

Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) (FIN 46R), "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. We are required to apply FIN 46R to variable interests in variable interest entities, or VIEs, created after December 31, 2003. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. We reviewed all of our investments and determined that the Trust Convertible Preferred Securities (EPPICS), issued by our consolidated wholly-owned subsidiary, Citizens Utilities Trust and the related Citizens Utilities Capital L.P., were our only VIEs. Except as described in Note 15, the adoption of FIN 46R on January 1, 2004 did not have a material impact on our financial position or results of operations.

Investments

In March 2004, the FASB issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1) which provides new guidance for assessing impairment losses on debt and equity investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed not to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however, the disclosure requirements remain effective and were adopted for our year ended December 31, 2004. Although we have no material investments at the present time, we will evaluate the effect, if any, of EITF 03-1 when final guidance is released.

Exchanges of Productive Assets

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of certain non-monetary assets (except for certain exchanges of products or property held for sale in the ordinary course of business). The Statement requires that non-monetary exchanges be accounted for at the fair value of the assets exchanged, with gains or losses being recognized, if the fair value is determinable within reasonable limits and the transaction has commercial substance. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the adoption of the new standard to have a material impact on our financial position, results of operations and cash flows.

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB No. 143. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement

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obligation. Although a liability exists for the removal of poles and asbestos, sufficient information is not available currently to estimate our liability, as the range of time over which we may settle these obligations is unknown or cannot be reasonably estimated. The adoption of FIN 47 during the fourth quarter of 2005 had no impact on our financial position or results of operations.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires retrospective application to prior period's financial statements of voluntary changes in accounting principle, and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Partnerships

In June 2005, the FASB issued EITF No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," which provides new guidance on how general partners in a limited partnership should determine whether they control a limited partnership. EITF No. 04-5 is effective for fiscal periods beginning after December 15, 2005. The Company does not expect the adoption of EITF No. 04-5 to have a material impact on our financial position, results of operations or cash flows.

(b) RESULTS OF OPERATIONS

REVENUE

Frontier revenue is generated primarily through the provision of local, network access, long distance and data services. Such services are provided under either a monthly recurring fee or based on usage at agreed upon rates and are not dependent upon significant judgments by management, with the exception of a determination of a provision for uncollectible amounts.

CLEC revenue is generated through local, long distance, data and long-haul services. These services are primarily provided under a monthly recurring fee or based on usage at agreed upon rates and are not dependent upon significant judgments by management with the exception of the determination of a provision for uncollectible amounts and realizability of reciprocal compensation. CLEC usage based revenue includes amounts determined under reciprocal compensation agreements. While this revenue is governed by specific contracts with the counterparty, *management defers recognition of disputed portions of such revenue until realizability is assured.* Revenue earned from long-haul contracts is recognized over the term of the related agreement.

Consolidated revenue decreased \$5.9 million in 2005. The decrease in 2005 is primarily due to a \$9.7 million decrease resulting from the sale in 2004 of our electric utility property, partially offset by an increase of \$3.8 million in ILEC and ELI revenue.

Consolidated revenue decreased \$255.8 million, or 11% in 2004. The decrease in 2004 was primarily due to \$228.9 million of decreased gas and electric revenue primarily due to the disposition of our Arizona gas and electric operations, The Gas Company in Hawaii and our Vermont electric division and \$26.9 million of decreased telecommunications revenue.

Consolidated revenue decreased \$223.5 million, or 8% in 2003. The decrease in 2003 was primarily due to \$192.7 million of decreased gas and electric revenue primarily due to the disposition of our Arizona gas and electric operations and The Gas Company in Hawaii division and \$30.8 million of decreased telecommunications revenue.

On March 15, 2005, we completed the sale of our conferencing service business. As a result of the sale, we have classified the results of operations as discontinued operations in our consolidated statement of operations and restated prior periods.

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On April 1, 2003, we sold approximately 11,000 telephone access lines in North Dakota. The revenues related to these access lines totaled \$1.9 million for the year ended December 31, 2003.

Change in the number of our access lines is important to our revenue and profitability. We have lost access lines primarily because of competition, changing consumer behavior, economic conditions, changing technology, and by some customers disconnecting second lines when they add high-speed internet or cable modem service. We lost approximately 102,000 access lines during 2005 but added approximately 99,000 high-speed internet subscribers during this same period. The loss of lines during 2005 was primarily among residential customers. The non-residential line losses were principally in Rochester, New York, while the residential losses were throughout our markets. We expect to continue to lose access lines but to increase high-speed internet subscribers during 2006. A continued loss of access lines, combined with increased competition and the other factors discussed in MD&A, may cause our revenues, profitability and cash flows to decrease in 2006.

Telecommunications Revenue

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Access services.....	\$ 623,918	\$ (10,278)	-2 %	\$ 634,196	\$(32,846)	-5 %	\$ 667,042
Local services.....	829,801	(21,376)	-3 %	851,177	(7,825)	-1 %	859,002
Long distance services.....	169,496	(14,127)	-8 %	183,623	(15,759)	-8 %	199,382
Data and internet services ..	175,026	36,795	27 %	138,231	30,779	29 %	107,452
Directory services.....	113,092	2,469	2 %	110,623	3,689	3 %	106,934
Other.....	91,985	7,178	8 %	84,807	4,448	6 %	80,359
ILEC revenue.....	2,003,318	661	0 %	2,002,657	(17,514)	-1 %	2,020,171
ELI.....	159,161	3,131	2 %	156,030	(9,359)	-6 %	165,389
	<u>\$2,162,479</u>	<u>\$ 3,792</u>	0 %	<u>\$2,158,687</u>	<u>\$(26,873)</u>	-1 %	<u>\$2,185,560</u>

Access Services

Access services revenue for the year ended December 31, 2005 decreased \$10.3 million or 2%, as compared with the prior year. Switched access revenue decreased \$9.5 million, as compared with the prior year period, primarily due to a decline in minutes of use. Access service revenue includes subsidy payments we receive from federal and state agencies. Subsidy revenue decreased \$15.9 million primarily due to decreased Universal Service Fund (USF) support of \$19.2 million because of increases in the national average cost per loop (NACPL) and a decrease of \$2.0 million related to changes in measured factors, partially offset by an increase of \$6.4 million in USF surcharge rates. Special access revenue increased \$15.1 million primarily due to growth in high-capacity circuits.

Access services revenue for the year ended December 31, 2004 decreased \$32.8 million or 5%, as compared with the prior year. Switched access revenue decreased \$19.6 million primarily due to \$8.3 million attributable to a decline in minutes of use, the \$7.4 million effect of federally mandated access rate reductions and \$2.7 million associated with state intrastate access rate reductions. Subsidies revenue decreased \$12.8 million primarily due to an \$8.3 million decline in federal USF support because of increases in the NACPL, including a \$3.5 million accrual recorded during the third quarter of 2004 for mistakes made during 2002 and 2003 by the agency that calculates subsidy payments and true-ups related to 2002. The decreases were partially offset by an increase in USF surcharge revenue of \$2.1 million resulting from a rate increase.

Increases in the number of competitive communications companies (including wireless companies) receiving federal subsidies may lead to further increases in the NACPL, thereby resulting in further decreases in our subsidy revenue in the future. The FCC and state regulators are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. The FCC is also reviewing the mechanism by which subsidies are funded. We cannot predict when or how these matters will be decided nor the effect on our subsidy revenues. Future reductions in our subsidy and access revenues are not expected to be accompanied by proportional decreases in our costs, so any further reductions in those revenues will directly affect our profitability and cash flow.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Local Services

Local services revenue for the year ended December 31, 2005 decreased \$21.4 million or 3% as compared with the prior year. This decline is comprised of \$18.8 million related to the continued loss of access lines and \$4.0 million related to a reserve associated with state rate of return limitations on earnings. Enhanced services revenue increased \$5.9 million, as compared with the prior year, primarily due to sales of additional product packages. Economic conditions or increasing competition could make it more difficult to sell our packages and bundles and cause us to lower our prices for those products and services, which would adversely affect our revenues and profitability and cash flow.

Local services revenue for the year ended December 31, 2004 decreased \$7.8 million or 1% as compared with the prior year. Local revenue decreased \$17.9 million primarily due to \$4.7 million related to continued losses of access lines, \$2.2 million as a result of refunds to customers because of state earnings limitations, the termination of an operator services contract of \$3.4 million, \$3.5 million in decreased local measured service revenue and a decline of \$2.0 million in certain business services revenue. Enhanced services revenue increased \$10.1 million, primarily due to sales of additional product packages.

Long Distance Services

Long distance services revenue for the year ended December 31, 2005 decreased \$14.1 million or 8%, as compared with the prior year primarily due to a decline in the average rates we bill for long distance services. Our long distance minutes of use increased slightly during 2005. Our long distance revenues may continue to decrease in the future due to lower rates and/or minutes of use. Competing services such as wireless, VOIP, and cable telephony are resulting in a loss of customers, minutes of use and further declines in the rates we charge our customers. We expect these factors will continue to adversely affect our long distance revenues during 2006.

Long distance services revenue for the year ended December 31, 2004 decreased \$15.8 million or 8%, as compared with the prior year primarily due to a decline in the average rate per minute. Our long distance minutes of use increased during 2004.

Data and Internet Services

Data and internet services revenue for the years ended December 31, 2005 and 2004 increased \$36.8 million, or 27%, and \$30.8 million, or 29%, respectively, as compared with the prior year primarily due to growth in data and high-speed internet services.

Directory Services

Directory revenue for the years ended December 31, 2005 and 2004 increased \$2.5 million, or 2%, and \$3.7 million, or 3%, respectively, as compared with the prior year due to growth in yellow pages advertising.

Other

Other revenue for the year ended December 31, 2005 increased \$7.2 million, or 8%, compared with the prior year primarily due to a \$4.8 million decrease in bad debt expense and sales of television service.

Other revenue for the year ended December 31, 2004 increased \$4.4 million or 6%, as compared with the prior year primarily due to a \$4.1 million carrier dispute settlement, a decline in bad debt expense of \$3.2 million and an increase in service activation revenue of \$2.5 million, partially offset by decreases of \$3.6 million in sales of customer premise equipment (CPE) and \$1.5 million in call center services revenue.

ELI

ELI revenue for the year ended December 31, 2005 increased \$3.1 million, or 2%, primarily due to increased demand and growth in local and data services. For the year ended December 31, 2004, ELI revenue decreased \$9.4 million, or 6%, primarily due to lower demand and prices for long-haul services and lower reciprocal compensation revenues.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

GAS AND ELECTRIC REVENUE

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Gas revenue	\$ —	\$ —	0%	\$ —	\$ (137,686)	-100%	\$ 137,686
Electric revenue	\$ —	\$ (9,735)	-100%	\$ 9,735	\$ (91,193)	-90%	\$ 100,928

Gas revenue

We did not have any gas operations in the years ended December 31, 2005 and 2004.

Electric revenue

Electric revenue for the year ended December 31, 2005 decreased \$9.7 million as compared with the prior year due to the sale of our Vermont electric division on April 1, 2004. Electric revenue for the year ended December 31, 2004 decreased \$91.2 million, or 90%, as compared with the prior year. We have sold all of our electric operations and as a result will have no operating results in future periods for these businesses.

COST OF SERVICES

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Network access	\$ 195,491	\$ 2,076	1%	\$ 193,415	\$ (26,006)	-12%	\$ 219,421
Gas purchased	—	—	0%	—	(82,311)	-100%	82,311
Electric energy and fuel oil purchased	—	(5,523)	-100%	5,523	(58,308)	-91%	63,831
	<u>\$ 195,491</u>	<u>\$ (3,447)</u>	<u>-2%</u>	<u>\$ 198,938</u>	<u>\$ (166,625)</u>	<u>-46%</u>	<u>\$ 365,563</u>

Network access

Network access expenses for the year ended December 31, 2005 increased \$2.1 million, or 1%, as compared with the prior year primarily due to increased costs in circuit expense due to more data traffic associated with increased high-speed internet customers and greater long distance minutes of use in the Frontier sector, and higher costs at ELI due to increased demand. As we continue to increase our sales of data products such as high-speed internet and expand the availability of our unlimited long distance calling plans, our network access expense is likely to increase.

Network access expenses for the year ended December 31, 2004 decreased \$26.0 million, or 12%, as compared with the prior year primarily due to decreased costs in long distance access expense related to rate changes partially offset by increased circuit expense associated with additional high-speed internet customers. ELI costs declined due to a drop in demand coupled with improved network cost efficiencies.

Gas purchased

We did not have any gas operations in the years ended December 31, 2005 and 2004.

Electric energy and fuel oil purchased

Electric energy and fuel oil purchased for the year ended December 31, 2005 decreased \$5.5 million as compared with the prior year due to the sale of our Vermont electric division on April 1, 2004. Electric energy and fuel oil purchased for the year ended December 31, 2004 decreased \$58.3 million, or 91%, as compared with the prior year. We have sold all of our electric operations and as a result will have no operating results in future periods for these businesses.

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OTHER OPERATING EXPENSES

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Operating expenses	\$ 607,581	\$(15,436)	-2%	\$ 623,017	\$(61,952)	-9%	\$ 684,969
Taxes other than income taxes	93,115	(771)	-1%	93,886	(2,870)	-3%	96,756
Sales and marketing	117,484	2,448	2%	115,036	2,653	2%	112,383
	<u>\$ 818,180</u>	<u>\$(13,759)</u>	-2%	<u>\$ 831,939</u>	<u>\$(62,169)</u>	-7%	<u>\$ 894,108</u>

Operating Expenses

Operating expenses for the year ended December 31, 2005 decreased \$15.4 million, or 2%, as compared with the prior year primarily due to lower billing expenses as a result of the conversion of one of our billing systems in 2004 partially offset by rate increases for federal USF mandated contributions and annual fees to regulatory agencies. We routinely review our operations, personnel and facilities to achieve greater efficiencies. These reviews may result in reductions in personnel and an increase in severance costs. As a result of early retirement being offered to certain of our employees during the first quarter of 2006 we expect to recognize \$3.5 million to \$4.0 million of severance costs in the first quarter of 2006.

Operating expenses for the year ended December 31, 2004 decreased \$62.0 million, or 9%, as compared with the prior year primarily due to decreased operating expenses in the public services sector due to the sales of our utilities and increased operating efficiencies and a reduction of personnel in our communications business.

Operating expenses in 2004 include \$4.2 million of expenses attributable to our efforts to comply with the internal control requirements of the Sarbanes-Oxley Act of 2002.

Included in operating expenses is stock compensation expense. Stock compensation expense was \$8.4 million and \$11.0 million for the years ended December 31, 2005 and 2004, respectively. In 2006, we expect to begin expensing the cost of the unvested portion of outstanding stock options pursuant to SFAS No. 123R. We expect to recognize approximately \$2.8 million of stock option expense related to the non-vested portion of previously granted stock options for the year ended December 31, 2006.

Included in operating expenses is pension and other postretirement benefit expenses. In future periods, if the value of our pension assets decline and/or projected benefit costs increase, we may have increased pension expenses. Based on current assumptions and plan asset values, we estimate that our pension and other postretirement benefit expenses will decrease from \$19.0 million in 2005 to approximately \$15.0 million to \$18.0 million in 2006 and that no contribution will be required to be made by us to the pension plan in 2006. No contribution was made to our pension plan during 2005.

Taxes Other than Income Taxes

Taxes other than income taxes for the year ended December 31, 2004 decreased \$2.9 million, or 3%, as compared with the prior year primarily due to decreased property taxes in the public services sector of \$11.6 million due to the sales of our utilities and lower gross receipts taxes of \$3.7 million in the Frontier sector that were partially offset by higher payroll, property and franchise taxes of \$13.0 million.

Sales and Marketing

Sales and marketing expenses for the year ended December 31, 2005 increased \$2.4 million, or 2%, as compared with the prior year primarily due to increased marketing and advertising in an increasingly competitive environment and the launch of new products. As our markets become more competitive and we launch new products, we expect that our marketing costs will increase.

Sales and marketing expenses for the year ended December 31, 2004 increased \$2.7 million, or 2%, as compared with the prior year primarily due to increased costs in the Frontier sector.

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DEPRECIATION AND AMORTIZATION EXPENSE

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Depreciation expense	\$ 415,581	\$(28,707)	-6%	\$ 444,288	\$(22,035)	-5%	\$ 466,323
Amortization expense	126,378	(142)	0%	126,520	(318)	0%	126,838
	<u>\$ 541,959</u>	<u>\$(28,849)</u>	-5%	<u>\$ 570,808</u>	<u>\$(22,353)</u>	-4%	<u>\$ 593,161</u>

Depreciation expense for the years ended December 31, 2005 and 2004 decreased \$28.7 million, or 6%, and \$22.0 million, or 5%, respectively, as compared with the prior years due to a declining asset base. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2005. Based on the study and our planned capital expenditures, we expect that our depreciation expense will decline in 2006 by approximately 12.5% compared to 2005. The decline is principally the result of extending the remaining useful lives of our copper facilities from approximately 16 years to a range of 26 to 30 years.

RESERVE FOR TELECOMMUNICATIONS BANKRUPTCIES/RESTRUCTURING AND OTHER EXPENSES/MANAGEMENT SUCCESSION AND STRATEGIC ALTERNATIVES EXPENSES

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Reserve for (recovery of) telecommunications bankruptcies	\$ —	\$ —	0%	\$ —	\$ 4,377	-100%	\$ (4,377)
Restructuring and other expenses	\$ —	\$ —	0%	\$ —	\$ (9,687)	-100%	\$ 9,687
Management succession and strategic alternatives expenses	\$ —	\$(90,632)	-100%	\$ 90,632	\$ —	0%	\$ 90,632

On July 11, 2004, our Board of Directors announced that it completed its review of our financial and strategic alternatives. In 2004, we expensed \$90.6 million of costs related to management succession and our exploration of financial and strategic alternatives. Included are \$36.6 million of non-cash expenses for the acceleration of stock benefits, cash expenses of \$19.2 million for advisory fees, \$19.3 million for severance and retention arrangements and \$15.5 million primarily for tax reimbursements.

During the fourth quarter of 2003, an agreement with WorldCom/MCI was approved by the bankruptcy court settling all pre-bankruptcy petition obligations and receivables. This settlement resulted in reduction to our reserve of approximately \$6.6 million in the fourth quarter of 2003. During the second quarter of 2003, we reserved approximately \$2.3 million of trade receivables with Touch America as a result of Touch America's filing for bankruptcy. These receivables were generated as a result of providing ordinary course telecommunication services. If other telecommunications companies file for bankruptcy, we may have additional significant reserves in future periods.

Restructuring and other expenses for 2003 primarily consisted of severance expenses related to reductions in personnel at our telecommunications operations and the write-off of software no longer used.

LOSS ON IMPAIRMENT

(\$ in thousands)	2003
	Amount
Loss on impairment	\$ 15,300

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During the third and fourth quarters of 2003, we recognized additional pre-tax impairment losses of \$4.0 million and \$11.3 million related to our Vermont property to write down assets to be sold to our best estimate of their net realizable value upon sale.

INVESTMENT AND OTHER INCOME (LOSS), NET / INTEREST EXPENSE / INCOME TAX EXPENSE (BENEFIT)

(\$ in thousands)	2005			2004			2003
	Amount	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Investment income	\$ 18,236	\$(15,380)	-46%	\$ 33,616	\$ 23,198	-223%	\$ 10,418
Other income (loss), net	\$ (1,674)	\$ 51,685	-97%	\$ (53,359)	\$ (97,418)	-221%	\$ 44,059
Interest expense	\$ 338,903	\$(40,118)	-11%	\$ 379,021	\$ (37,499)	-9%	\$ 416,520
Income tax expense	\$ 84,340	\$ 73,918	709%	\$ 10,422	\$ (54,354)	84%	\$ 64,776

Investment Income

Investment income for the year ended December 31, 2005 decreased \$15.4 million, or 46%, as compared with the prior year primarily due to the sale in 2004 of our investments in D & E Communications, Inc. (D & E) and Hungarian Telephone and Cable Corp. (HTCC), partially offset by higher income in 2005 from short-term investments.

Investment income for the year ended December 31, 2004 increased \$23.2 million as compared with the prior year primarily due to the sale of our investments in D & E and HTCC and higher income from short-term investments.

Other Income (Loss), net

Other income, net for the year ended December 31, 2005 increased \$51.7 million, or 97%, as compared to prior year. The increase is primarily due to a pre-tax loss from the early extinguishment of debt of \$66.5 million in 2004 and a net loss on sales of assets of \$1.9 million, which is primarily attributable to the loss on the sale of our corporate aircraft, partially offset by \$25.3 million in income from the expiration of certain retained liabilities at less than face value, which are associated with customer advances for construction from our disposed water properties. In addition, during 2005 \$7.0 million was reserved in the fourth quarter in connection with a lawsuit, and during the second quarter we incurred a \$3.2 million loss on the exchange of debt, partially offset by gains on our forward rate agreements.

Other loss, net for the year ended December 31, 2004 increased \$97.4 million as compared to prior year primarily due to a pre-tax loss from the early extinguishment of debt of \$66.5 million in 2004, and the recognition in 2003 of \$69.5 million in non-cash pre-tax gains related to a capital lease termination and a capital lease restructuring at ELI, partially offset in 2004 by \$25.3 million in income from the expiration of certain retained liabilities at less than face value, which are associated with customer advances for construction from our disposed water properties and a net loss on sales of assets in 2004 of \$1.9 million, which is primarily attributable to the loss on the sale of our corporate aircraft, compared to a net loss on sales of assets in 2003 of \$20.5 million.

Interest Expense

Interest expense for the year ended December 31, 2005 decreased \$40.1 million, or 11%, as compared with the prior year primarily due to the retirement and refinancing of debt. Our composite average borrowing rate for the year ended December 31, 2005 as compared with the prior year was 2 basis points lower, decreasing from 7.96% to 7.94%.

Interest expense for the year ended December 31, 2004 decreased \$37.5 million, or 9%, as compared with the prior year primarily due to the retirement of debt. Our composite average borrowing rate for the year ended December 31, 2004 as compared with the prior year was 11 basis points lower, decreasing from 8.07% to 7.96%.

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Income Taxes

Income taxes for the year ended December 31, 2005 increased \$73.9 million, as compared with the prior year primarily due to changes in taxable income and the effective tax rate. The effective tax rate for 2005 was 29.6% as compared with 13.5% for 2004. Our effective tax rate was below statutory rates in both years as a result of the completion of audits with federal and state taxing authorities and changes in the structure of certain of our subsidiaries.

Income taxes for the year ended December 31, 2004 decreased \$54.4 million, or 84%, as compared with the prior year primarily due to changes in taxable income (loss). The effective tax rate for 2004 was 13.5% as compared with an effective tax rate of 34.3% for 2003.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

(\$ in thousands)	2003
	Amount
Cumulative effect of change in accounting principle	\$ 65,769

During the first quarter of 2003, as a result of our adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," we recognized an after tax non-cash gain of approximately \$65.8 million.

DISCONTINUED OPERATIONS

(\$ in thousands)	2005	2004	2003
	Amount	Amount	Amount
Revenue	\$ 4,607	\$ 24,558	\$ 20,764
Operating income	\$ 1,489	\$ 8,188	\$ 6,820
Income taxes	\$ 449	\$ 2,957	\$ 2,440
Net income	\$ 1,040	\$ 5,231	\$ 4,380

On March 15, 2005, we completed the sale of CCUSA for \$43.6 million in cash. The pre-tax gain on the sale of CCUSA was \$14.1 million. Our after-tax gain was \$1.2 million. The book income taxes recorded upon sale are primarily attributable to a low tax basis in the assets sold.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DISCLOSURE OF PRIMARY MARKET RISKS AND HOW THEY ARE MANAGED

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with our pension assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity and commodity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading purposes. As a result, we do not undertake any specific actions to cover our exposure to market risks and we are not party to any market risk management agreements other than in the normal course of business or to hedge long-term interest rate risk.

INTEREST RATE EXPOSURE

Our exposure to market risk for changes in interest rates relates primarily to the interest-bearing portion of our investment portfolio and interest on our long-term debt and capital lease obligations. The long-term debt and capital lease obligations include various instruments with various maturities and weighted average interest rates.

Our objectives in managing our interest rate risk are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, a majority of our borrowings have fixed interest rates. Consequently, we have limited material future earnings or cash flow exposures from changes in interest rates on our long-term debt and capital lease obligations. A hypothetical 10% adverse change in interest rates

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would increase the amount that we pay on our variable obligations and could result in fluctuations in the fair value of our fixed rate obligations. Based upon our overall interest rate exposure at December 31, 2005, a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

In order to manage our interest expense, we have entered into interest rate swap agreements. Under the terms of the agreements, which qualify for hedge accounting, we make semi-annual, floating rate interest payments based on six month LIBOR and receive a fixed rate on the notional amount. The underlying variable rate for these interest rate swaps is set in arrears. For the years ended December 31, 2005 and 2004, the cash interest savings resulting from these interest rate swaps totaled approximately \$2.5 million and \$9.4 million, respectively.

During September 2005, we entered into a series of forward rate agreements that fixed the underlying variable rate component of some of our swaps at the market rate as of the date of execution for certain future rate-setting dates. At December 31, 2005, the rates obtained under these forward rate agreements were below market rates. A gain for the changes in the fair value of these forward rate agreements of \$1.9 million is included in other income (loss) net for the year ended December 31, 2005.

Sensitivity analysis of interest rate exposure

At December 31, 2005, the fair value of our long-term debt and capital lease obligations was estimated to be approximately \$4.0 billion, based on our overall weighted average borrowing rate of 8.05% and our overall weighted maturity of 12 years. There has been no material change in the weighted average maturity since December 31, 2004.

The overall weighted average interest rate increased in 2005 by approximately 22 basis points. A hypothetical increase of 81 basis points in our weighted average interest rate (10% of our overall weighted average borrowing rate) would result in an approximate \$210.3 million decrease in the fair value of our fixed rate obligations.

EQUITY PRICE EXPOSURE

Our exposure to market risks for changes in equity prices as of December 31, 2005 is limited to our investment in Adelpia, and our pension assets of \$762.2 million.

As of December 31, 2005 and December 31, 2004, we owned 3,059,000 shares of Adelpia common stock. The stock price of Adelpia was \$0.04 and \$0.39 at December 31, 2005 and December 31, 2004, respectively.

Sensitivity analysis of equity price exposure

At December 31, 2005, the fair value of the equity portion of our investment portfolio was estimated to be \$0.1 million. A hypothetical 10% decrease in quoted market prices would result in an approximate \$12,000 decrease in the fair value of the equity portion of our investment portfolio.

Disclosure of limitations of sensitivity analysis

Certain shortcomings are inherent in the method of analysis presented in the computation of fair value of financial instruments. Actual values may differ from those presented should market conditions vary from assumptions used in the calculation of the fair value. This analysis incorporates only those exposures that exist as of December 31, 2005. It does not consider those exposures or positions which could arise after that date. As a result, our ultimate exposure with respect to our market risks will depend on the exposures that arise during the period and the fluctuation of interest rates and quoted market prices.

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.

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ITEM 9A. CONTROLS AND PROCEDURES

(i) Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, December 31, 2005, that our disclosure controls and procedures are effective.

(ii) Internal Control Over Financial Reporting

(a) Management's annual report on internal control over financial reporting

Our management report on internal control over financial reporting appears on page F-2 and is incorporated by reference.

(b) Attestation report of registered public accounting firm

The attestation report of KPMG LLP, our independent registered public accounting firm, on management's assessment of the effectiveness of our internal control over financial reporting appears on page F-3 and is incorporated by reference.

(c) Changes in internal control over financial reporting

We reviewed our internal control over financial reporting at December 31, 2005. There has been no change in our internal control over financial reporting during the last fiscal quarter of 2005 that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2006 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2005. See "Executive Officers of the Registrant" in Part I of this Report following Item 4 for information relating to executive officers.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2006 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2006 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2006 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2005.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2006 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2005.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

List of Documents Filed as a Part of This Report:

(1) Index to Consolidated Financial Statements:

Independent Auditors' Report

Consolidated balance sheets as of December 31, 2005 and 2004

Consolidated statements of operations for the years ended
December 31, 2005, 2004 and 2003

Consolidated statements of shareholders' equity for the years ended
December 31, 2005, 2004 and 2003

Consolidated statements of comprehensive income (loss) for the years ended
December 31, 2005, 2004 and 2003

Consolidated statements of cash flows for the years ended
December 31, 2005, 2004 and 2003

Notes to consolidated financial statements

(2) Index to Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(3) Index to Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of Citizens Communications Company, (incorporated by reference to Exhibit 3.200.1 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 2000, File No. 001-11001).
3.2	By-laws of Citizens Communications Company, as amended (incorporated by reference to Exhibit 3.200.5 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, File No. 001-11001).
4.1	Certificate of Trust of Citizens Communications Trust dated as of April 27, 2001 (incorporated by reference to Exhibit 4.5 of the Registrant's Amendment No.1 to Form S-3 filed May 7, 2001 (Registration No. 333-58044)).
4.2	Trust Agreement of Citizens Capital Trust I, dated as of April 27, 2001 (incorporated by reference to Exhibit 4.6 of the Registrant's Amendment No.1 to Form S-3 filed May 7, 2001 (Registration No. 333-58044)).
4.3	Form of Senior Note due 2011 (incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-K filed on May 24, 2001, File No. 001-11001).

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

- 4.5 Form of Senior Note due 2008 and due 2031 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on August 22, 2001, File No. 001-11001).
- 4.6 Form of Senior Note due 2013 (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on November 12, 2004, File No. 001-11001).
- 4.7 5% Convertible Subordinated Debenture due 2036 (incorporated by reference to Exhibit A to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
- 4.8 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).
- 4.9 Convertible Preferred Security Certificate (incorporated by reference to Exhibit A-1 to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
- 4.10 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).
- 4.11 Partnership Preferred Security Certificate (incorporated by reference to Annex A to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
- 4.12 Convertible Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to 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).
- 4.13 Partnership Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to 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).
- 4.14 Letter of Representations dated January 18, 1996, from Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to 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).
- 4.15 Indenture of Securities, dated as of August 15, 1991, and JPMorgan Chase Bank, N.A. (as successor 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).
- 4.16 Indenture, dated as of January 15, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to 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).
- 4.16 First Supplemental Indenture, dated as of January 15, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to 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).
- 4.17 Third Supplemental Indenture, dated April 15, 1994, to JPMorgan Chase Bank, N.A. (as successor 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).
- 4.18 Fourth Supplemental Indenture, dated October 1, 1994, to JPMorgan Chase Bank, N.A. (as successor 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).
- 4.19 Fifth Supplemental Indenture, dated as of June 15, 1995, to JPMorgan Chase Bank, N.A. (as successor 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).
- 4.20 Sixth Supplemental Indenture, dated as of October 15, 1995, to JPMorgan Chase Bank, N.A. (as successor 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).

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- 4.21 Seventh Supplemental Indenture, dated as of June 1, 1996 to JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), (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).
- 4.22 Eighth Supplemental Indenture, dated as of December 1, 1996 to JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), (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).
- 4.23 Senior Indenture, dated as of May 23, 2001, between Citizens Communications Company and JPMorgan Chase Bank, N.A. (as successor to The Chase Manhattan Bank), as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on May 24, 2001, File No. 001-11001).
- 4.24 First Supplemental Indenture, dated as of May 23, 2001, to Senior Indenture, (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on May 24, 2001, File No. 001-11001).
- 4.25 Second Supplemental Indenture, dated as of June 19, 2001, to Senior Indenture, dated as of May 23, 2001 (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed on June 21, 2001, File No. 001-11001).
- 4.26 Third Supplemental Indenture, dated as of November 12, 2004, to Senior Indenture, dated as of May 23, 2001 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on November 12, 2004, File No. 001-11001).
- 4.27 Indenture, dated as of August 16, 2001, between Citizens Communications Company and JPMorgan Chase Bank, N.A. (as successor to The Chase Manhattan Bank), as Trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on August 22, 2001, File No. 001-11001).
- 4.28 Underwriting Agreement dated November 8, 2004, between Citizens Communications Company and J.P. Morgan Securities Inc., as Representative of the several listed Underwriters, relating to the sale of \$700,000,000 principal amount of the 6¼% Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on November 12, 2004, File No. 001-11001).
- 10.1 Competitive Advance and Revolving Credit Facility Agreement for \$250,000,000 dated October 29, 2004 (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, File No. 001-11001).
- 10.2 Amended and Restated Non-Employee Directors' Deferred Fee Equity Plan dated as of May 18, 2004, (incorporated by reference to Exhibit 10.1.2 to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2004, File No. 001-11001).
- 10.3 Amendment No. 1 to the Citizens Communications Company (f/k/a Citizens Utilities Company) Non-Employee Directors' Deferred Fee Equity Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on December 20, 2005, File No. 001-11001).
- 10.4 Separation Agreement between Citizens Communications Company and Leonard Tow effective July 10, 2004 (incorporated by reference to Exhibit 10.2.4 of the Registrants' Quarterly Report on Form 10-Q for the six months ended June 30, 2004, File No. 001-11001).
- 10.5 Incentive Award Agreement between Citizens Communications Company and Scott N. Schneider, effective March 11, 2004 (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-11001).
- 10.6 Citizens Executive Deferred Savings Plan dated January 1, 1996 (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
- 10.7 Citizens Incentive Plan restated as of March 21, 2000 (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year-ended December 31, 1999, File No. 001-11001).
- 10.8 1996 Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's definitive proxy statement on Schedule 14A filed on March 29, 1996, File No. 001-11001).
- 10.8.1 2000 Equity Incentive Plan, as amended (incorporated by reference to Appendix A to the Registrant's definitive proxy statement on Schedule 14A filed on April 20, 2005, File No. 001-11001).
- 10.9 Amendment to 1996 Equity Incentive Plan (incorporated by reference to Exhibit B to the Registrant's definitive proxy statement on Schedule 14A filed on March 31, 1997, File No. 001-11001).

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

- 10.10 Amendment to 1996 Equity Incentive Plan (effective March 4, 2005) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2005, File No. 001-11001).
- 10.11 Citizens 401(K) Savings Plan effective as of January 1, 1997, as amended (incorporated by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 2001, File No. 001-11001).
- 10.12 Loan Agreement between Citizens Communications Company and Rural Telephone Finance Cooperative for \$200,000,000 dated October 24, 2001 (incorporated by reference to Exhibit 10.39 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2001, File No. 001-11001).
- 10.13 Amendment No. 1, dated as of March 31, 2003, to Loan Agreement between Citizens Communications Company and Rural Telephone Finance Cooperative (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2003, File No. 001-11001).
- 10.14 Employment Agreement between Citizens Communications Company and Mary Agnes Wilderotter, effective November 1, 2004 (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, File No. 001-11001).
- 10.15 Employment Agreement between Citizens Communications Company and Jerry Elliott, effective September 1, 2004 (incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, File No. 001-11001).
- 10.16 Employment Agreement between Citizens Communications Company and Robert Larson, effective September 1, 2004 (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, File No. 001-11001).
- 10.17 Employment Agreement between Citizens Communications Company and John H. Casey, III, effective February 15, 2005 (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11001).
- 10.18 Offer of Employment Letter between Citizens Communications Company and Peter B. Hayes, effective February 1, 2005 (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11001).
- 10.19 Separation Agreement between Citizens Communications Company and L. Russell Mitten dated July 13, 2005 (incorporated by reference to Exhibit 10.24 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2005, File No. 001-11001).
- 10.20 Amendment to the Separation Agreement between Citizens Communications Company and L. Russell Mitten dated August 31, 2005 (incorporated by reference to Exhibit 10.24.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2005, File No. 001-11001).
- 10.21 Summary of Compensation Arrangements for Named Executive Officers Outside of Employment Agreements (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 28, 2006, File No. 001-11001).
- 10.22 Summary of Non-Employee Directors' Compensation Arrangements Outside of Formal Plans, as amended, effective December 15, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 20, 2005, File No. 001-11001).
- 10.23 Membership Interest Purchase Agreement between Citizens Communications Company and Integra Telecom Holdings, Inc. dated February 6, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 9, 2006, File No. 001-11001).
- 10.24 Stock Redemption Agreement between Citizens Utilities Rural Company, Inc. and The Rural Telephone Bank effective November 10, 2005 (including schedule of substantially identical agreements with other Subsidiaries of the Registrant).
- 12.1 Computation of ratio of earnings to fixed charges (this item is included herein for the sole purpose of incorporation by reference):
- 21.1 Subsidiaries of the Registrant
- 23.1 Auditors' Consent

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibits 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.8.1, 10.9, 10.10, 10.11, 10.14, 10.15, 10.16, 10.17, 10.18, 10.20, 10.21 and 10.22 are management contracts or compensatory plans or arrangements.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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 COMMUNICATIONS COMPANY

(Registrant)

By: /s/ MARY AGNES WILDEROTTER

MARY AGNES WILDEROTTER

Chairman of the Board and Chief Executive Officer

March 1, 2006

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 1st day of March 2006.

<u>Signature</u>	<u>Title</u>
<u>/s/ LEROY T. BARNES, JR.</u> (LEROY T. BARNES, JR.)	<i>Director</i>
<u>/s/ JERRY ELLIOTT</u> (JERRY ELLIOTT)	<i>President; Acting Chief Financial Officer and Director</i>
<u>/s/ JERI B. FINARD</u> (JERI B. FINARD)	<i>Director</i>
<u>/s/ LAWTON FITT</u> (LAWTON FITT)	<i>Director</i>
<u>/s/ STANLEY HARFENIST</u> (STANLEY HARFENIST)	<i>Director</i>
<u>/s/ WILLIAM KRAUS</u> (WILLIAM KRAUS)	<i>Director</i>
<u>/s/ ROBERT J. LARSON</u> (ROBERT J. LARSON)	<i>Senior Vice President and Chief Accounting Officer</i>
<u>/s/ HOWARD L. SCHROTT</u> (HOWARD L. SCHROTT)	<i>Director</i>
<u>/s/ LARRAINE D. SEGIL</u> (LARRAINE D. SEGIL)	<i>Director</i>
<u>/s/ BRADLEY E. SINGER</u> (BRADLEY E. SINGER)	<i>Director</i>
<u>/s/ EDWIN TORNBERG</u> (EDWIN TORNBERG)	<i>Director</i>
<u>/s/ DAVID H. WARD</u> (DAVID H. WARD)	<i>Director</i>
<u>/s/ MYRON A. WICK, III</u> (MYRON A. WICK, III)	<i>Director</i>
<u>/s/ MARY AGNES WILDEROTTER</u> (MARY AGNES WILDEROTTER)	<i>Chairman and Chief Executive Officer</i>

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders
Citizens Communications Company:

The management of Citizens Communications Company and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2005 and for the period then ended.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Stamford, Connecticut
March 1, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Citizens Communications Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Citizens Communications Company and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Citizens Communications Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Citizens Communications Company and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Citizens Communications Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 1, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Stamford, Connecticut
March 1, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Citizens Communications Company:

We have audited the accompanying consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 Communications Company and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" as of January 1, 2003.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Citizens Communications Company and subsidiaries internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Stamford, Connecticut
March 1, 2006

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

(\$ in thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 265,775	\$ 163,759
Accounts receivable, less allowances of \$32,408 and \$35,996, respectively ..	229,107	233,690
Prepaid expenses	27,449	30,551
Other current assets	19,764	18,758
Assets of discontinued operations	—	24,122
Total current assets	<u>542,095</u>	<u>470,880</u>
Property, plant and equipment, net	3,186,465	3,335,850
Goodwill, net	1,921,465	1,921,465
Other intangibles, net	558,733	685,111
Investments	19,136	23,062
Other assets	184,215	232,051
Total assets	<u>\$ 6,412,109</u>	<u>\$ 6,668,419</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 227,734	\$ 6,380
Accounts payable	152,081	169,754
Advanced billings	29,245	29,446
Income taxes accrued	5,776	27,446
Other taxes accrued	28,970	30,179
Interest accrued	101,030	82,534
Other current liabilities	71,806	71,046
Liabilities of discontinued operations	—	735
Total current liabilities	<u>616,642</u>	<u>417,520</u>
Deferred income taxes	325,084	232,766
Other liabilities	429,198	388,895
Long-term debt	3,999,376	4,266,998
Shareholders' equity:		
Common stock, \$0.25 par value (600,000,000 authorized shares; 328,168,000 and 339,633,000 outstanding and 343,956,000 and 339,635,000 issued at December 31, 2005 and 2004, respectively)	85,989	84,909
Additional paid-in capital	1,374,610	1,664,627
Accumulated deficit	(85,344)	(287,719)
Accumulated other comprehensive loss, net of tax	(123,242)	(99,569)
Treasury stock	(210,204)	(8)
Total shareholders' equity	<u>1,041,809</u>	<u>1,362,240</u>
Total liabilities and shareholders' equity	<u>\$ 6,412,109</u>	<u>\$ 6,668,419</u>

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Years Ended December 31, 2005, 2004 and 2003

(\$ in thousands, except for per-share amounts)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue	\$ 2,162,479	\$ 2,168,422	\$ 2,424,174
Operating expenses:			
Cost of services (exclusive of depreciation and amortization)	195,491	198,938	365,563
Other operating expenses	818,180	831,939	894,108
Depreciation and amortization	541,959	570,808	593,161
Recovery of telecommunications bankruptcies	—	—	(4,377)
Restructuring and other expenses	—	—	9,687
Loss on impairment	—	—	15,300
Management succession and strategic alternatives expenses (see Note 13)	—	<u>90,632</u>	—
Total operating expenses	<u>1,555,630</u>	<u>1,692,317</u>	<u>1,873,442</u>
Operating income	606,849	476,105	550,732
Investment income	18,236	33,616	10,418
Other income (loss), net	(1,674)	(53,359)	44,059
Interest expense	<u>338,903</u>	<u>379,021</u>	<u>416,520</u>
Income from continuing operations before income taxes, dividends on convertible preferred securities and cumulative effect of change in accounting principle	284,508	77,341	188,689
Income tax expense	<u>84,340</u>	<u>10,422</u>	<u>64,776</u>
Income from continuing operations before dividends on convertible preferred securities and cumulative effect of change in accounting principle	200,168	66,919	123,913
Dividends on convertible preferred securities, net of income tax benefit of \$(3,853)*	—	—	<u>6,210</u>
Income from continuing operations before cumulative effect of change in accounting principle	200,168	66,919	117,703
Discontinued operations (see Note 8):			
Income from operations of discontinued conferencing business (including gain on disposal of \$14,061 in 2005)	15,550	8,188	6,820
Income tax expense	<u>13,343</u>	<u>2,957</u>	<u>2,440</u>
Income from discontinued operations	<u>2,207</u>	<u>5,231</u>	<u>4,380</u>
Income before cumulative effect of change in accounting principle	202,375	72,150	122,083
Cumulative effect of change in accounting principle, net of tax of \$0, \$0 and \$41,591, respectively	—	—	<u>65,769</u>
Net income available for common shareholders	<u>\$ 202,375</u>	<u>\$ 72,150</u>	<u>\$ 187,852</u>
Basic income per common share:			
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.59	\$ 0.22	\$ 0.42
Income from discontinued operations	0.01	0.02	0.02
Income from cumulative effect of change in accounting principle	—	—	<u>0.23</u>
Net income per common share available for common shareholders	<u>\$ 0.60</u>	<u>\$ 0.24</u>	<u>\$ 0.67</u>
Diluted income per common share:			
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.59	\$ 0.22	\$ 0.41
Income from discontinued operations	0.01	0.01	0.01
Income from cumulative effect of change in accounting principle	—	—	<u>0.22</u>
Net income per common share available for common shareholders	<u>\$ 0.60</u>	<u>\$ 0.23</u>	<u>\$ 0.64</u>

* The consolidation of this item changed effective January 1, 2004 as a result of the application of a newly mandated accounting standard "FIN 46R." See Note 15 for a complete discussion.

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For The Years Ended December 31, 2005, 2004 and 2003

(\$ in thousands, except for per-share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance December 31, 2002.	294,080	\$ 73,520	\$ 1,943,406	\$ (553,033)	\$ (102,169)	(11,598)	\$ (189,585)	\$ 1,172,139
Stock plans	1,354	338	9,911	—	—	873	14,450	24,699
Net income	—	—	—	187,852	—	—	—	187,852
Other comprehensive income, net of tax and reclassifications adjustments	—	—	—	—	30,493	—	—	30,493
Balance December 31, 2003.	295,434	73,858	1,953,317	(365,181)	(71,676)	(10,725)	(175,135)	1,415,183
Stock plans	4,821	1,206	14,236	—	—	6,407	106,823	122,265
Conversion of EPPICS	10,897	2,724	133,621	—	—	725	11,646	147,991
Conversion of Equity Units	28,483	7,121	396,221	—	—	3,591	56,658	460,000
Dividends on common stock of \$2.50 per share	—	—	(832,768)	—	—	—	—	(832,768)
Net income	—	—	—	72,150	—	—	—	72,150
Tax benefit on equity forward contracts	—	—	—	5,312	—	—	—	5,312
Other comprehensive loss, net of tax and reclassifications adjustments	—	—	—	—	(27,893)	—	—	(27,893)
Balance December 31, 2004.	339,635	84,909	1,664,627	(287,719)	(99,569)	(2)	(8)	1,362,240
Stock plans	2,096	524	24,039	—	—	2,598	34,689	59,252
Conversion of EPPICS	2,225	556	24,308	—	—	391	5,115	29,979
Dividends on common stock of \$1.00 per share	—	—	(338,364)	—	—	—	—	(338,364)
Shares repurchased	—	—	—	—	—	(18,775)	(250,000)	(250,000)
Net income	—	—	—	202,375	—	—	—	202,375
Other comprehensive loss, net of tax and reclassifications adjustments	—	—	—	—	(23,673)	—	—	(23,673)
Balance December 31, 2005.	<u>343,956</u>	<u>\$ 85,989</u>	<u>\$ 1,374,610</u>	<u>\$ (85,344)</u>	<u>\$ (123,242)</u>	<u>(15,788)</u>	<u>\$ (210,204)</u>	<u>\$ 1,041,809</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For The Years Ended December 31, 2005, 2004 and 2003

(\$ in thousands, except for per-share amounts)

	2005	2004	2003
Net income	\$ 202,375	\$ 72,150	\$ 187,852
Other comprehensive income (loss), net of tax and reclassifications adjustments*	(23,673)	(27,893)	30,493
Total comprehensive income	<u>\$ 178,702</u>	<u>\$ 44,257</u>	<u>\$ 218,345</u>

* Consists of unrealized holding (losses)/gains of marketable securities, realized gains taken to income as a result of the sale of securities and minimum pension liability (see Note 21).

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2005, 2004 and 2003

(\$ in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows provided by (used in) operating activities:			
Net income	\$ 202,375	\$ 72,150	\$ 187,852
Deduct: Gain on sale of discontinued operations	(1,167)	—	—
Income from discontinued operations	(1,040)	(5,231)	(4,380)
Cumulative effect of change in accounting principle for the adoption of SFAS No. 143	—	—	(65,769)
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization expense	541,959	570,808	593,161
Gain on expiration/settlement of customer advance	(681)	(25,345)	(6,165)
Gain on capital lease termination/restructuring	—	—	(69,512)
Stock based compensation expense	8,427	47,581	8,956
Loss on debt exchange	3,175	—	—
Loss on extinguishment of debt	—	66,480	10,851
Investment gains	(492)	(12,066)	—
Gain on sales of assets	—	1,945	20,492
Loss on impairment	—	—	15,300
Other non-cash adjustments	20,481	30,397	20,091
Deferred taxes	100,636	24,016	74,508
Change in accounts receivable	4,583	11,895	69,619
Change in accounts payable and other liabilities	(33,399)	(67,499)	(113,532)
Change in other current assets	(640)	(3,694)	748
Net cash provided by operating activities	<u>844,217</u>	<u>711,437</u>	<u>742,220</u>
Cash flows provided from (used by) investing activities:			
Proceeds from sales of assets, net of selling expenses	24,195	30,959	388,079
Proceeds from sale of discontinued operations	43,565	—	—
Capital expenditures	(268,459)	(275,204)	(277,371)
Securities purchased	—	—	(1,680)
Securities sold	1,112	26,514	—
Other asset (purchased) distributions received	5,724	(28,110)	68
Net cash provided from (used by) investing activities	<u>(193,863)</u>	<u>(245,841)</u>	<u>109,096</u>
Cash flows provided from (used by) financing activities:			
Repayment of customer advances for construction and contributions in aid of construction	(1,662)	(2,089)	(10,030)
Long-term debt borrowings	—	700,000	—
Debt issuance costs	—	(15,502)	—
Long-term debt payments	(6,433)	(1,214,018)	(653,442)
Premium to retire debt	—	(66,480)	(10,851)
Issuance of common stock	47,550	544,562	13,209
Shares repurchased	(250,000)	—	—
Dividends paid	(338,364)	(832,768)	—
Net cash used by financing activities	<u>(548,909)</u>	<u>(886,295)</u>	<u>(661,114)</u>
Cash flows of discontinued operations			
Operating cash flows	578	1,361	956
Investing cash flows	(7)	(571)	(644)
Financing cash flows	—	(3)	(20)
	<u>571</u>	<u>787</u>	<u>292</u>
Increase (decrease) in cash and cash equivalents	102,016	(419,912)	190,494
Cash and cash equivalents at January 1	163,759	583,671	393,177
Cash and cash equivalents at December 31	<u>\$ 265,775</u>	<u>\$ 163,759</u>	<u>\$ 583,671</u>
Cash paid during the period for:			
Interest	\$ 318,638	\$ 370,128	\$ 418,561
Income taxes (refunds)	\$ 4,711	\$ (4,901)	\$ (2,532)
Non-cash investing and financing activities:			
Change in fair value of interest rate swaps	\$ (13,193)	\$ (6,135)	\$ (6,057)
Conversion of EPPICS	\$ 29,980	\$ 147,991	\$ —
Debt-for-debt exchange	\$ 2,171	\$ —	\$ —
Investment write-downs	\$ —	\$ 5,286	\$ —

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Description of Business:

Citizens Communications Company and its subsidiaries are referred to as “we,” “us,” the “Company,” or “our” in this report. We are a communications company providing services to rural areas and small and medium-sized towns and cities as an incumbent local exchange carrier, or ILEC. We offer our ILEC services under the “Frontier” name. In addition, we provide competitive local exchange carrier, or CLEC, services to business customers and to other communications carriers in certain metropolitan areas in the western United States through Electric Lightwave, LLC, or ELI, our wholly-owned subsidiary. In February 2006, we entered into a definitive agreement to sell ELI and we expect the sale to close in the third quarter of 2006.

(b) Principles of Consolidation and Use of Estimates:

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the amounts of assets, liabilities, revenue and expenses we have reported and our disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates. We believe that our critical estimates are depreciation rates, pension assumptions, calculations of impairment amounts, reserves established for receivables, income taxes and contingencies.

(c) Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Revenue Recognition:

Frontier – Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes: monthly recurring network access services, special access services and monthly recurring local line charges. The unearned portion of this revenue is initially deferred as a component of other liabilities on our consolidated balance sheet and recognized in revenue over the period that the services are provided. Revenue that is billed in arrears includes: non-recurring network access services, switched access services, non-recurring local services and long-distance services. The earned but unbilled portion of this revenue is recognized in revenue in our statement of operations and accrued in accounts receivable in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

Electric Lightwave, LLC (ELI) – Revenue is recognized when the services are provided. Revenue from long-term prepaid network services agreements including Indefeasible Rights to Use (IRU), are deferred and recognized on a straight-line basis over the terms of the related agreements. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

(e) Property, Plant and Equipment:

Property, plant and equipment are stated at original cost or fair market value for our acquired properties, including capitalized interest. Maintenance and repairs are charged to operating expenses as incurred. The gross book value of routine property, plant and equipment retired is charged against accumulated depreciation.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses and have determined for the year ended December 31, 2005 that there was no impairment (see Notes 2 and 7). All intangibles at December 31, 2005 are associated with the Frontier segment, which is the reporting unit.

SFAS No. 142 also requires that intangible assets with estimated useful lives be amortized over those lives and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" to determine whether any changes to these lives are required. We periodically reassess the useful life of our intangible assets with estimated useful lives to determine whether any changes to those lives are required.

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

We review long-lived assets to be held and used and long-lived assets to be disposed of, including intangible assets with estimated useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If any assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value (see Note 5).

(h) Derivative Instruments and Hedging Activities:

We account for derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, requires that all derivative instruments, such as interest rate swaps, be recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them.

On the date we enter into a derivative contract that qualifies for hedge accounting, we designate the derivative as either a fair value or cash flow hedge. A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment is a fair value hedge. A hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability is a cash flow hedge. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives that are designated as fair-value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we would discontinue hedge accounting prospectively.

All derivatives are recognized on the balance sheet at their fair value. Changes in the fair value of derivative financial instruments are either recognized in income or stockholders' equity (as a component of other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows.

We have interest rate swap arrangements related to a portion of our fixed rate debt. These hedge strategies satisfy the fair value hedging requirements of SFAS No. 133, as amended. As a result, the fair value of the swaps is carried on the balance sheet in other current assets and the related hedged liabilities are also adjusted to fair value by the same amount.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Investments:

Marketable Securities

We classify our cost method investments at purchase as available-for-sale. We do not maintain a trading portfolio or held-to-maturity securities.

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. Interest, dividends and gains and losses realized on sales of securities are reported in Investment income.

We evaluate our investments periodically to determine whether any decline in fair value, below the cost basis, is other than temporary. To determine whether an impairment is other than temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee. If we determine 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 transferred from other comprehensive income (loss) and included in the statement of operations as a loss.

Investments in Other Entities

Investments in entities that we do not control, but where we have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method of accounting.

(j) Income Taxes and Deferred Income Taxes:

We file a consolidated federal income tax return. We utilize 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 basis and the tax basis of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to reverse.

(k) Stock Plans:

We have various stock-based compensation plans. Awards under these plans are granted to eligible officers, management, non-management employees and non-employee directors. 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. As permitted by current accounting rules, we apply Accounting Principles Board Opinions (APB) No. 25 and related interpretations in accounting for the employee stock plans resulting in the use of the intrinsic value to value the stock.

SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of SFAS No. 123," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, we have elected to continue to apply the intrinsic-valued-based method of accounting described above, and have adopted only the disclosure requirements of SFAS No. 123, as amended.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R"). SFAS 123R requires that stock-based employee compensation be recorded as a charge to earnings. In April 2005, the Securities and Exchange Commission required the adoption of SFAS No. 123R for annual periods beginning after June 15, 2005. Accordingly, we will adopt SFAS 123R commencing January 1, 2006 and expect to recognize approximately \$2,800,000 of expense related to the non-vested portion of previously granted stock options for the year ended December 31, 2006.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

We provide pro forma net income and pro forma net income per common share disclosures for employee and non-employee director stock option grants based on the fair value of the options at the date of grant (see Note 18). For purposes of presenting pro forma information, the fair value of options granted is computed using the Black Scholes option-pricing model.

Had we determined compensation cost based on the fair value at the grant date for the Management Equity Incentive Plan (MEIP), Equity Incentive Plan (EIP) and Directors' Deferred Fee Equity Plan, our pro forma net income and net income per common share available for common shareholders would have been as follows:

(\$ in thousands)		2005	2004	2003
Net income available for common shareholders	As reported	\$ 202,375	\$ 72,150	\$ 187,852
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		5,267	29,381	6,014
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(8,165)	(38,312)	(16,139)
	Pro forma	<u>\$ 199,477</u>	<u>\$ 63,219</u>	<u>\$ 177,727</u>
Net income per common share available for common shareholders	As reported:			
	Basic	\$ 0.60	\$ 0.24	\$ 0.67
	Diluted	0.60	0.23	0.64
	Pro forma:			
	Basic	\$ 0.59	\$ 0.21	\$ 0.63
	Diluted	0.59	0.20	0.61

In connection with the payment of the special, non-recurring dividend of \$2.00 per common share on September 2, 2004, the exercise price and number of all outstanding options was adjusted such that each option had the same value to the holder after the dividend as it had before the dividend. In accordance with FASB Interpretation No. 44 (FIN 44), "Accounting for Certain Transactions Involving Stock Compensation" and EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FIN 44," there is no accounting consequence for changes made to the exercise price and the number of shares of a fixed stock option or award as a direct result of the special, non-recurring dividend.

(1) Net Income Per Common Share Available for Common Shareholders:

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period being reported on. Except when the effect would be antidilutive, diluted net income per common share reflects the dilutive effect of the assumed exercise of stock options using the treasury stock method at the beginning of the period being reported on as well as common shares that would result from the conversion of convertible debt. In addition, the related interest on debt (net of tax) is added back to income since it would not be paid if the debt was converted to common stock.

(2) RECENT ACCOUNTING LITERATURE AND CHANGES IN ACCOUNTING PRINCIPLES:

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." We adopted SFAS No. 143 effective January 1, 2003. As a result of our adoption of SFAS No. 143, we recognized an after tax non-cash gain of approximately \$65,769,000. This gain resulted from the elimination of the cumulative cost of removal included in accumulated depreciation and is reflected as a cumulative effect of a change in accounting principle in our statement of operations in 2003, as we have no legal obligation to remove certain of our long-lived assets.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. This statement is effective for fiscal years ending after December 15, 2002. We have adopted the expanded disclosure requirements of SFAS No. 148.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R). SFAS No. 123R requires that stock-based employee compensation be recorded as a charge to earnings. In April 2005, the Securities and Exchange Commission required adoption of SFAS No. 123R for annual periods beginning after June 15, 2005. Accordingly, we will adopt SFAS 123R commencing January 1, 2006 and expect to recognize approximately \$2,800,000 of expense related to the non-vested portion of previously granted stock options for the year ended December 31, 2006.

Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) (FIN 46R), "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. We are required to apply FIN 46R to variable interests in variable interest entities, or VIEs, created after December 31, 2003. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. We reviewed all of our investments and determined that the Trust Convertible Preferred Securities (EPPICS), issued by our consolidated wholly-owned subsidiary, Citizens Utilities Trust and the related Citizens Utilities Capital L.P., were our only VIEs. Except as described in Note 15, the adoption of FIN 46R on January 1, 2004 did not have a material impact on our financial position or results of operations.

Investments

In March 2004, the FASB issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1), which provides new guidance for assessing impairment losses on debt and equity investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however, the disclosure requirements remain effective and were adopted for our year ended December 31, 2004. Although we have no material investments at the present time, we will evaluate the effect, if any, of EITF 03-1 when final guidance is released.

Exchanges of Productive Assets

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of certain non-monetary assets (except for certain exchanges of products or property held for sale in the ordinary course of business). The Statement requires that non-monetary exchanges be accounted for at the fair value of the assets exchanged, with gains or losses being recognized, if the fair value is determinable within reasonable limits and the transaction has commercial substance. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the adoption of the new standard to have a material impact on our financial position, results of operations and cash flows.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB No. 143. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Although a liability exists for the removal of poles and asbestos, sufficient information is not available currently to estimate our liability, as the range of time over which we may settle these obligations is unknown or cannot be reasonably estimated. The adoption of FIN 47 during the fourth quarter of 2005 had no impact on our financial position or results of operations.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires retrospective application to prior period's financial statements of voluntary changes in accounting principle, and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Partnerships

In June 2005, the FASB issued EITF No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," which provides new guidance on how general partners in a limited partnership should determine whether they control a limited partnership. EITF No. 04-5 is effective for fiscal periods beginning after December 15, 2005. We do not expect the adoption of EITF No. 04-5 to have a material impact on our financial position, results of operations or cash flows.

(3) ACCOUNTS RECEIVABLE:

The components of accounts receivable at December 31, 2005 and 2004 are as follows:

(\$ in thousands)	2005	2004
End user	\$ 226,717	\$ 227,385
Other	34,798	42,301
Less: Allowance for doubtful accounts	(32,408)	(35,996)
Accounts receivable, net	<u>\$ 229,107</u>	<u>\$ 233,690</u>

We maintain an allowance for estimated bad debts based on our estimate of collectibility of our accounts receivable. Bad debt expense, which is recorded as a reduction of revenue, was \$13,510,000, \$17,906,000 and \$21,540,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) PROPERTY, PLANT AND EQUIPMENT:

The components of property, plant and equipment at December 31, 2005 and 2004 are as follows:

(\$ in thousands)	Estimated Useful Lives	2005	2004
Land	N/A	\$ 20,748	\$ 21,481
Buildings and leasehold improvements	30 to 41 years	359,339	357,983
General support	3 to 17 years	413,512	414,360
Central office/electronic circuit equipment	5 to 11 years	2,611,934	2,536,579
Cable and wire	15 to 60 years	3,085,338	2,972,919
Other	5 to 30 years	35,458	31,993
Construction work in progress		99,746	93,049
		<u>6,626,075</u>	<u>6,428,364</u>
Less: accumulated depreciation		<u>(3,439,610)</u>	<u>(3,092,514)</u>
Property, plant and equipment, net.		<u>\$ 3,186,465</u>	<u>\$ 3,335,850</u>

Depreciation expense is principally based on the composite group method. Depreciation expense was \$415,581,000, \$444,288,000 and \$466,323,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Effective January 1, 2003, as a result of the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," we ceased recognition of the cost of removal provision in depreciation expense and eliminated the cumulative cost of removal included in accumulated depreciation. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2005.

(5) LOSSES ON IMPAIRMENT:

During 2005 and 2004, we did not recognize any impairment charges.

During 2003, we recognized non-cash pre-tax impairment losses of \$15,300,000 related to our Vermont electric division assets held for sale in accordance with the provisions of SFAS No. 144.

(6) DISPOSITIONS:

Pre-tax gains (losses) in connection with the following transactions were recorded in other income (loss), net:

2005

On February 1, 2005, we sold shares of Prudential Financial, Inc. for approximately \$1,112,000 in cash, and we recognized a pre-tax gain of approximately \$493,000.

In June 2005, we sold for cash our interests in certain key man life insurance policies on the lives of Leonard Tow, our former Chairman and Chief Executive Officer, and his wife, a former director. The cash surrender value of the policies purchased by Dr. Tow totaled approximately \$24,195,000, and we recognized a pre-tax gain of approximately \$457,000.

During 2005, we sold shares of Global Crossing Limited for approximately \$1,084,000 in cash, and we recognized a pre-tax gain for the same amount.

2004

In October 2004, we sold cable assets in California, Arizona, Indiana, and Wisconsin for approximately \$2,263,000 in cash. The pre-tax gain on the sale was \$40,000.

During the third quarter of 2004, we sold our corporate aircraft for approximately \$15,298,000 in cash. The pre-tax loss on the sale was \$1,087,000.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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2003

On April 1, 2003, we completed the sale of approximately 11,000 telephone access lines in North Dakota for approximately \$25,700,000 in cash. The pre-tax gain on the sale was \$2,274,000.

On April 4, 2003, we completed the sale of our wireless partnership interest in Wisconsin for approximately \$7,500,000 in cash. The pre-tax gain on the sale was \$2,173,000.

(7) OTHER INTANGIBLES:

Other intangibles at December 31, 2005 and 2004 are as follows:

(\$ in thousands)	2005	2004
Customer base - amortizable over 96 months	\$ 994,605	\$ 994,605
Trade name - non-amortizable	122,058	122,058
Other intangibles	1,116,663	1,116,663
Accumulated amortization	(557,930)	(431,552)
Total other intangibles, net	<u>\$ 558,733</u>	<u>\$ 685,111</u>

Amortization expense was \$126,378,000, \$126,520,000 and \$126,838,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Amortization expense, based on our estimate of useful lives, is estimated to be \$126,380,000 per year through 2008 and \$57,533,000 in 2009, at which point these assets will have been fully amortized.

(8) DISCONTINUED OPERATIONS:

Conference Call USA

In February 2005, we entered into a definitive agreement to sell Conference-Call USA, LLC (CCUSA), our conferencing services business. On March 15, 2005, we completed the sale for \$43,565,000 in cash, subject to adjustments under the terms of the agreement. The pre-tax gain on the sale of CCUSA was \$14,061,000. Our after-tax gain was approximately \$1,167,000. The book income taxes recorded upon sale are primarily attributable to a low tax basis in the assets sold.

In accordance with SFAS No. 144, any component of our business that we dispose of or classify as held for sale that has operations and cash flows clearly distinguishable from operations, and for financial reporting purposes, and that will be eliminated from the ongoing operations, should be classified as discontinued operations. Accordingly, we have classified the results of operations of CCUSA as discontinued operations in our consolidated statements of operations and have restated prior periods.

CCUSA had revenues of approximately \$24,600,000 and operating income of approximately \$8,000,000 for the year ended December 31, 2004. At December 31, 2004, CCUSA's net assets totaled approximately \$23,400,000. The company had no outstanding debt specifically identified with CCUSA and therefore no interest expense was allocated to discontinued operations. In addition, we ceased to record depreciation expense effective February 16, 2005.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Summarized financial information for CCUSA (discontinued operations) is set forth below:

(\$ in thousands)	For the years ended December 31,		
	2005	2004	2003
Revenue	\$ 4,607	\$ 24,558	\$ 20,764
Operating income	\$ 1,489	\$ 8,188	\$ 6,820
Income taxes	\$ 449	\$ 2,957	\$ 2,440
Net income	\$ 1,040	\$ 5,231	\$ 4,380
Gain on disposal of CCUSA, net of tax	\$ 1,167	\$ —	\$ —

(\$ in thousands)	December 31, 2004
Current assets	\$ 2,819
Net property, plant and equipment	2,450
Goodwill	18,853
Total assets of discontinued operations	<u>\$ 24,122</u>
Current liabilities	<u>\$ 735</u>
Total liabilities of discontinued operations	<u>\$ 735</u>

Public Utilities

On April 1, 2004, we completed the sale of our Vermont electric distribution operations for approximately \$13,992,000 in cash, net of selling expenses. With that transaction, we completed the divestiture of our public utilities services business pursuant to plans announced in 1999. Losses on the sales of our Vermont properties were included in the impairment charges recorded in 2003.

(9) INVESTMENTS:

The components of investments at December 31, 2005 and 2004 are as follows:

(\$ in thousands)	2005	2004
Marketable equity securities	\$ 122	\$ 2,336
Equity method investments	19,014	20,726
	<u>\$ 19,136</u>	<u>\$ 23,062</u>

Marketable Securities

As of December 31, 2005 and 2004, we owned 3,059,000 shares of Adelphia Communications Corp. (Adelphia) common stock. As a result of write downs recorded in 2002 and 2001, our "book cost basis" was reduced to zero and subsequent increases and decreases, except for those deemed other than temporary, are included in accumulated other comprehensive income (loss).

During 2004, we sold our investments in D & E Communications, Inc. (D & E) and Hungarian Telephone and Cable Corp. (HTCC) for approximately \$13,300,000 and \$13,200,000 in cash, respectively. We recorded net realized gains of \$12,066,000 in our statement of operations for the sale of these marketable securities.

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The following summarizes the adjusted cost, gross unrealized holding gains and losses and fair market value for marketable securities:

(\$ in thousands)	Adjusted Cost	Unrealized Holding Gains	(Losses)	Aggregate Fair Market Value
<u>As of December 31, 2005</u>				
Available-for-Sale	\$ —	\$ 122	\$ —	\$ 122
<u>As of December 31, 2004</u>				
Available-for-Sale	\$ 1,138	\$ 1,198	\$ —	\$ 2,336

At December 31, 2005 and 2004, we did not have any investments that have been in a continuous unrealized loss position deemed to be temporary for more than 12 months. We determined that market fluctuations during the period are not other than temporary because the severity and duration of the unrealized losses were not significant.

Investments in Other Entities

During 2004, we reclassified our investments accounted for under the equity method from other assets to the investment caption in our consolidated balance sheets and conformed prior periods to the current presentation.

Our investments in entities that are accounted for under the equity method of accounting consist of the following: (1) a 33% interest in the Mohave Cellular Limited Partnership which is engaged in cellular mobile telephone service in the Arizona area; (2) a 16.8% interest in the Fairmount Cellular Limited Partnership which is engaged in cellular mobile telephone service in the Rural Service Area (RSA) designated by the FCC as Georgia RSA No. 3; and (3) our investments in CU Capital and CU Trust with relation to our convertible preferred securities. The investments in these entities amounted to \$19,014,000 and \$20,726,000 at December 31, 2005 and 2004, respectively.

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2005 and 2004. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments.

The fair value of our marketable securities and long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments. Other securities and investments for which market values are not readily available are carried at cost.

(\$ in thousands)	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 19,136	\$ 19,136	\$ 23,062	\$ 23,062
Long-term debt ⁽¹⁾	\$ 3,999,376	\$ 4,026,453	\$ 4,266,998	\$ 4,607,298

(1) 2005 and 2004 includes interest rate swaps of \$(8,727,000) and \$4,466,000, respectively. 2005 and 2004 includes EPPICS of \$33,785,000 and \$63,765,000, respectively.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) LONG-TERM DEBT:

The activity in our long-term debt from December 31, 2004 to December 31, 2005 is summarized as follows:

(\$ in thousands)	Twelve Months Ended				December 31, 2005	Interest Rate* at December 31, 2005
	December 31, 2004	Payments	Interest Rate Swap	Other		
Rural Utilities Service Loan Contracts	\$ 29,108	\$ (6,299)	\$ —	\$ —	\$ 22,809	6.070%
Senior Unsecured Debt . . .	4,131,803	—	(13,193)	2,171	4,120,781	8.117%
EPPICS** (reclassified as a result of adopting FIN 46R)	63,765	—	—	(29,980)	33,785	5.000%
ELI Capital Leases	4,421	(134)	—	—	4,287	10.364%
Industrial Development Revenue Bonds	58,140	—	—	—	58,140	5.559%
TOTAL LONG TERM DEBT	\$ 4,287,237	\$ (6,433)	\$ (13,193)	\$ (27,809)	\$ 4,239,802	
Less: Debt Discount	(13,859)				(12,692)	
Less: Current Portion	(6,380)				(227,734)	
	\$ 4,266,998				\$ 3,999,376	

* Interest rate includes amortization of debt issuance expenses, debt premiums or discounts. The interest rate for Rural Utilities Service Loan Contracts, Senior Unsecured Debt, and Industrial Development Revenue Bonds represent a weighted average of multiple issuances.

** In accordance with FIN 46R, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. are now deconsolidated (see Note 15).

Additional information regarding our Senior Unsecured Debt at December 31, 2005 is as follows:

(\$ in thousands)	Principal Outstanding	Interest Rate
Senior Notes:		
Due 8/17/2006	\$ 51,770	6.750%
Due 8/15/2008	698,470	7.625%
Due 5/15/2011	1,044,256	9.250%
Due 10/24/2011	200,000	6.270%
Due 1/15/2013	698,537	6.250%
Due 8/15/2031	748,006	9.000%
	<u>3,441,039</u>	
Debentures due 2006 - 2046	643,742	7.263%
Subsidiary Senior Notes due 12/1/2012	36,000	8.050%
Total	\$ 4,120,781	

In February 2006, our Board of Directors authorized us to repurchase up to \$150.0 million of our outstanding debt securities over the following twelve-month period. These repurchases may require us to pay premiums, which would result in pre-tax losses to be recorded in other income (loss), net.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2005, we retired an aggregate \$36,412,000 of debt (including \$29,980,000 of EPPICS conversions), representing approximately 1% of total debt outstanding at December 31, 2004. During the second quarter of 2005, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$50,000,000 of our 7.625% Notes due 2008 were exchanged for approximately \$52,171,000 of our 9.00% Notes due 2031. The 9.00% Notes are callable on the same general terms and conditions as the 7.625% Notes exchanged. No cash was exchanged in these transactions, however a non-cash pre-tax loss of approximately \$3,175,000 was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" which is included in other income (loss), net.

As of December 31, 2005, EPPICS representing a total principal amount of \$177,971,000 had been converted into 14,237,807 shares of our common stock.

Total future minimum cash payment commitments under ELI's long-term capital leases including interest amounted to \$9,113,000 as of December 31, 2005.

The total outstanding principal amounts of industrial development revenue bonds were \$58,140,000 at December 31, 2005 and 2004. The earliest maturity date for these bonds is in August 2015. Under the terms of our agreements to sell our former gas and electric operations in Arizona, completed in 2003, we are obligated to call for redemption, at their first available call dates, three Arizona industrial development revenue bond series aggregating to approximately \$33,440,000. These bonds' first call dates are in 2007. We expect to retire all called bonds with cash. In addition, holders of \$11,150,000 principal amount of industrial development bonds may tender such bonds to us at par and we have the simultaneous option to call such bonds at par on August 7, 2007. We expect to call the bonds and retire them with cash.

As of December 31, 2005 we had available lines of credit with financial institutions in the aggregate amount of \$250,000,000 with a maturity date of October 29, 2009. Associated facility fees vary depending on our leverage ratio and were 0.375% as of December 31, 2005. During the term of the credit facility we may borrow, repay and re-borrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments. There have never been any borrowings under the facility.

For the year ended December 31, 2004, we retired an aggregate \$1,362,012,000 of debt (including \$147,991,000 of EPPICS conversions), representing approximately 28% of total debt outstanding at December 31, 2003.

On January 15, 2004, we repaid at maturity the remaining outstanding \$80,955,000 of our 7.45% Debentures.

On January 15, 2004, we redeemed at 101% the remaining outstanding \$12,300,000 of our Hawaii Special Purpose Revenue Bonds, Series 1993A and Series 1993B.

On May 17, 2004, we repaid at maturity the remaining outstanding \$5,975,000 of ELI's 6.05% Notes. These Notes had been guaranteed by the Company.

On July 15, 2004, we renegotiated and prepaid with \$4,954,000 of cash the entire remaining \$5,524,000 ELI capital lease obligation to a third party.

On July 30, 2004, we purchased \$300,000,000 of the 6.75% notes that were a component of our equity units at 105.075% of par, plus accrued interest, at a premium of approximately \$15,225,000 recorded in investment and other income (loss), net.

During August and September 2004, we repurchased through a series of transactions an additional \$108,230,000 of the 6.75% notes due 2006 at a weighted average price of 104.486% of par, plus accrued interest, at a premium of approximately \$4,855,000 recorded in investment and other income (loss), net.

On November 8, 2004, we issued an aggregate \$700,000,000 principal amount of 6.25% senior notes due January 15, 2013 through a registered underwritten public offering. Proceeds from the sale were used to redeem our outstanding \$700,000,000 of 8.50% Notes due 2006, which is discussed below.

On November 12, 2004, we called for redemption on December 13, 2004 the entire \$700,000,000 of our 8.50% Notes due 2006 at a price of 107.182% of the principal amount called, plus accrued interest, at a premium of approximately \$50,300,000.

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Notes to Consolidated Financial Statements

As of December 31, 2004, EPPICS representing a total principal amount of \$147,991,000 had been converted into 11,622,749 shares of our common stock.

During the twelve months ended December 31, 2003, we executed a series of purchases in the open market of our outstanding debt securities. The aggregate principal amount of debt securities purchased was \$94,895,000 and they generated a pre-tax loss on the early extinguishment of debt at a premium of approximately \$3,117,000 recorded in other income (loss), net.

Our principal payments and capital lease payments (principal only) for the next five years are as follows:

<u>(\$ in thousands)</u>	<u>Principal Payments</u>	<u>ELI Capital Lease Payments</u>
2006	227,693	41
2007	37,771	110
2008	700,938	126
2009	1,006	145
2010	4,387	165

(12) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

Interest rate swap agreements are used to hedge a portion of our debt that is subject to fixed interest rates. Under our interest rate swap agreements, we agree to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount. The notional amounts of the contracts are not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination and represents the market value, at the then current rate of interest, of the remaining obligations to exchange payments under the terms of the contracts.

The interest rate swap contracts are reflected at fair value in our consolidated balance sheets and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its book value and an amount representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying value of the related portion of the fixed-rate debt being hedged, are recognized in the consolidated statements of operations in interest expense. The notional amounts of interest rate swap contracts hedging fixed-rate indebtedness as of December 31, 2005 and December 31, 2004 were \$500,000,000 and \$300,000,000, respectively. Such contracts require us to pay variable rates of interest (average pay rates of approximately 8.60% and 6.12% as of December 31, 2005 and 2004, respectively) and receive fixed rates of interest (average receive rates of 8.46% and 8.44% as of December 31, 2005 and 2004, respectively). The fair value of these derivatives is reflected in other assets as of December 31, 2005 and 2004, in the amount of \$(8,727,000) and \$4,466,000, respectively. The related underlying debt has been decreased in 2005 and increased in 2004 by a like amount. The amounts received during the year ended December 31, 2005 and 2004 as a result of these contracts amounted to \$2,522,000 and \$9,363,000, respectively, and are included as a reduction of interest expense.

During September 2005, we entered into a series of separate forward rate agreements with our swap counterparties that fixed the underlying variable rate component of some of our swaps at the market rate as of the date of execution for certain future rate-setting dates. At December 31, 2005, the rates obtained under these forward rate agreements were below market rates. The fair value of these derivatives is reflected in other current assets as of December 31, 2005, in the amount of \$1,129,000. A gain for the changes in the fair value of these forward rate agreements of \$1,851,000 is included in other income (loss), net for the year ended December 31, 2005.

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As the result of our call of all of our 8.50% Notes in November 2004, we terminated five interest rate swaps involving an aggregate \$250,000,000 notional amount of indebtedness. Proceeds from the swap terminations of approximately \$3,026,000 and U.S. Treasury rate lock agreements of approximately \$971,000 were applied against the cost to retire the debt, resulting in a net premium of approximately \$46,277,000 recorded in other income (loss), net.

We do not anticipate any nonperformance by counter-parties to our derivative contracts as all counter-parties have investment grade credit ratings.

(13) MANAGEMENT SUCCESSION AND STRATEGIC ALTERNATIVES EXPENSES:

On July 11, 2004, our Board of Directors announced that it had completed its review of our financial and strategic alternatives, and on September 2, 2004, we paid a special, non-recurring dividend of \$2.00 per common share and a quarterly dividend of \$0.25 per common share to shareholders of record on August 18, 2004. Concurrently, Leonard Tow decided to step down from his position as chief executive officer, effective immediately, and resigned his position as Chairman of the Board on September 27, 2004. The Board of Directors named Mary Agnes Wilderotter president and chief executive officer in November 2004.

In 2004, we expensed approximately \$90,632,000 of costs related to management succession and our exploration of financial and strategic alternatives. Included are \$36,618,000 of non-cash expenses for the acceleration of stock benefits, cash expenses of \$19,229,000 for advisory fees, \$19,339,000 for severance and retention arrangements and \$15,446,000 primarily for tax reimbursements.

(14) OTHER INCOME (LOSS), NET:

The components of other income (loss), net for the years ended December 31, 2005, 2004 and 2003 are as follows:

(\$ in thousands)	2005	2004	2003
Legal contingencies	\$ (7,000)	\$ —	\$ —
Gain on capital lease termination/restructuring	—	—	69,512
Gain on expiration/settlement of customer advances	681	25,345	6,165
Loss on exchange of debt	(3,175)	—	—
Premium on debt repurchases	—	(66,480)	(10,851)
Gain on forward rate agreements	1,851	—	—
Gain (loss) on sale of assets	—	(1,945)	(20,492)
Other, net	5,969	(10,279)	(275)
Total other income (loss), net	<u>\$ (1,674)</u>	<u>\$ (53,359)</u>	<u>\$ 44,059</u>

In the fourth quarter of 2005, we recorded \$7,000,000 of expense was recorded in connection with a legal matter. In connection with our exchange of debt during the second quarter of 2005, we recognized a non-cash, pre-tax loss of approximately \$3,175,000. 2005 also includes a gain for the changes in fair value of our forward rate agreements.

During 2005, 2004 and 2003, we recognized income in connection with certain retained liabilities associated with customer advances for construction from our disposed water properties, as a result of some of these liabilities terminating. During 2003, we recognized gains in connection with the termination/restructuring of capital leases at ELI. Gain (loss) on sale of assets in 2004 is primarily attributable to the loss on the sale of our corporate aircraft during the third quarter. In 2003, the amount represents the sales of The Gas Company in Hawaii and our Arizona gas and electric divisions, access lines in North Dakota and our wireless partnership interest in Wisconsin, and our Plano, Texas office building.

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Notes to Consolidated Financial Statements

(15) COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES:

In 1996, our consolidated wholly-owned subsidiary, 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 (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). These securities have an adjusted conversion price of \$11.46 per Citizens common share. The conversion price was reduced from \$13.30 to \$11.46 during the third quarter of 2004 as a result of the \$2.00 per share special, non-recurring dividend. 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 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 us \$211,756,000 aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures are substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constitute a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in the four quarters of 2005, 2004 and 2003. Only cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2005, EPPICS representing a total principal amount of \$177,971,000 had been converted into 14,237,807 shares of our common stock.

We adopted the provisions of FIN 46R (revised December 2003) (FIN 46R), "Consolidation of Variable Interest Entities," effective January 1, 2004. Accordingly, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. are deconsolidated.

(16) CAPITAL STOCK:

We are authorized to issue up to 600,000,000 shares of common stock. The amount and timing of dividends payable on common stock are within the sole discretion of our Board of Directors.

(17) STOCK PLANS:

At December 31, 2005, we have four stock based compensation plans, which are described below. We apply APB Opinion No. 25 and related interpretations in accounting for the employee stock plans resulting in the use of the intrinsic value to value the stock option. Compensation cost has not generally been recognized in the financial statements for options issued pursuant to the Management Equity Incentive Plan (MEIP), the 1996 Equity Incentive Plan (1996 EIP) or the Amended and Restated 2000 Equity Incentive Plan (2000 EIP), as the exercise price for such options was equal to the market price of the stock at the time of grant.

In connection with our Directors' Deferred Fee Equity Plan, compensation costs associated with the issuance of stock units was \$1,069,000, \$2,222,000 and \$607,000 in 2005, 2004 and 2003, respectively. Cash compensation associated with this plan was \$434,000, \$642,000 and \$374,000 in 2005, 2004 and 2003, respectively. These costs are recognized in other operating expenses.

We have granted restricted stock awards to key employees in the form of our common stock. The number of shares issued as restricted stock awards during 2005, 2004 and 2003 were 352,000, 2,172,000 and 312,000, respectively. 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 time based. At December 31, 2005,

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1,456,000 shares of restricted stock were outstanding. Compensation expense, recognized in operating expense, of \$7,358,000, \$45,313,000 and \$8,552,000, for the years ended December 31, 2005, 2004 and 2003, respectively, has been recorded in connection with these grants.

Management Equity Incentive Plan

Under the MEIP, awards of our common stock may be granted to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, stock appreciation rights (SARs), restricted stock or other stock-based awards. The Compensation Committee of the Board of Directors administers the MEIP.

Since the expiration date of the MEIP plan on June 21, 2000, no awards can be granted under the MEIP. The exercise price of stock options issued was 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.

Equity Incentive Plans

In May 1996, our shareholders approved the 1996 EIP and in May 2001, our shareholders approved the 2000 EIP. Under the EIP plans, awards of our common stock may be granted to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, SARs, restricted stock or other stock-based awards. Directors may receive awards under the 2000 EIP (other than options for annual retainer fees). SARs may be granted under the 1996 EIP. The Compensation Committee of the Board of Directors administers the EIP plans.

The maximum number of shares of common stock, which may be issued pursuant to awards at any time for both plans, is 25,358,000 shares, which has been adjusted for subsequent stock dividends. No awards will be granted more than 10 years after the effective dates (May 23, 1996 and May 18, 2000) of the EIP plans. The exercise price of stock options and SARs generally 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 plans, 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.

In connection with the payment of the special, non-recurring dividend of \$2.00 per common share on September 2, 2004, the exercise price and number of all outstanding options was adjusted such that each option had the same value to the holder after the dividend as it had before the dividend. In accordance with FASB Interpretation No. 44 (FIN 44), "Accounting for Certain Transactions Involving Stock Compensation" and EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FIN 44," there is no accounting consequence for changes made to the exercise price and the number of shares of a fixed stock option or award as a direct result of the special, non-recurring dividend.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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The following is a summary of share activity subject to option under the MEIP and EIP plans.

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 2003.....	19,132,000	\$ 11.66
Options granted.....	2,017,000	12.14
Options exercised.....	(1,612,000)	7.97
Options canceled, forfeited or lapsed.....	<u>(1,572,000)</u>	12.92
Balance at December 31, 2003.....	17,965,000	11.94
Options granted.....	—	—
Options exercised.....	(7,411,000)	9.69
Options canceled, forfeited or lapsed.....	(355,000)	12.14
Effect of special, non-recurring dividend.....	<u>2,212,000</u>	—
Balance at December 31, 2004.....	12,411,000	11.15
Options granted.....	183,000	11.58
Options exercised.....	(4,317,000)	10.52
Options canceled, forfeited or lapsed.....	<u>(292,000)</u>	10.48
Balance at December 31, 2005.....	<u>7,985,000</u>	\$ 11.52

The following table summarizes information about shares subject to options under the MEIP and EIP plans at December 31, 2005.

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Number Outstanding</u>	<u>Range of Exercise Prices</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life in Years</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
517,000	\$ 6.45 – 6.67	\$ 6.54	2.64	517,000	\$ 6.54
300,000	7.33 – 7.98	7.37	1.92	289,000	7.35
1,228,000	8.19 – 8.19	8.19	6.38	737,000	8.19
173,000	8.80 – 9.68	9.02	1.55	173,000	9.02
1,399,000	10.44 – 10.44	10.44	7.41	519,000	10.44
815,000	10.64 – 11.15	11.13	4.78	815,000	11.13
1,430,000	11.79 – 11.79	11.79	5.38	1,430,000	11.79
<u>2,123,000</u>	<u>11.90 – 18.46</u>	<u>16.14</u>	<u>4.95</u>	<u>2,068,000</u>	<u>16.24</u>
<u>7,985,000</u>	<u>\$ 6.45 – 18.46</u>	<u>\$ 11.52</u>	<u>5.32</u>	<u>6,548,000</u>	<u>\$ 11.92</u>

The number of options exercisable at December 31, 2004 and 2003 were 9,235,000 and 11,690,000, respectively.

The weighted average fair value of options granted during 2005 was \$2.98. There were no option grants made during 2004. The weighted average fair value of options granted during 2003 was \$6.04. 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 2005 and 2003:

	<u>2005</u>	<u>2003</u>
Dividend yield.....	7.72%	—
Expected volatility.....	46%	44%
Risk-free interest rate.....	4.16%	2.94%
Expected life.....	6 years	7 years

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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Non-Employee Directors' Compensation Plan

Upon commencement of his or her service on the Board of Directors, each non-employee director receives a grant of 10,000 stock options, which is awarded under our 2000 EIP. The price of these options, which are immediately exercisable, is set at the average of the high and low market prices of our common stock on the effective date of the director's initial election to the board.

Annually, each non-employee director also receives a grant of 3,500 stock units under our Formula Plan, which commenced in 1997 and continues through May 22, 2007. Prior to April 20, 2004, each non-employee director received an award of 5,000 stock options. The exercise price of the options granted under the Formula Plan was set at 100% of the average of the high and low market prices of our common stock on the third, fourth, fifth, and sixth trading days of the year in which the options were granted. The options are exercisable six months after the grant date and remain exercisable for ten years after the grant date. In addition, on September 1, 1996, each non-employee director received a grant, under the Formula Plan, of options to purchase 2,500 shares of common stock. These options granted under the Formula Plan became exercisable six months after the grant date and remain exercisable for ten years after the grant date.

Effective April 2004, the Formula Plan was amended to replace the annual grant of stock options with an annual grant of 3,500 stock units. The stock units are awarded on the first business day of each calendar year. Each non-employee director must elect, by December 31 of the preceding year, whether the stock units awarded under the Formula Plan will be redeemed in cash or stock upon the director's retirement or death, whichever occurs first.

In addition, each non-employee director is also entitled to annually receive a retainer, meeting fees, and, when applicable, fees for serving as a committee chair or as Lead Director, which are awarded under the Non-Employee Directors' Deferred Fee Equity Plan. For 2005, each non-employee director had to elect, by December 31 of the preceding year, to receive \$30,000 cash or 5,000 stock units as an annual retainer. Directors making a stock unit election must also elect to convert the units to either common stock (convertible on a one-to-one basis) or cash upon retirement or death. Prior to June 30, 2003, a director could elect to receive 20,000 stock options as an annual retainer in lieu of cash or stock units. The exercise price of the stock options was set at the average of the high and low market prices of our common stock on the date of grant. The options were exercisable six months after the date of grant and had a 10-year term.

As of any date, the maximum number of shares of common stock which the Non-Employee Directors' Deferred Fee Equity Plan is obligated to deliver shall not be more than one percent (1%) of the total outstanding shares of our common stock as of June 30, 2003, subject to adjustment in the event of changes in our corporate structure affecting capital stock. There were 14 directors participating in the Directors' Plan during all or part of 2005. In 2005, the total options, plan units, and stock earned were 0, 64,000 and 0, respectively. In 2004, the total options, plan units, and stock earned were 50,000, 57,226 and 0, respectively. In 2003, the total options, plan units, and stock earned were 83,125, 46,034 and 0, respectively. At December 31, 2005, 473,252 options were exercisable at a weighted average exercise price of \$9.80.

For 2005, each non-employee director received fees of \$2,000 for each Board of Directors and committee meeting attended. The chairs of the Audit, Compensation, Nominating and Corporate Governance and Retirement Plan Committees were paid an additional annual fee of \$25,000, \$15,000, \$7,500 and \$5,000, respectively. In addition, the Lead Director, who heads the ad hoc committee of non-employee directors, received an additional annual fee of \$17,000 (based on an annual fee that was changed from \$20,000 to \$15,000 mid-year). A director must elect, by December 31 of the preceding year, to receive meeting and other fees in cash, stock units, or a combination of both. All fees paid to the non-employee directors in 2005 were paid quarterly (except for the retainer which was paid at the beginning of the year. If the director elects stock units, the number of units credited to the director's account is determined as follows: the total cash value of the fees payable to the director are divided by 85% of the average of the high and low market prices of our common stock on the first trading day of the year the election is in effect. Units are credited to the director's account quarterly.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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We account for the Directors' Deferred Fee Equity Plan in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation expense is recorded if cash or stock units are elected. If stock units are elected, the compensation expense is based on the market value of our common stock at the date of grant. If the stock option election is chosen, compensation expense is not recorded because the options are granted at the fair market value of our common stock on the grant date.

We had also maintained a Non-Employee Directors' Retirement Plan providing for the payment of specified sums annually to our non-employee directors, or their designated beneficiaries, starting at the director's retirement, death or termination of directorship. In 1999, we terminated this Plan. The vested benefit of each non-employee director, as of May 31, 1999, was credited to the director's account in the form of stock units. Such benefit will be payable to each director upon retirement, death or termination of directorship. Each participant had until July 15, 1999 to elect whether the value of the stock units awarded would be payable in our common stock (convertible on a one-for-one basis) or in cash. As of December 31, 2005, the liability for such payments was \$634,000 all of which will be payable in stock (based on the July 15, 1999 stock price).

(18) RESTRUCTURING AND OTHER EXPENSES:

2005 and 2004

During 2005 and 2004, we did not recognize any restructuring and other expenses. We continue to review our operations, personnel and facilities to achieve greater efficiency.

2003

Restructuring and other expenses primarily consist of expenses related to reductions in personnel at our telecommunications operations and the write-off of software no longer useful.

(19) INCOME TAXES:

The following is a reconciliation of the provision for income taxes for continuing operations computed at federal statutory rates to the effective rates for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Consolidated tax provision at federal statutory rate	35.0 %	35.0 %	35.0 %
State income tax provisions, net of federal income tax benefit	2.0 %	1.8 %	6.6 %
Tax reserve adjustment	(7.9)%	(19.3)%	(8.4)%
All other, net	0.5 %	(4.0)%	1.1 %
	29.6 %	13.5 %	34.3 %

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

<u>Deferred income tax liabilities:</u>		
Property, plant and equipment basis differences	\$ 567,411	\$ 578,501
Intangibles	168,703	161,955
Other, net	7,752	9,004
	<u>743,866</u>	<u>749,460</u>
<u>Deferred income tax assets:</u>		
Minimum pension liability	76,368	62,435
Tax operating loss carryforward	260,053	394,797
Alternate minimum tax credit carryforward	43,678	37,796
Employee benefits	66,853	55,566
Other, net	21,279	23,095
	<u>468,231</u>	<u>573,689</u>
Less: Valuation allowance	(38,131)	(43,503)
Net deferred income tax asset	<u>430,100</u>	<u>530,186</u>
Net deferred income tax liability	<u>\$ 313,766</u>	<u>\$ 219,274</u>
<u>Deferred tax assets and liabilities are reflected in the following captions on the balance sheet:</u>		
Deferred income taxes	\$ 325,084	\$ 232,766
Other current assets	(11,318)	(13,492)
Net deferred income tax liability	<u>\$ 313,766</u>	<u>\$ 219,274</u>

Our federal and state tax operating loss carryforwards as of December 31, 2005 are estimated at \$584,476,000 and \$1,409,983,000, respectively. Our federal loss carryforward will begin to expire in the year 2021. A portion of our state loss carryforward will begin to expire in 2006. Our alternative minimum tax credit as of December 31, 2005 can be carried forward indefinitely to reduce future regular tax liability.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The provision (benefit) 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:

(\$ in thousands)	2005	2004	2003
Income taxes charged (credited) to the income statement for continuing operations:			
Current:			
Federal	\$ 16,708	\$ (9,951)	\$ (12,632)
State	(33,004)	(3,643)	2,900
Total current	(16,296)	(13,594)	(9,732)
Deferred:			
Federal	96,163	26,586	77,794
Federal tax credits	(18)	(40)	(3,128)
State	4,491	(2,530)	(158)
Total deferred	100,636	24,016	74,508
Subtotal income taxes for continuing operations	84,340	10,422	64,776
Income taxes charged to the income statement for discontinued operations:			
Current:			
State	—	3	—
Total current	—	3	—
Deferred:			
Federal	12,156	2,816	2,358
State	1,187	138	82
Total deferred	13,343	2,954	2,440
Subtotal income taxes for discontinued operations	13,343	2,957	2,440
Income tax benefit on dividends on convertible preferred securities:			
Current:			
Federal	—	—	(3,344)
State	—	—	(508)
Subtotal income taxes on dividends on convertible preferred securities	—	—	(3,852)
Income taxes charged to the income statement for cumulative effect of change in accounting principle:			
Deferred:			
Federal	—	—	35,414
State	—	—	6,177
Subtotal income taxes for cumulative effect of change in accounting principle	—	—	41,591
Total income taxes charged to the income statement (a)	97,683	13,379	104,955
Income taxes charged (credited) to shareholders' equity:			
Deferred income taxes (benefits) on unrealized/realized gains or losses on securities classified as available-for-sale	(411)	(10,982)	5,539
Current benefit arising from stock options exercised and restricted stock	(5,976)	(13,765)	(2,535)
Deferred income taxes (benefits) arising from recognition of a minimum pension liability	(13,933)	(6,645)	13,373
Income taxes charged (credited) to shareholders' equity (b)	(20,320)	(31,392)	16,377
Total income taxes: (a) plus (b)	<u>\$ 77,363</u>	<u>\$ (18,013)</u>	<u>\$ 121,332</u>

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) NET INCOME PER COMMON SHARE:

The reconciliation of the net income per common share calculation for the years ended December 31, 2005, 2004 and 2003 is as follows:

(\$ in thousands, except per-share amounts)	2005	2004	2003
Net income used for basic and diluted earnings per common share:			
Income from continuing operations before cumulative effect of change in accounting principle	\$ 200,168	\$ 66,919	\$ 117,703
Income from discontinued operations	2,207	5,231	4,380
Income before cumulative effect of change in accounting principle	202,375	72,150	122,083
Income from cumulative effect of change in accounting principle	—	—	65,769
Total basic net income available for common shareholders	<u>\$ 202,375</u>	<u>\$ 72,150</u>	<u>\$ 187,852</u>
Effect of conversion of preferred securities	1,255	—	6,210
Total diluted net income available for common shareholders	<u>\$ 203,630</u>	<u>\$ 72,150</u>	<u>\$ 194,062</u>
Basic earnings per common share:			
Weighted-average shares outstanding - basic	337,065	303,989	282,434
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.59	\$ 0.22	\$ 0.42
Income from discontinued operations	0.01	0.02	0.02
Income before cumulative effect of change in accounting principle	0.60	0.24	0.44
Income from cumulative effect of change in accounting principle	—	—	0.23
Net income per share available for common shareholders	<u>\$ 0.60</u>	<u>\$ 0.24</u>	<u>\$ 0.67</u>
Diluted earnings per common share:			
Weighted-average shares outstanding	337,065	303,989	282,434
Effect of dilutive shares	1,417	5,194	4,868
Effect of conversion of preferred securities	3,193	—	15,134
Weighted-average shares outstanding - diluted	<u>341,675</u>	<u>309,183</u>	<u>302,436</u>
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.59	\$ 0.22	\$ 0.41
Income from discontinued operations	0.01	0.01	0.01
Income before cumulative effect of change in accounting principle	0.60	0.23	0.42
Income from cumulative effect of change in accounting principle	—	—	0.22
Net income per share available for common shareholders	<u>\$ 0.60</u>	<u>\$ 0.23</u>	<u>\$ 0.64</u>

Stock Options

For the years ended December 31, 2005, 2004 and 2003 options of 1,930,000 and 2,495,000 (at exercise prices ranging from \$13.09 to \$18.46), and 10,190,000 (at exercise prices ranging from \$9.18 to \$21.47), respectively, issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of common shares and, therefore, the effect would be antidilutive.

In connection with the payment of the special, non-recurring dividend of \$2.00 per common share on September 2, 2004, the exercise price and number of all outstanding options was adjusted such that each option had the same value to the holder after the dividend as it had before the dividend. In accordance with FASB Interpretation No. 44 (FIN 44), "Accounting for Certain Transactions Involving Stock Compensation" and EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FIN 44," there is no accounting consequence for changes made to the exercise price and the number of shares of a fixed stock option or award as a direct result of the special, non-recurring dividend.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In addition, for the years ended December 31, 2005, 2004 and 2003, restricted stock awards of 1,456,000, 1,686,000 and 1,249,000 shares, respectively, are excluded from our basic weighted average shares outstanding and included in our dilutive shares until the shares are no longer contingent upon the satisfaction of all specified conditions.

Equity Units and EPPICS

On August 17, 2004 we issued 32,073,633 shares of common stock, including 3,591,000 treasury shares, to our equity unit holders in settlement of the equity purchase contract component of the equity units. With respect to the \$460,000,000 Senior Note component of the equity units, we repurchased \$300,000,000 principal amount of these Notes in July 2004. The remaining \$160,000,000 of the Senior Notes were repriced and a portion was remarketed on August 12, 2004 as the 6.75% Notes due August 17, 2006. During 2004, we repurchased an additional \$108,230,000 of the 6.75% Notes which, in addition to the \$300,000,000 purchased in July, resulted in a pre-tax charge of approximately \$20,080,000 during the third quarter of 2004.

As a result of our July dividend announcement with respect to our common shares, our 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (EPPICS) began to convert into shares of our common stock. As of December 31, 2005, approximately 88% of the EPPICS outstanding, or about \$177,971,000 aggregate principal amount of units, have converted to 14,237,807 shares of common stock, including 1,116,000 issued from treasury.

At December 31, 2005 and 2004, we had 465,588 and 1,065,171 shares, respectively, of potentially dilutive EPPICS, which were convertible into common stock at a 4.36 to 1 ratio at an exercise price of \$11.46 per share. As a result of the September 2004 special, non-recurring dividend, the EPPICS exercise price for conversion into common stock was reduced from \$13.30 to \$11.46. These securities have been included in the diluted income per common share calculation for the period ended December 31, 2005, however, they have not been included in the diluted income per share calculation for the period ended December 31, 2004 because their inclusion would have had an antidilutive effect.

At December 31, 2003 we had 4,025,000 shares of potentially dilutive EPPICS that have been included in the diluted income per common share calculation for the period ended December 31, 2003.

Stock Units

At December 31, 2005, 2004 and 2003, we had 206,630, 464,879 and 427,475 stock units, respectively, issuable under our Directors' Deferred Fee Equity Plan and Non-Employee Directors' Retirement Plan. These securities have not been included in the diluted income per share calculation because their inclusion would have had an antidilutive effect.

(21) COMPREHENSIVE INCOME (LOSS):

Comprehensive income consists of net income (loss) and other gains and losses affecting shareholder's investment and minimum pension liability that, under GAAP, are excluded from net income (loss).

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Our other comprehensive income (loss) for the years ended December 31, 2005, 2004 and 2003 is as follows:

(\$ in thousands)	2005		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
Net unrealized holding losses on securities arising during period	\$ (1,055)	\$ (395)	\$ (660)
Minimum pension liability	(36,416)	(13,933)	(22,483)
Less: Reclassification adjustments for net gains on securities realized in net income	(537)	(7)	(530)
Other comprehensive loss	<u>\$ (38,008)</u>	<u>\$ (14,335)</u>	<u>\$ (23,673)</u>

(\$ in thousands)	2004		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
Net unrealized holding losses on securities arising during period	\$ (1,901)	\$ (742)	\$ (1,159)
Minimum pension liability	(17,372)	(6,645)	(10,727)
Less: Reclassification adjustments for net gains on securities realized in net income	(26,247)	(10,240)	(16,007)
Other comprehensive loss	<u>\$ (45,520)</u>	<u>\$ (17,627)</u>	<u>\$ (27,893)</u>

(\$ in thousands)	2003		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
Net unrealized holding gains on securities arising during period	\$ 14,470	\$ 5,539	\$ 8,931
Minimum pension liability	34,935	13,373	21,562
Other comprehensive income	<u>\$ 49,405</u>	<u>\$ 18,912</u>	<u>\$ 30,493</u>

(22) SEGMENT INFORMATION:

We operate in two segments, Frontier and ELI (a CLEC). The Frontier segment provides both regulated and unregulated communications services to residential, business and wholesale customers and is typically the incumbent provider in its service areas. ELI provides telecommunications services, principally to businesses. ELI frequently obtains the "last mile" access to customers through arrangements with the applicable ILEC.

As permitted by SFAS No. 131, we have utilized the aggregation criteria in combining our markets because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states that we operate in. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not impact the economic characteristics or operating results of a particular property.

(\$ in thousands)	For the year ended December 31, 2005		
	Frontier	ELI	Total Segments
Revenue	\$ 2,003,318	\$ 159,161	\$ 2,162,479
Depreciation and Amortization	516,982	24,977	541,959
Operating Income	588,543	18,306	606,849
Capital Expenditures	252,213	16,099	268,312
Assets	5,805,423	168,342	5,973,765

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(\$ in thousands)	For the year ended December 31, 2004			
	Frontier	ELI	Electric	Total Segments
Revenue	\$ 2,002,657	\$ 156,030	\$ 9,735	\$ 2,168,422
Depreciation and Amortization	546,747	24,061	—	570,808
Management Succession and Strategic Alternatives Expenses	87,279	3,353	—	90,632
Operating Income (Loss)	468,889	10,350	(3,134)	476,105
Capital Expenditures	263,193	11,644	—	274,837
Assets	6,077,424	173,369	—	6,250,793

(\$ in thousands)	For the year ended December 31, 2003				
	Frontier	ELI	Gas	Electric	Total Segments
Revenue	\$ 2,020,171	\$ 165,389	\$ 137,686	\$ 100,928	\$ 2,424,174
Depreciation and Amortization	569,651	23,510	—	—	593,161
Reserve for Telecommunications Bankruptcies	(5,524)	1,147	—	—	(4,377)
Restructuring and Other Expenses	9,373	314	—	—	9,687
Loss on Impairment	—	—	—	15,300	15,300
Operating Income (Loss)	530,368	9,710	14,013	(3,359)	550,732
Capital Expenditures	243,445	9,496	9,877	13,984	276,802
Assets	6,399,953	184,559	—	23,130	6,607,642

The following table presents supplemental financial data for ELI.

Summary Income Statement for ELI

(\$ in thousands)	For the years ended	
	December 31,	
	2005	2004
Revenue	\$ 159,161	\$ 156,030
Operating expenses	115,878	121,619
Depreciation expense	24,977	24,061
Non-operating expense, net	185	629
Income before income taxes	<u>\$ 18,121</u>	<u>\$ 9,721</u>

The following tables are reconciliations of certain sector items to the total consolidated amount.

Capital Expenditures	2005	2004	2003
Total segment capital expenditures	\$ 268,312	\$ 274,837	\$ 276,802
General capital expenditures	147	367	569
Consolidated reported capital expenditures	<u>\$ 268,459</u>	<u>\$ 275,204</u>	<u>\$ 277,371</u>

Assets	2005	2004
Total segment assets	\$ 5,973,765	\$ 6,250,793
General assets	438,344	393,504
Discontinued operations assets	—	24,122
Consolidated reported assets	<u>\$ 6,412,109</u>	<u>\$ 6,668,419</u>

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(23) QUARTERLY FINANCIAL DATA (UNAUDITED):

(\$ in thousands, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter
<u>2005</u>				
Revenue	\$ 537,223	\$ 531,798	\$ 537,346	\$ 556,112
Operating income	145,112	146,897	141,617	173,223
Net income	42,634	44,584	38,376	76,781
Net income available for common shareholders				
per basic share	\$ 0.13	\$ 0.13	\$ 0.11	\$ 0.23
Net income available for common shareholders				
per diluted share	\$ 0.12	\$ 0.13	\$ 0.11	\$ 0.23
<u>2004</u>				
Revenue	\$ 552,311	\$ 537,796	\$ 539,188	\$ 539,127
Operating income	137,598	126,014	70,087	142,406
Net income (loss)	42,868	23,792	(11,290)	16,780
Net income (loss) available for common shareholders				
per basic share	\$ 0.15	\$ 0.08	\$ (0.04)	\$ 0.05
Net income (loss) available for common shareholders				
per diluted share	\$ 0.15	\$ 0.08	\$ (0.04)	\$ 0.05

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

2005 Transactions

On February 1, 2005, we sold shares of Prudential Financial, Inc. for approximately \$1,112,000 in cash, and we recognized a pre-tax gain of approximately \$493,000 that is included in other income (loss), net.

On March 15, 2005, we completed the sale of our conferencing business for approximately \$43,565,000 million in cash. The pre-tax gain on the sale of CCUSA was \$14,061,000. The after-tax gain was approximately \$1,167,000.

In June 2005, the Company sold for cash its interests in certain key man life insurance policies on the lives of Leonard Tow, our former Chairman and Chief Executive Officer, and his wife, a former director. The cash surrender value of the policies purchased by Dr. Tow totaled approximately \$24,195,000, and we recognized a pre-tax gain of approximately \$457,000 that is included in other income (loss), net.

During 2005, we sold shares of Global Crossing Limited for approximately \$1,084,000 in cash, and we recognized a pre-tax gain for the same amount that is included in other income (loss), net.

2004 Transactions

On April 1, 2004, we completed the sale of our Vermont electric distribution operations for approximately \$13,992,000 in cash, net of selling expenses.

During the third quarter of 2004, we sold our corporate aircraft for approximately \$15,298,000 in cash. The pre-tax loss on the sale was \$1,087,000.

In October 2004, we sold cable assets in California, Arizona, Indiana, and Wisconsin for approximately \$2,263,000 in cash. The pre-tax gain on these sales was \$40,000.

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(24) RETIREMENT PLANS:

We sponsor a noncontributory defined benefit pension plan covering a significant number of our employees and other postretirement benefit plans that provide medical, dental, life insurance benefits and other benefits for covered retired employees and their beneficiaries and covered dependents. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to meet ERISA funding requirements while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities and alternative investments.

The accounting results for pension and postretirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. We review these assumptions for changes annually with its outside actuaries. We consider our discount rate and expected long-term rate of return on plan assets to be our most critical assumptions.

The discount rate is used to value, on a present value basis, our pension and postretirement benefit obligation as of the balance sheet date. The same rate is also used in the interest cost component of the pension and postretirement benefit cost determination for the following year. The measurement date used in the selection of our discount rate is the balance sheet date. Our discount rate assumption is determined annually with assistance from our actuaries based on the duration of our pension and postretirement benefit liabilities, the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination we consider, among other things, the yields on the Citigroup Pension Discount Curve and Bloomberg Finance. This rate can change from year-to-year based on market conditions that impact corporate bond yields.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and postretirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, we considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and our own historical 5-year and 10-year investment returns.

The expected long-term rate of return on plan assets is based on an asset allocation assumption of 30% to 45% in fixed income securities, 45% to 55% in equity securities and 5% to 15% in alternative investments. We review our asset allocation at least annually and make changes when considered appropriate. In 2005, we did not change our expected long-term rate of return from the 8.25% used in 2004. Our pension plan assets are valued at actual market value as of the measurement date. The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

Accounting standards require that we record an additional minimum pension liability when the plan's "accumulated benefit obligation" exceeds the fair market value of plan assets at the pension plan measurement (balance sheet) date. In the fourth quarter of 2005, mainly due to a decrease in the year-end discount rate, we recorded an additional minimum pension liability in the amount of \$36,416,000 with a corresponding charge to shareholders' equity of \$22,483,000, net of taxes of \$13,933,000. In the fourth quarter of 2004, mainly due to a decrease in the year-end discount rate, we recorded an additional minimum pension liability in the amount of \$17,372,000 with a corresponding charge to shareholders' equity of \$10,727,000, net of taxes of \$6,645,000. These adjustments did not impact our net income or cash flows for either year. If discount rates and the equity markets performance decline, we would be required to increase our minimum pension liabilities and record additional charges to shareholder's equity in the future.

Actual results that differ from our assumptions are added or subtracted to our balance of unrecognized actuarial gains and losses. For example, if the year-end discount rate used to value the plan's projected benefit obligation decreases from the prior year-end, then the plan's actuarial loss will increase. If the discount rate increases from the prior year-end then the plan's actuarial loss will decrease. Similarly, the difference generated from the plan's actual asset performance as compared to expected performance would be included in the balance of unrecognized gains and losses.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The impact of the balance of accumulated actuarial gains and losses are recognized in the computation of pension cost only to the extent this balance exceeds 10% of the greater of the plan's projected benefit obligation or market value of plan assets. If this occurs, that portion of gain or loss that is in excess of 10% is amortized over the estimated future service period of plan participants as a component of pension cost. The level of amortization is affected each year by the change in actuarial gains and losses and could potentially be eliminated if the gain/loss activity reduces the net accumulated gain/loss balance to a level below the 10% threshold.

Pension Plan

The following tables set forth the plan's benefit obligations and fair values of plan assets as of December 31, 2005 and 2004 and net periodic benefit cost for the years ended December 31, 2005, 2004 and 2003.

(\$ in thousands)	2005	2004
<u>Change in benefit obligation</u>		
Benefit obligation at beginning of year	\$ 799,458	\$ 761,683
Service cost	6,117	5,748
Interest cost	46,416	46,468
Actuarial loss	48,750	44,350
Benefits paid	(58,139)	(58,791)
Benefit obligation at end of year	<u>\$ 842,602</u>	<u>\$ 799,458</u>
<u>Change in plan assets</u>		
Fair value of plan assets at beginning of year	\$ 761,168	\$ 719,622
Actual return on plan assets	59,196	80,337
Employer contribution	—	20,000
Benefits paid	(58,139)	(58,791)
Fair value of plan assets at end of year	<u>\$ 762,225</u>	<u>\$ 761,168</u>
<u>(Accrued)/Prepaid benefit cost</u>		
Funded status	\$ (80,377)	\$ (38,290)
Unrecognized prior service cost	(1,745)	(1,988)
Unrecognized net actuarial loss	223,525	183,481
Prepaid benefit cost	<u>\$ 141,403</u>	<u>\$ 143,203</u>
<u>Amounts recognized in the statement of financial position</u>		
Accrued benefit liability	\$ (58,250)	\$ (20,034)
Other comprehensive income	199,653	163,237
Net amount recognized	<u>\$ 141,403</u>	<u>\$ 143,203</u>

(\$ in thousands)	2005	2004	2003
<u>Components of net periodic benefit cost</u>			
Service cost	\$ 6,117	\$ 5,748	\$ 6,479
Interest cost on projected benefit obligation	46,416	46,468	49,103
Return on plan assets	(60,371)	(57,203)	(53,999)
Amortization of prior service cost and unrecognized net obligation	(244)	(244)	(172)
Amortization of unrecognized loss	9,882	8,806	11,026
Net periodic benefit cost	1,800	3,575	12,437
Curtailment/settlement charge	—	—	6,585
Total periodic benefit cost	<u>\$ 1,800</u>	<u>\$ 3,575</u>	<u>\$ 19,022</u>

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The plan's weighted average asset allocations at December 31, 2005 and 2004 by asset category are as follows:

	<u>2005</u>	<u>2004</u>
Asset category:		
Equity securities	50%	57%
Debt securities	34%	32%
Alternative investments	13%	8%
Cash and other	3%	3%
Total	<u>100%</u>	<u>100%</u>

The plan's expected benefit payments by year are as follows:

<u>Year</u>	<u>Amount</u>
(\$ in thousands)	
2006	\$ 55,350
2007	57,171
2008	58,523
2009	61,394
2010	62,006
2011 - 2015	319,075
Total	<u>\$ 613,519</u>

Our required contribution to the plan in 2006 is \$0.

The accumulated benefit obligation for the plan was \$820,475,000 and \$781,202,000 at December 31, 2005 and 2004, respectively.

Assumptions used in the computation of pension and postretirement benefits other than pension costs/year-end benefit obligations were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	6.00%/5.625%	6.25%/6.00%
Expected long-term rate of return on plan assets . . .	8.25%/8.25%	8.25%/8.25%
Rate of increase in compensation levels	4.0%/4.0%	4.0%/4.0%

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Postretirement Benefits Other Than Pensions

The following table sets forth the plan's benefit obligations, fair values of plan assets and the postretirement benefit liability recognized on our balance sheets at December 31, 2005 and 2004 and net periodic postretirement benefit costs for the years ended December 31, 2005, 2004 and 2003:

In 2005, we approved changes to certain retiree medical plans. The plan changes (reflected as amendments in the table below) and the related impact are included in the accumulated postretirement benefit obligation (APBO) as of December 31, 2005. The plan changes resulted in a reduction in the APBO of \$59,798,000 which will be amortized as a reduction of retiree medical expense over the average remaining service life.

(\$ in thousands)	2005	2004	
<u>Change in benefit obligation</u>			
Benefit obligation at beginning of year	\$ 217,380	\$ 223,337	
Service cost	1,046	1,128	
Interest cost	12,055	12,698	
Plan participants' contributions	3,461	4,118	
Actuarial (gain) loss	3,770	(1,706)	
Amendments	(59,798)	(3,045)	
Benefits paid	(16,992)	(19,150)	
Benefit obligation at end of year	<u>\$ 160,922</u>	<u>\$ 217,380</u>	
<u>Change in plan assets</u>			
Fair value of plan assets at beginning of year	\$ 15,126	\$ 27,493	
Actual return on plan assets	397	987	
Benefits paid	(13,530)	(15,032)	
Employer contribution	9,431	1,678	
Fair value of plan assets at end of year	<u>\$ 11,424</u>	<u>\$ 15,126</u>	
<u>Accrued benefit cost</u>			
Funded status	\$ (149,498)	\$ (202,254)	
Unrecognized prior service cost	(61,161)	(2,617)	
Unrecognized loss	42,325	44,319	
Accrued benefit cost	<u>\$ (168,334)</u>	<u>\$ (160,552)</u>	
(\$ in thousands)	2005	2004	2003
<u>Components of net periodic postretirement benefit cost</u>			
Service cost	\$ 1,046	\$ 1,128	\$ 1,387
Interest cost on projected benefit obligation	12,055	12,698	13,606
Return on plan assets	(1,248)	(2,268)	(2,133)
Amortization of prior service cost and transition obligation	(1,255)	(204)	26
Amortization of unrecognized (gain)/loss	6,615	5,238	3,985
Net periodic postretirement benefit cost	<u>\$ 17,213</u>	<u>\$ 16,592</u>	<u>\$ 16,871</u>

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The plan's weighted average asset allocations at December 31, 2005 and 2004 by asset category are as follows:

	<u>2005</u>	<u>2004</u>
Asset category:		
Equity securities	0%	0%
Debt securities	100%	100%
Cash and other	0%	0%
Total	<u>100%</u>	<u>100%</u>

The plan's expected benefit payments by year are as follows:

<u>Year</u>	<u>Gross</u>	<u>Medicare</u>	<u>Total</u>
<i>(\$ in thousands)</i>	<u>Benefits</u>	<u>D Subsidy</u>	
2006	\$ 9,847	\$ 676	\$ 9,171
2007	10,375	712	9,663
2008	10,843	742	10,101
2009	11,282	770	10,512
2010	11,656	793	10,863
2011 - 2015	60,619	4,049	56,570
Total	<u>\$ 114,622</u>	<u>\$ 7,742</u>	<u>\$ 106,880</u>

Our expected contribution to the plan in 2006 is \$9,847,000.

For purposes of measuring year-end benefit obligations, we used, depending on medical plan coverage for different retiree groups, a 9.5% annual rate of increase in the per-capita cost of covered medical benefits, gradually decreasing to 5% in the year 2015 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 interest cost components of the total postretirement benefit cost would be \$1,306,000 and the effect on the accumulated postretirement benefit obligation for health benefits would be \$13,397,000. 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 \$(1,068,000) and the effect on the accumulated postretirement benefit obligation for health benefits would be \$(11,480,000).

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) became law. The Act introduces a prescription drug benefit under Medicare. It includes a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare Part D benefit. The amount of the federal subsidy will be based on 28% of an individual beneficiary's annual eligible prescription drug costs ranging between \$250 and \$5,000. We have determined that the Company-sponsored postretirement healthcare plans that provide prescription drug benefits are actuarially equivalent to the Medicare Prescription Drug benefit. The impact of the federal subsidy has been incorporated in the December 31, 2005 measurement date.

401(k) Savings Plans

We sponsor an employee retirement savings plan under section 401(k) of the Internal Revenue Code. The Plan covers substantially all full-time employees. Under the Plan, we provide matching and certain profit-sharing contributions. Employer contributions were \$7,181,000, \$8,403,000 and \$9,724,000 for 2005, 2004 and 2003, respectively.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(25) COMMITMENTS AND CONTINGENCIES:

The City of Bangor, Maine, filed suit against us on November 22, 2002, in the U.S. District Court for the District of Maine (City of Bangor v. Citizens Communications Company, Civ. Action No. 02-183-B-S). The City alleged, among other things, that we are responsible for the costs of cleaning up environmental contamination alleged to have resulted from the operation of a manufactured gas plant owned by Bangor Gas Company from 1852-1948 and by us from 1948-1963. In acquiring the operation in 1948 we acquired the stock of Bangor Gas Company and merged it into the Company. The City alleged the existence of extensive contamination of the Penobscot River and asserted that money damages and other relief at issue in the lawsuit could exceed \$50,000,000. The City also requested that punitive damages be assessed against us. We filed an answer denying liability to the City, and asserted a number of counterclaims against the City. In addition, we identified a number of other potentially responsible parties that may be liable for the damages alleged by the City and joined them as parties to the lawsuit. These additional parties include Honeywell Corporation, Guilford Transportation (operating as Maine Central Railroad), UGI Utilities, Inc. and Centerpoint Energy Resources Corporation. The Court dismissed all but two of the City's claims, including its claims for joint and several liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the claim against us for punitive damages. Trial was conducted in September and October 2005 for the first (liability) phase of the case, and a decision from the court is anticipated by the end of the first quarter of 2006. We intend to continue to defend ourselves vigorously against the City's lawsuit. We have demanded that various of our insurance carriers defend and indemnify us with respect to the City's lawsuit, and on December 26, 2002, we filed a declaratory judgment action against those insurance carriers in the Superior Court of Penobscot County, Maine, for the purpose of establishing their obligations to us with respect to the City's lawsuit. We intend to vigorously pursue this lawsuit to obtain from our insurance carriers indemnification for any damages that may be assessed against us in the City's lawsuit as well as to recover the costs of our defense of that lawsuit.

On June 7, 2004, representatives of Robert A. Katz Technology Licensing, LP, contacted us regarding possible infringement of several patents held by that firm. The patents cover a wide range of operations in which telephony is supported by computers, including obtaining information from databases via telephone, interactive telephone transactions, and customer and technical support applications. We were cooperating with the patent holder to determine if we are currently using any of the processes that are protected by its patents but have not had any communication with them on this issue since mid-2004. If we determine that we are utilizing the patent holder's intellectual property, we expect to commence negotiations on a license agreement.

On June 24, 2004, one of our subsidiaries, Frontier Subsidiary Telco Inc., received a "Notice of Indemnity Claim" from Citibank, N.A., that is related to a complaint pending against Citibank and others in the U.S. Bankruptcy Court for the Southern District of New York as part of the Global Crossing bankruptcy proceeding. Citibank bases its claim for indemnity on the provisions of a credit agreement that was entered into in October 2000 between Citibank and our subsidiary. We purchased Frontier Subsidiary Telco, Inc., in June 2001 as part of our acquisition of the Frontier telephone companies. The complaint against Citibank, for which it seeks indemnification, alleges that the seller improperly used a portion of the proceeds from the Frontier transaction to pay off the Citibank credit agreement, thereby defrauding certain debt holders of Global Crossing North America Inc. Although the credit agreement was paid off at the closing of the Frontier transaction, Citibank claims the indemnification obligation survives. Damages sought against Citibank and its co-defendants could exceed \$1,000,000,000. In August 2004, we notified Citibank by letter that we believe its claims for indemnification are invalid and are not supported by applicable law. We have received no further communications from Citibank since our August 2004 letter.

We are party to other legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

For 2006, we expect our capital expenditures to increase in order to build wireless data networks and expand the capabilities of our data networks. Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into firm, written contracts for such activities.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

We conduct certain of our operations in leased premises and also lease certain equipment and other assets pursuant to operating leases. The lease arrangements have terms ranging from 1 to 99 years and several contain rent escalation clauses providing for increases in monthly rent at specific intervals. When rent escalation clauses exist, we record total expected rent payments on a straight-line basis over the lease term. Certain leases also have renewal options. Renewal options that are reasonably assured are included in determining the lease term. Future minimum rental commitments for all long-term noncancelable operating leases and future minimum capital lease payments for continuing operations as of December 31, 2005 are as follows:

(\$ in thousands)	ELI Capital Leases	Operating Leases
Year ending December 31:		
2006.....	\$ 179	\$ 19,062
2007.....	549	12,605
2008.....	555	11,840
2009.....	561	10,416
2010.....	566	8,891
Thereafter.....	<u>6,703</u>	<u>29,274</u>
Total minimum lease payments.....	9,113	<u>\$ 92,088</u>
Less amount representing interest (rates range from 9.75% to 10.65%) ...	<u>(4,826)</u>	
Present value of net minimum capital lease payments.....	4,287	
Less current installments of obligations under capital leases.....	<u>(41)</u>	
<i>Obligations under capital leases, excluding current installments.....</i>	<u>\$ 4,246</u>	

Total rental expense included in our results of operations for the years ended December 31, 2005, 2004 and 2003 was \$24,146,000, \$26,349,000 and \$33,801,000, respectively. Until March 1, 2005, we sublet certain office space in our corporate office to a charitable foundation formed by our former Chairman.

We are a party to contracts with several unrelated long distance carriers. The contracts provide fees based on traffic they carry for us subject to minimum monthly fees.

At December 31, 2005, the estimated future payments for obligations under our noncancelable long distance contracts and service agreements are as follows:

Year	ILEC / ELI
(\$ in thousands)	
2006.....	\$ 30,619
2007.....	18,337
2008.....	11,017
2009.....	10,244
2010.....	1,052
thereafter.....	<u>5,115</u>
Total.....	<u>\$ 76,384</u>

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the state of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. 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. Our pro-rata share of the purchase power obligation

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). Paragraph 13 of FIN 45 requires that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 also states that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Regardless, despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2007 and remained in default for the duration of the contract (another 9 years), we estimate that our undiscounted purchase obligation for 2007 through 2015 would be approximately \$1,264,000,000. In such a scenario the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

At December 31, 2005, we have outstanding performance letters of credit as follows:

(\$ in thousands)	
CNA	\$ 19,404
State of New York	2,993
ELI projects	<u>50</u>
Total	<u>\$ 22,447</u>

CNA serves as our agent with respect to general liability claims (auto, workers compensation and other insured perils of the Company). As our agent, they administer all claims and make payments for claims on our behalf. We reimburse CNA for such services upon presentation of their invoice. To serve as our agent and make payments on our behalf, CNA requires that we establish a letter of credit in their favor. CNA could potentially draw against this letter of credit if we failed to reimburse CNA in accordance with the terms of our agreement. The value of the letter of credit is reviewed annually and adjusted based on claims history.

None of the above letters of credit restrict our cash balances.

(26) SUBSEQUENT EVENT:

In February 2006, we entered into a definitive agreement to sell all of the outstanding membership interests in ELI, our CLEC business, to Integra Telecom Holdings, Inc. (Integra), for \$247,000,000, including \$243,000,000 in cash plus the assumption of approximately \$4,000,000 in capital lease obligations, subject to customary adjustments under the terms of the agreement. This transaction is expected to close during the third quarter of 2006 and is subject to regulatory and other customary approvals and conditions, as well as the funding of Integra's fully committed financing. We expect that for periods subsequent to December 31, 2005, ELI will be accounted for as a discontinued operation.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Citizens Communications Company:

Under date of March 1, 2006, we reported separately on the consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement schedule. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Our report refers to the adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" as of January 1, 2003.

KPMG LLP

Stamford, Connecticut
March 1, 2006

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

Valuation and Qualifying Accounts
(\$ In thousands)

Accounts	Balance at beginning of period	Additions		Deductions	Balance at End of Period
		Charged to costs and expenses	Charged to other accounts- Revenue		
Allowance for doubtful accounts					
2003	38,871	21,540	32,240	(45,342)	47,309
2004	47,309	17,906	13,446	(42,665)	35,996
2005	35,996	13,510	10,791	(27,889)	32,408

CORPORATE HEADQUARTERS

Three High Ridge Park
Stamford, CT 06905-1390
Tel: 203-614-5600

STOCKHOLDER INQUIRIES

Investor material is available on Citizen's website at www.czn.net. Copies of the company's 2005 Form 10-K report filed with the U.S. Securities and Exchange Commission and other information about the company may be obtained by telephoning 402-572-4972, faxing to 203-614-4602, or e-mailing Citizens@czn.com.

STOCK TRANSFER AGENT

Illinois Stock Transfer Company
209 West Jackson Boulevard, Suite 903
Chicago, IL 60606-6905
Tel: 800-757-5755 or 312-427-2953
Fax: 312-427-2879

AUDITORS

KPMG LLP
3001 Summer Street
Stamford, CT 06905

The common stock is listed on the New York Stock Exchange and trades under the symbol "CZN."

The 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 are listed on the New York Stock Exchange and trade under the symbol "CZNPR."

OUR MISSION

**To be the leader in providing
communications services to residential
and business customers in our markets**

OUR VALUES

Put the customer first
Treat one another with respect
Keep our commitments; be accountable
Be ethical in all of our dealings
Take the initiative
Be team players
Be innovative; practice continuous improvement
Be active in our communities
Do it right the first time
Use resources wisely
Have a positive attitude

**Citizens Communications Company
Three High Ridge Park
Stamford, CT 06905-1390
203-614-5600**

AGREEMENT AND PLAN OF MERGER

dated as of

September 17, 2006

among

COMMONWEALTH TELEPHONE ENTERPRISES, INC.,

CITIZENS COMMUNICATIONS COMPANY,

and

CF MERGER CORP.

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ARTICLE 4

Representations and Warranties of Parent

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Exhibit A	Amended and Restated Articles of Incorporation of the Surviving Corporation
Exhibit B	Form of Company Rule 145 Affiliate Letter

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated as of September 17, 2006 among COMMONWEALTH TELEPHONE ENTERPRISES, INC., a Pennsylvania corporation (the "**Company**"), CITIZENS COMMUNICATIONS COMPANY, a Delaware corporation ("**Parent**"), and CF MERGER CORP., a Delaware corporation ("**Merger Subsidiary**").

WHEREAS, the respective Boards of Directors of Parent, Merger Subsidiary and the Company have approved this Agreement, and deem it advisable and in the best interests of their respective stockholders to consummate the merger of the Company and Merger Subsidiary on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration for the various representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE 1 THE MERGER

Section 1.01. *The Merger.* (a) At the Effective Time, Merger Subsidiary shall be merged (the "**Merger**") with and into the Company in accordance with the Pennsylvania Business Corporation Law ("**Pennsylvania Law**") and the Delaware General Corporation Law ("**Delaware Law**"), whereupon the separate existence of Merger Subsidiary shall cease, and the Company shall be the surviving corporation (the "**Surviving Corporation**"). For purposes hereof, the closing of the Merger is referred to herein as the "**Closing**", and the date of the Closing is referred to herein as the "**Closing Date**".

(b) The Closing will take place on the first Business Day after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger (other than those conditions that by their nature are to be satisfied at the Closing and will in fact be satisfied at the Closing). As soon as practicable on the Closing Date, the Company and Merger Subsidiary will file articles of merger with the Department of State of the Commonwealth of Pennsylvania and a certificate of merger with the Secretary of State of the State of Delaware, and make all other filings or recordings required by Pennsylvania Law or Delaware Law in connection with the Merger. The Merger shall become effective on the Closing Date at such time as the articles of merger and the certificate of merger are duly filed as described in this paragraph or at such later time as is specified therein by agreement of Parent and the Company (the "**Effective Time**"). For purposes of this Agreement, "**Business Day**" means a day, other than Saturday, Sunday or other day on which commercial banks in New York, New York, are authorized or required by Applicable Law to close. For purposes of this Agreement, "**Applicable Law**" means, with respect to any Person, any federal, state or local law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a Governmental Authority that is binding upon or applicable to

such Person, its properties or assets or its business or operations, as amended unless expressly specified otherwise.

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises, and be subject to all of the obligations, liabilities, restrictions, disabilities and duties, of the Company and Merger Subsidiary, all as provided under Pennsylvania Law and Delaware Law.

Section 1.02. *Conversion of Shares.* At the Effective Time:

(a) each Common Share held by the Company as treasury stock (the “**Treasury Shares**”), including each Grantor Trust Share, if any, distributed to the Company pursuant to Section 1.04(a)(v), or owned by Parent or Merger Subsidiary immediately prior to the Effective Time shall be canceled, and no payment shall be made with respect thereto;

(b) each Common Share outstanding immediately prior to the Effective Time (which, for the avoidance of doubt, will not include any Common Shares canceled pursuant to Section 1.04(a)(iii)) shall, except as otherwise provided in Section 1.02(a), be converted into the following:

(i) the right to receive 0.768 shares of common stock, par value \$0.25 per share (“**Parent Stock**”), of Parent (the “**Stock Merger Consideration**”); and

(ii) the right to receive \$31.31 in cash, without interest (the “**Cash Merger Consideration**”, and together with the Stock Merger Consideration, the “**Merger Consideration**”); and

(c) -- each share of common stock of Merger Subsidiary outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock of the Surviving Corporation with the same rights, powers and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation.

Section 1.03. *Surrender and Payment.* (a) Prior to the Effective Time, Parent shall appoint an agent reasonably acceptable to the Company (the “**Exchange Agent**”) for the purpose of exchanging certificates representing Common Shares for the Merger Consideration and shall deposit with the Exchange Agent, for the benefit of the holders of Common Shares, for exchange in accordance with this Article 1, the aggregate Merger Consideration, consisting of (i) certificates representing Parent Stock to be issued as Stock Merger Consideration and (ii) cash sufficient to pay the aggregate Cash Merger Consideration. In addition, Parent shall deposit with the Exchange Agent, as necessary from time to time after the Effective Time, cash sufficient to pay any dividends or other distributions and cash in lieu of any fractional shares of Parent Stock payable pursuant to Section 1.03(b). Promptly (and in any event, within two Business Days) after the Effective Time, the Surviving Corporation will send, or will cause the Exchange Agent to send, to each holder of record of Common Shares at the Effective Time (and make customary arrangements for the prompt delivery to each such holder) a letter of

transmittal (“**Letter of Transmittal**”) for use in such exchange, which shall specify that the delivery shall be effected, and risk of loss and title shall pass, only upon proper delivery of the certificates representing Common Shares to the Exchange Agent.

(b) Each holder of Common Shares that have been converted into a right to receive the Merger Consideration, upon surrender to the Exchange Agent of a certificate or certificates representing such Common Shares, together with a properly completed *Letter of Transmittal covering such Common Shares*, will be entitled to receive therefor (i) the Cash Merger Consideration payable in respect of such Common Shares, (ii) a certificate or certificates representing that number of whole shares of Parent Stock to which such holder is entitled pursuant to Section 1.02(b) and (iii) any dividends or distributions, and any cash in lieu of any fractional shares of Parent Stock, payable at the time of such surrender pursuant to Section 1.03(f), and the certificate or certificates representing such Common Shares shall forthwith be canceled. Until so surrendered, each such certificate shall, after the Effective Time, represent for all purposes, only the right to receive the Merger Consideration payable in respect of the Common Shares represented thereby and any such dividends or distributions and cash in lieu of fractional shares of Parent Stock, *subject, however*, to the Surviving Corporation’s obligation to pay all dividends that may have been declared by the Company in accordance with Section 5.01 and that remain unpaid at the Effective Time. No interest will be paid or will accrue on any cash payable as Merger Consideration, in lieu of any fractional shares of Parent Stock or otherwise pursuant to this Article.

(c) If any portion of the Merger Consideration is to be paid to a Person other than the registered holder of the Common Shares represented by the certificate or certificates surrendered in exchange therefor, it shall be a condition to such payment that *the certificate or certificates so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the Person requesting such payment shall pay to the Exchange Agent any transfer or other taxes required as a result of such payment (and the payment of any other amounts referred to in Section 1.03(b)) to a Person other than the registered holder of such Common Shares or establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.* For purposes of this Agreement, “**Person**” means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

(d) After the Effective Time, there shall be no further registration of transfers of Common Shares. If, after the Effective Time, certificates representing Common Shares are presented to the Surviving Corporation, they shall be canceled and exchanged for the consideration provided for, and in accordance with the procedures set forth, in this Article 1.

(e) Any portion of the Merger Consideration or other funds made available to the Exchange Agent pursuant to Section 1.03(a) that remains unclaimed by the holders of Common Shares six months after the Effective Time shall be returned to Parent, upon demand, and any such holder who has not exchanged his Common Shares for the Merger Consideration in accordance with this Section prior to that time shall thereafter look only

to Parent for payment of the Merger Consideration in respect of his Common Shares, and any dividends and distributions with respect thereto, without any interest thereon. Notwithstanding the foregoing, none of the Surviving Corporation, the Company, Merger Subsidiary, Parent or the Exchange Agent shall be liable to any holder of Common Shares for any amount paid or any shares of Parent Stock delivered to a public official pursuant to applicable abandoned property laws. Any amounts or shares remaining unclaimed by holders of Common Shares two years after the Effective Time (or such earlier date immediately prior to such time as such amounts or shares would otherwise escheat to or become property of any Governmental Authority) shall, to the extent permitted by Applicable Law, become the property of Parent free and clear of any claims or interest of any Person previously entitled thereto.

(f) No dividends or other distributions with respect to Parent Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate for Common Shares with respect to the shares of Parent Stock represented thereby and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 1.06, in each case, until the surrender of such certificate in accordance with this Section. Subject to the effect of Applicable Laws, following surrender of any such certificate, there shall be paid to the holder of the certificate representing whole shares of Parent Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Parent Stock to which such holder is entitled pursuant to Section 1.06 and the amount of all dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender, and with a payment date subsequent to such surrender, payable with respect to such whole shares of Parent Stock.

(g) With respect to any certificate representing Common Shares properly surrendered to the Exchange Agent, the Exchange Agent shall, subject to the provisions of this Agreement, including Section 1.03(e), mail or otherwise transmit the Merger Consideration in respect thereof to the applicable holder or transferee thereof within five Business Days (or as promptly thereafter as practicable) of the date such certificate representing Common Shares is properly surrendered.

Section 1.04. *Treatment of Equity Compensation Awards.* (a) Prior to the Effective Time, the Company or the Board of Directors of the Company (or, if appropriate, any committee thereof) shall take all action necessary so that (or, in the case of clause (v) below, shall use reasonable best efforts so that) immediately prior to the Effective Time:

(i) each outstanding compensatory stock option to purchase Common Shares granted under the Amended and Restated Equity Incentive Plan or the Non-Management Directors' Stock Compensation Plan of the Company (together, the "**Company Stock Plans**"), any other compensatory agreement, plan, arrangement or policy of the Company or otherwise (an "**Option**") shall be canceled, and Parent shall pay, or cause the Surviving Corporation to pay,

immediately after the Effective Time, each holder of such Option, whether or not then vested or exercisable, for each such Option an amount determined by multiplying (A) the excess, if any, of the Merger Consideration Value over the applicable per share exercise price of such Option by (B) the number of Common Shares such holder could have purchased (assuming full vesting of all Options) had such holder exercised such Option in full immediately prior to the Effective Time;

(ii) each outstanding share unit granted or otherwise issued under the Executive Stock Purchase Plan of the Company or the Deferred Compensation Plan of the Company (an “**ESPP Share Unit**”) shall be canceled, and Parent shall pay, or cause the Surviving Corporation to pay, immediately after the Effective Time, each holder of such ESPP Share Unit, whether or not then vested, for each such ESPP Share Unit an amount equal to the Merger Consideration Value;

(iii) each outstanding Common Share that is subject to vesting, restrictions on transferability and risks of forfeiture and is granted or otherwise issued under any Company Stock Plan or any other compensatory agreement, plan, arrangement or policy of the Company (a “**Restricted Share**”) shall be canceled, and Parent shall pay, or cause the Surviving Corporation to pay, immediately after the Effective Time, each holder of such Restricted Share for each such Restricted Share an amount equal to the Merger Consideration Value;

(iv) each outstanding share unit (other than ESPP Share Units) granted or otherwise issued under any Company Stock Plan, any other compensatory agreement, plan, arrangement or policy of the Company or otherwise (a “**Restricted Share Unit**” and, collectively, together with Options, ESPP Share Units and Restricted Shares, “**Compensatory Awards**”) shall be canceled, and Parent shall pay, or cause the Surviving Corporation to pay, immediately after the Effective Time, each holder of such Restricted Share Unit, whether or not then vested, for each such Restricted Share Unit an amount equal to the Merger Consideration Value; and

(v) the trust established under the Agreement of Trust Under C-TEC Corporation Executive One-for-One Stock Purchase Plan shall be terminated, and all Common Shares held in such trust (“**Grantor Trust Shares**”) shall be distributed to the Company immediately prior to the Effective Time, and shall be canceled at the Effective Time in accordance with Section 1.02(a).

Prior to the Closing, Parent shall put in place arrangements reasonably satisfactory to the Company to ensure payment of such amounts in accordance with the provisions set forth in this Section 1.04(a).

(b) For purposes of this Agreement, the term “**Merger Consideration Value**” means the sum of (i) the per share Cash Merger Consideration and (ii) the product obtained by multiplying the per share Stock Merger Consideration by the five-day average

closing price of Parent Stock ending on the second trading day immediately preceding the Closing Date (as reported in The Wall Street Journal).

Section 1.05. *Adjustments.* If, during the period between the date of this Agreement and the Effective Time, any change in the outstanding shares of capital stock of the Company or Parent shall occur by reason of any reclassification, recapitalization, stock split or combination, exchange or readjustment of shares, or any stock dividend thereon with a record date during such period, or any other similar event, the Merger Consideration and any other amounts payable pursuant to this Article shall be appropriately adjusted.

Section 1.06. *Fractional Shares.* Notwithstanding any other provision of this Agreement, no fractional shares of Parent Stock will be issued, and any holder of Common Shares entitled to receive a fractional share of Parent Stock but for this Section shall be entitled to receive a cash payment in lieu thereof in an amount equal to the product obtained by multiplying (a) the fractional share interest in Parent Stock that such holder otherwise would be entitled to receive by (b) the per share closing price of Parent Stock on the Closing Date (as reported in The Wall Street Journal). Such fractional share interests shall not entitle the owner thereof to any dividends or other distributions made in respect of Parent Stock or to the right to vote or any other rights of a stockholder of Parent.

Section 1.07. *Withholding Rights.* Each of the Exchange Agent, the Surviving Corporation and Parent (without duplication) shall be entitled to deduct and withhold from the consideration otherwise payable to any Person pursuant to this Article such amounts as it is required to deduct and withhold with respect to the making of such payment under any provision of federal, state, local or foreign tax law. If the Exchange Agent, the Surviving Corporation or Parent, as the case may be, so withholds amounts, such amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Common Shares in respect of which the Exchange Agent, the Surviving Corporation or Parent, as the case may be, made such deduction and withholding. No such deduction or withholding shall be made if the relevant Person shall provide documentation reasonably satisfactory to the Exchange Agent, the Surviving Corporation and Parent establishing an exemption from withholding, and the Exchange Agent, the Surviving Corporation and Parent, as applicable, shall take customary actions to obtain such documentation prior to such deduction or withholding.

Section 1.08. *Lost Certificates.* If any certificate representing Common Shares shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such certificate, the Exchange Agent will issue, in exchange for such lost, stolen or destroyed certificate, the Merger Consideration and the other amounts referred to in Section 1.03(b) to be paid in respect of the Common Shares represented by such certificate, as contemplated by this Article.

ARTICLE 2
THE SURVIVING CORPORATION

Section 2.01. *Articles of Incorporation.* At the Effective Time, the articles of incorporation of the Surviving Corporation shall be amended and restated as set forth in Exhibit A to this Agreement, subject to further amendment thereof in accordance with Applicable Law.

Section 2.02. *Bylaws.* The bylaws of Merger Subsidiary in effect immediately prior to the Effective Time shall be the bylaws of the Surviving Corporation, until amended in accordance with Applicable Law.

Section 2.03. *Directors and Officers.* From and after the Effective Time, until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified in accordance with Applicable Law, (a) the directors of Merger Subsidiary immediately prior to the Effective Time shall be the directors of the Surviving Corporation and (b) the officers of Merger Subsidiary immediately prior to the Effective Time shall be the officers of the Surviving Corporation.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as disclosed in the Company SEC Documents filed prior to the date hereof (excluding any disclosures in the Company SEC Documents under the heading "Risk Factors" and any other disclosures of risks that are predictive or forward-looking in nature) or in a separate disclosure schedule (the "**Company Disclosure Schedule**") which has been delivered by the Company to Parent prior to the execution of this Agreement (each section of which qualifies the correspondingly numbered representation and warranty to the extent specified therein and such other representations and warranties to the extent a matter in such section is disclosed in such a way as to make its relevance to the information called for by such other representation and warranty readily apparent), the Company represents and warrants to Parent that:

Section 3.01. *Organization and Authority.* The Company is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, and has all requisite corporate power to carry on its business as now being conducted. The Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, with such exceptions as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company (a "**Company Material Adverse Effect**"). The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby are within the Company's corporate powers and, except for any required approval by the Company's stockholders in connection with the consummation of the Merger, have been duly authorized by all necessary corporate action. This Agreement has been duly executed

and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except (x) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights, and (y) for the limitations imposed by general principles of equity. The foregoing exceptions (x) and (y) are hereinafter referred to as the "Enforceability Exceptions." The Company has delivered to Parent true and complete copies of the Articles of Incorporation and Bylaws of the Company as in effect on the date hereof. For purposes of this Agreement, "Material Adverse Effect" means, with respect to any Person, any effect, event, occurrence, state of facts or development that has a materially adverse effect on the business, assets, liabilities, operations or financial condition of such Person and its Subsidiaries, taken as a whole, excluding any such effect, event, occurrence, state of facts or development resulting from or arising in connection with (i) this Agreement, the transactions contemplated hereby or the announcement or consummation thereof or the taking of any actions required by this Agreement, (ii) changes or conditions generally affecting the industries in which such Person and its Subsidiaries operate, to the extent such changes or conditions do not disproportionately impact such Person and its Subsidiaries, taken as a whole, (iii) general economic or financial markets conditions, (iv) any change in generally accepted accounting principles in the United States ("GAAP"), (v) changes in Applicable Law to the extent such changes do not disproportionately impact such Person and its Subsidiaries, taken as a whole, (vi) any failure by such Person to meet analysts' revenue or earning projections and (vii) any decline in the price of any publicly traded securities of such Person (it being understood, in the case of clauses (vi) and (vii), that the facts or occurrences giving rise or contributing to any such failure or decline may be deemed to constitute, or be taken into account in determining whether there has been, or would reasonably be expected to be, a Material Adverse Effect). For purposes of this Agreement, a "Subsidiary," as to any Person, means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned by such Person.

Section 3.02. *No Breach.* The execution and delivery of this Agreement by the Company do not, and the consummation of the transactions contemplated hereby by the Company will not, (i) violate or conflict with the Articles of Incorporation or Bylaws of the Company, (ii) except as set forth on Section 3.02 of the Company Disclosure Schedule, constitute a breach or default of (with or without notice or lapse of time, or both), or give rise to any third-party right of termination, cancellation, modification or acceleration under, or to a loss of a benefit of the Company or any of its Subsidiaries under, any agreement, understanding, undertaking or License to which the Company or any of its Subsidiaries is a party or by which any of them is bound, or give rise to any Lien on any of their properties, or (iii) subject to obtaining the approvals and making the filings described in Section 3.03 hereof, constitute a violation or breach of any provision of any Applicable Law, with such exceptions in the cases of subsections (ii) and (iii) as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect or materially interfere with or delay the consummation of the transactions contemplated hereby. For purposes of this Agreement, "Lien" means, with

respect to any asset, any lien, claim, charge, restriction, pledge, mortgage, security interest or other encumbrance in respect of such asset.

Section 3.03. *Consents and Approvals.* Neither the execution and delivery of this Agreement by the Company nor the consummation of the transactions contemplated hereby will require any consent, approval, authorization or permit of, or filing with or notification to, any transnational, domestic, foreign, federal, state or local authority, department, court, agency or official, including any political subdivision thereof (each, a “**Governmental Authority**”), except (i) compliance with any applicable requirements of the Securities Act, the Exchange Act and any other applicable securities laws, whether federal, state or foreign, (ii) for notification pursuant to, and expiration or termination of the waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the “**HSR Act**”), (iii) for the filing of the articles of merger under Pennsylvania Law, the certificate of merger under Delaware Law and related filings as set forth in Section 1.01 hereof, (iv) for approvals of and filings with the Federal Communications Commission (the “**FCC**”) and the Pennsylvania Public Utility Commission (the “**PPUC**”), (v) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect or materially interfere with or delay the consummation of the transactions contemplated hereby and (vi) as may be necessary as a result of any fact or circumstance relating to Parent, Merger Subsidiary or any of their Affiliates. As used herein, the term “**Securities Act**” means the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder, and the term “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.

Section 3.04. *Approval of the Board; Fairness Opinion; Vote Required.* The Board of Directors of the Company has, by resolutions duly adopted at meetings duly called and held, (i) approved and adopted this Agreement, the Merger and the other transactions contemplated hereby, (ii) directed that the adoption of this Agreement be submitted to a vote at the Company Stockholders’ Meeting, (iii) determined that this Agreement and the Merger are advisable and in the best interests of the stockholders of the Company and (iv) recommended that the stockholders of the Company adopt this Agreement, which resolutions have not been rescinded, modified or withdrawn in any way except as permitted under Section 5.02(b). The Company has received the opinion, dated the date of this Agreement, of Evercore Group L.L.C. (“**Evercore**”), as financial advisor to the Company, that the Merger Consideration to be received by the Company’s stockholders (other than Parent and its Affiliates) in the Merger is fair to such stockholders from a financial point of view, a signed copy of which opinion has been or will promptly be delivered to Parent. The affirmative vote of a majority of the votes cast by the holders of Common Shares is the only vote of the holders of any class or series of capital stock or other securities of the Company necessary for the Company to adopt this Agreement and to approve the Merger.

Section 3.05. *Capitalization.* The authorized capital stock of the Company consists of 85,000,000 shares of common stock, par value \$1.00 per share (the “**Common**”).

Shares”), and 25,000,000 shares of preferred stock, no par value (the “**Preferred Stock**”). At the close of business on August 31, 2006, there were outstanding (i) 21,085,433 Common Shares (including 4,294 Restricted Shares granted or otherwise issued under the Company Stock Plans and 270,744 Grantor Trust Shares), (ii) Options granted under the Company Stock Plans to purchase an aggregate of 384,282 Common Shares, with exercise prices as set forth in Section 3.05 of the Company Disclosure Schedule, (iii) 250,767 ESPP Share Units, (iv) 444,671 Restricted Share Units granted or otherwise issued under the Company Stock Plans, (v) awards (subject to the satisfaction of certain performance criteria) (“**Performance Awards**”) that could result in the issuance of up to 82,850 additional Restricted Share Units under the Company Stock Plans and (vi) no shares of Preferred Stock. At the close of business on August 31, 2006, 3,141,049 Common Shares were held by the Company as treasury stock and, if all of the Company Convertible Notes had been converted into Common Shares on such date, a total of 7,513,380 Common Shares would be issued as a result. All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable. Except as set forth in this Section 3.05 and for changes since August 31, 2006 resulting from (1) the exercise of Options granted under the Company Stock Plans outstanding on such date, (2) the settlement of ESPP Share Units and Restricted Share Units granted or otherwise issued under the Company Stock Plans, in each case, outstanding on such date, (3) issuances of additional ESPP Share Units in respect of compensation deferred after such date (including any matching grant with respect thereto) and the settlement of any ESPP Share Units so issued, (4) issuances of Restricted Share Units under the Company Stock Plans awardable under Performance Awards outstanding on such date and the settlement of any such Restricted Share Units so awarded, (5) issuances of Common Shares on the conversion, if any, of Company Convertible Notes, (6) adjustments to the ESPP Share Units and the Restricted Share Units granted or otherwise issued under the Company Stock Plans, in each case, as a result of the payment of regular quarterly dividends (“**Permitted Share Unit Adjustments**”) and (7) the release of Treasury Shares consistent with past practice in connection with the operation of the Company’s qualified defined contribution plan (the issuances referred to in clauses (1) – (7) collectively, the “**Permitted Additional Company Issuances**”), there are outstanding no (a) shares of capital stock or other voting securities of the Company, (b) securities of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company, (c) options or other rights to acquire from the Company any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company, or any rights against or obligating the Company that give the holder thereof any economic interest of a nature occurring to the holders of Common Shares (the items in clauses (a), (b) and (c) of this sentence being referred to collectively as the “**Company Securities**”) or (d) obligations of the Company to issue, deliver or sell any Company Security, other than the Company’s 2005 Series A 3¹/₄% Convertible Notes due 2023 and the 2003 3¹/₄% Convertible Notes due 2023 (collectively, the “**Company Convertible Notes**”) and the obligations of the Company thereunder to issue Common Shares upon the conversion thereof. Except as required by the terms of the Company Convertible Notes, there are no outstanding obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any Company Securities. Except as

would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, with respect to the Options, (I) each grant of an Option was duly authorized no later than the date on which the grant of such Option was by its terms to be effective (the "Grant Date") by all necessary corporate action, including, as applicable, approval by the Board of Directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and the award agreement governing such grant (if any) was duly executed and delivered by each party thereto, (II) each such grant was made in accordance with the terms of the applicable compensation plan or arrangement of the Company, the Exchange Act and all other Applicable Laws and regulatory rules or requirements, including the rules of NASDAQ, (III) the per share exercise price of each Option was equal to the fair market value of a Common Share on the applicable Grant Date and (IV) each such grant was properly accounted for in accordance with GAAP in the financial statements (including the related notes) of the Company and disclosed in the Company SEC Documents in accordance with the Exchange Act and all other Applicable Laws.

Section 3.06. *Subsidiaries.* (a) Section 3.06 of the Company Disclosure Schedule sets forth, as of the date of this Agreement, the name and the jurisdiction and form of organization of each Subsidiary of the Company. Each of the material Subsidiaries of the Company is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its state of incorporation or formation. Each of the Subsidiaries of the Company has all requisite corporate or limited liability company power to carry on its business as now being conducted, except where the failure to have such power or authority would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Each Subsidiary of the Company is duly qualified to do business as a foreign corporation or limited liability company and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, with such exceptions as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. All Subsidiaries of the Company that are "significant subsidiaries" within the meaning of Rule 1-02 of Regulation S-X of the SEC ("Company Significant Subsidiaries"), together with their respective jurisdictions of incorporation, are listed in the Company's most recent Annual Report on Form 10-K. As used herein, the term "SEC" means the United States Securities and Exchange Commission.

(b) All of the outstanding capital stock of, or other voting securities or ownership interests in, each Subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and are owned by the Company, directly or indirectly, free and clear of any Lien (other than Company Permitted Liens). There are no outstanding (i) securities of the Company or any Subsidiary of the Company convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in any Subsidiary of the Company, (ii) options or other rights to acquire from the Company or any Subsidiary of the Company any capital stock, voting securities or other ownership interests in, or any securities convertible into or exchangeable for any capital stock, voting securities or ownership interests in, or any

rights against or obligating the Company or any Subsidiary of the Company that give the holders thereof any economic interest of a nature occurring to the holders of capital stock, voting securities or ownership interests in any Subsidiary of the Company (the items in clauses (i) and (ii) of this sentence, together with capital stock, voting securities or ownership interests in any Subsidiary of the Company, being referred to collectively as the "Company Subsidiary Securities") or (iii) obligations of the Company or any Subsidiary of the Company to issue, deliver or sell any Company Subsidiary Security. There are no outstanding obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any outstanding Company Subsidiary Securities.

(c) Except for its interest in its Subsidiaries and any de minimis interests which do not impose any obligations on the Company, the Company does not own, directly or indirectly, any capital stock or other ownership interests in any corporation, partnership, joint venture, association or other entity.

Section 3.07. *SEC Filings and the Sarbanes-Oxley Act.* (a) The Company has filed or furnished all reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) with the SEC required to be filed or furnished by the Company since January 1, 2004 (collectively, but excluding the Proxy Statement, the "Company SEC Documents").

(b) As of its filing date, each Company SEC Document complied as to form in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be.

(c) As of its filing date, none of the Company SEC Documents filed pursuant to the Exchange Act contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any such Company SEC Document has been revised, amended, supplemented or superseded by a subsequent Company SEC Document, none of the Company SEC Documents filed pursuant to the Exchange Act contains any untrue statement of a material fact or omits to state any material fact in circumstances where an amendment, supplement or corrective filing to any such Company SEC Document is required under the Exchange Act.

(d) None of the Company SEC Documents that is a registration statement, as amended or supplemented, if applicable, filed pursuant to the Securities Act, as of the date such statement or amendment became effective, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(e) The Company has established and maintains disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act). Such disclosure controls and procedures are designed to ensure that material information relating to the Company, including its consolidated Subsidiaries, is made known to the Company's principal

executive officer and its principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared. Such disclosure controls and procedures are designed to be effective in timely alerting the Company's principal executive officer and principal financial officer to material information required to be included in the Company's periodic reports required under the Exchange Act.

(f) Since March 31, 2005, the Company and its Subsidiaries have established and maintained a system of internal control over financial reporting (as defined in Rule 13a-15 under the Exchange Act) ("**internal controls**"). Such internal controls are sufficient in all material respects to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of Company financial statements for external purposes in accordance with GAAP. The Company has disclosed, based on its most recent evaluation of internal controls prior to the date hereof, to the Company's auditors and audit committee (x) any significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls. The Company has made available to Parent a summary of any such disclosure made by management to the Company's auditors and audit committee since January 1, 2004.

(g) The Company has made available to Parent true and complete copies of all comment letters received by the Company from the SEC since January 1, 2004 and relating to the Company SEC Documents, together with all written responses of the Company thereto. As of the date of this Agreement, there are no outstanding or unresolved comments in such comment letters received by the Company from the SEC, and, to the knowledge of the Company, none of the Company SEC Documents is the subject of any ongoing review by the SEC.

Section 3.08. *Financial Statements.* The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the Company SEC Documents when filed complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto and fairly present in all material respects, and in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements). For purposes of this Agreement, "**Company Balance Sheet**" means the consolidated balance sheet as of June 30, 2006 of the Company and its consolidated Subsidiaries set forth in the Company's Form 10-Q for the quarter ended June 30, 2006, and "**Company Balance Sheet Date**" means June 30, 2006.

Section 3.09. *Disclosure Documents.* None of the information supplied by the Company for inclusion in (i) the joint proxy statement/prospectus (as amended or supplemented, the "**Proxy Statement**") to be sent to the stockholders of the Company in

connection with their meeting to consider this Agreement and the Merger (the "Company Stockholders' Meeting") will, at the time the Proxy Statement or any amendment or supplement thereto is first mailed to the stockholders of the Company or at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading or (ii) the registration statement on Form S-4 pursuant to which shares of Parent Stock issuable in the Merger will be registered with the SEC to be filed by Parent with the SEC in connection with the Merger (as amended or supplemented, the "Registration Statement") will, at the time the Registration Statement or any amendment or supplement thereto is declared effective by the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

Section 3.10. *Absence of Certain Changes or Events.* (a) Since the Company Balance Sheet Date, there has not been any change, effect, event, occurrence, state of facts or development that has had or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) Since the Company Balance Sheet Date and through the date of this Agreement, the Company and its Subsidiaries have conducted their respective businesses in all material respects in the ordinary course consistent with their past practices, and there has not been:

(i) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of the Company or any of its Subsidiaries, other than (A) in the case of the Company, regular quarterly cash dividends and (B) in the case of any direct or indirect wholly owned Subsidiary of the Company, dividends or distributions to its parent;

(ii) except as required by the terms of the Company Convertible Notes, any repurchase, redemption or other acquisition by the Company or any of its Subsidiaries of any Company Securities or Company Subsidiary Securities;

(iii) any split, combination, subdivision or reclassification of any Company Securities or Company Subsidiary Securities;

(iv) except as required to comply with any Applicable Law or any Employee Plans as in effect on the Company Balance Sheet Date, (A) any grant of any severance, change in control or termination pay to any director or executive officer of the Company, (B) any entry into any employment, consulting, change in control, deferred compensation or other similar agreement, plan, arrangement or policy (or any material amendment to any such agreement, plan, arrangement or policy) with any director or executive officer of the Company, (C) any increase in the compensation or benefits payable under any severance, change in control or termination pay policies or Employee Plans (except as provided

under the terms thereof as a result of increases in compensation permitted under clause (D)), (D) any increase in the compensation, bonus or other benefits payable to any director, officer or employee of the Company or any of its Subsidiaries, other than normal increases in base salary (and, any corresponding increases in the dollar amount of target bonuses that result from such base salary increases) and wages in the ordinary course of business consistent with past practice, (E) any establishment, adoption, entry into, amendment, modification or termination of any collective bargaining agreement, (F) any establishment, adoption, entry into, termination, or amendment or modification in any material respect, of any material Employee Plan or (G) the taking of any action to accelerate any material compensation or benefits, including vesting and payment, or the making of any material determinations, under any collective bargaining agreement or Employee Plan;

(v) any material change in the Company's method of accounting or accounting principles or practices, except for any such change required by reason of a change in GAAP or by Regulation S-X under the Exchange Act, as approved by its independent public accountants;

(vi) any amendment of any material Tax Return or the making of any material Tax election; and

(vii) any material modification of any Communications License.

Section 3.11. *No Undisclosed Material Liabilities.* None of the Company or any of its Subsidiaries has any liabilities or obligations of any nature, whether accrued, contingent, absolute or otherwise, other than:

(a) liabilities or obligations disclosed and provided for in the Company — Balance Sheet or in the notes thereto;

(b) liabilities or obligations of a nature disclosed and provided for in the Company Balance Sheet or in the notes thereto and incurred in the ordinary course of business since the Company Balance Sheet Date in amounts consistent with past practice; or

(c) liabilities or obligations that would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.12. *Litigation.* There is no suit, claim, action, proceeding or investigation pending against or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries that would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, nor is there any judgment, settlement agreement, decree, inquiry, rule or order outstanding against the Company or any of its Subsidiaries that would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. This Section 3.12 does not relate to environmental matters, which are the subject of Section 3.19.

Section 3.13. *Taxes.* (a) All material federal, state, local and foreign Tax Returns required to have been filed by or on behalf of the Company and each of its Subsidiaries have been timely filed, and all such filed Tax Returns were complete and accurate at the time of filing, except to the extent any failure to file or any inaccuracies in filed Tax Returns would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. All Taxes shown to be due on such Tax Returns have been paid, or adequately reserved for in accordance with GAAP, except to the extent any failure to pay or reserve would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. There is no audit, examination, deficiency, refund litigation, proposed adjustment or matter in controversy with respect to any Taxes due or owing by the Company or any of its Subsidiaries which would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) The relevant statute of limitations is closed with respect the U.S. federal income Tax Returns of the Company and its Subsidiaries for all years through 2002.

(c) Neither the Company nor any of its Subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" (i) in a distribution of stock qualifying for Tax-free treatment under Section 355 of the Code in the two years prior to the date of this Agreement or (ii) in a distribution that could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger or any of the other transactions contemplated by this Agreement.

(d) The Company and its Subsidiaries have adequately disclosed on the appropriate Tax Returns information about any "listed transaction" (within the meaning of Section 1.6001-4(b) of the Treasury regulations) or any similar transaction under any other Tax law, including state or local Tax laws, in which the Company or any of its Subsidiaries has ever participated, in accordance with Section 1.6011-4 of the Treasury regulations or any similar provision of any other Tax law, including state or local Tax laws.

(e) For purposes of this Agreement, (i) "Taxes" means any and all federal, state, local, foreign or other taxes of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any 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, and taxes or other charges in the nature or excise, withholding, ad valorem or value added, and (ii) "Tax Return" means any return, report or similar statement (including the attached schedules) required to be filed with a taxing authority with respect to any Tax, including, without limitation, any information return, claim for refund, amended return or declaration of estimated Tax.

Section 3.14. *Employee Benefit Matters.* (a) Set forth in Section 3.14(a) of the Company Disclosure Schedule is a true and complete list, as of the date of this

Agreement, of all Title IV Plans, all Employee Plans that provide for stock-based, severance, change in control, termination or similar compensation or benefits or that are maintained primarily for directors or officers of the Company or any of its Subsidiaries and all other material Employee Plans. The Company has made available to Parent true and complete copies of each such Employee Plan, and all amendments thereto, together with the most recent annual report, actuarial report, financial statements and summary plan description, in each case if applicable, prepared in connection therewith.

(b) As of December 31, 2005, the difference between (i) the fair market value of the assets of each Employee Plan subject to Title IV of ERISA (a "Title IV Plan") (excluding for these purposes any accrued but unpaid contributions) and (ii) the present value of all benefits accrued under such Title IV Plan determined on an accumulated benefit obligation basis was as set forth in Section 3.14(b) of the Company Disclosure Schedules. No "accumulated funding deficiency," as defined in Section 412 of the Code, has been incurred with respect to any Employee Plan subject to such Section 412, whether or not waived. No "reportable event," within the meaning of Section 4043 of ERISA, other than a "reportable event" that would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, and no event described in Sections 4062 or 4063 of ERISA, has occurred in connection with any Employee Plan. Neither the Company nor any ERISA Affiliate thereof has (A) engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility that could subject the Company or any of its Subsidiaries to any material Tax or penalty on prohibited transactions imposed by Section 4975 of the Code or to any material liability under Section 502 of ERISA, (B) engaged in, or is a successor or parent corporation to an entity that has engaged in, a transaction described in Sections 4069 or 4212(c) of ERISA or (C) incurred, or reasonably expects to incur prior to the Effective Time (1) any liability under Title IV of ERISA arising in connection with the termination of, or a complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA or (2) any liability under Section 4971 of the Code that, in each case, could become a liability of Parent or any of its ERISA Affiliates after the Effective Time. None of the Company nor any of its ERISA Affiliates makes contributions to, or has any liability under, any multiemployer plan (as defined in Section 3(37) of ERISA).

(c) Each Employee Plan which is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter, or has pending or has time remaining in which to file an application for such determination letter from the Internal Revenue Service, and the Company is not aware of any reason why any such determination letter should be revoked or not be reissued. The Company has made available to Parent true and complete copies of the most recent Internal Revenue Service determination letters with respect to each such Employee Plan. Each Employee Plan has been maintained in compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Employee Plan, except where such non-compliance would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(d) With respect to any Employee Plan that is an "employee welfare benefit plan," as defined in Section 3(3) of ERISA, whether or not subject to ERISA, (i) no such Plan is unfunded, funded through a "welfare benefits fund" (as defined in Section 419(e) of the Code) or similar arrangement or self-insured and (ii) no such Employee Plan provides health or welfare benefits (whether or not insured) with respect to employees or former employees of the Company or any of its Subsidiaries (or any of their beneficiaries) after retirement or other termination of service (other than coverage or benefits (A) required to be provided under Part 6 of Title I of ERISA or any other similar Applicable Law or (B) the full cost of which is borne by employees or former employees of the Company or any of its Subsidiaries (or any of their beneficiaries)).

(e) Except as provided in Section 1.04, no current or former director, officer or employee of the Company or any of its Subsidiaries will be entitled to (i)(A) any severance, separation, change of control, termination, bonus or other additional compensation or benefits or (B) any acceleration of the time of payment or vesting of any compensation or benefits or the forgiveness of indebtedness owed by such employee, in each case as a result of any of the transactions contemplated hereby (alone or in combination with any other event) or in connection with the termination of such Person's employment on or after the Closing or (ii) any compensation or benefits related to or contingent upon, or the value of which will be calculated on the basis of, any of the transactions contemplated hereby (alone or in combination with any other event). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby (alone or in combination with any other event) and compliance by the Company with the provisions hereof do not and will not require the funding (whether through a grantor trust or otherwise) of, or increase the cost of, or give rise to any other obligation under, any Employee Plan and will not result in any breach or violation of, or default under, or limit the ability of the Company or any of its Subsidiaries to amend, modify or terminate, any Employee Plan.

(f) (i) No amount, economic benefit or other entitlement that could be received (whether in cash or property or the vesting of property) as a result of the transactions contemplated hereby (alone or in combination with any other event) by any person who is a "disqualified individual" (as defined in Treasury Regulation Section 1.280G-1) with respect to the Company would be characterized as an "excess parachute payment" (as defined in Section 280G(b)(1) of the Code). (ii) No director, officer or employee of the Company or any of its Subsidiaries is entitled to receive any additional payment from the Company, any of its Subsidiaries or any other Person in the event that the excise Tax required by Section 4999(a) of the Code, any Tax imposed under Section 409A of the Code or any other Tax is imposed on such individual.

(g) For purposes of this Agreement, the following terms shall have the meanings set forth below:

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

“Employee Plan” means any (x) “employee benefit plan”, as defined in Section 3(3) of ERISA; (y) any employment, consultancy, severance, change of control or similar agreement, plan, arrangement or policy; or (z) any other agreement, plan, arrangement or policy providing for compensation, bonuses, profit-sharing, equity or equity-based compensation or other forms of incentive or deferred compensation, vacation benefits, insurance (including any self-insured arrangements), welfare, disability or sick leave benefits, employee assistance program, supplemental unemployment benefits or post-employment or retirement benefits (including compensation, welfare, pension or insurance benefits) or perquisites or fringe benefits; that, in any such case referred to in clause (x), (y) or (z), is sponsored, maintained, administered, or contributed to by the Company or any Subsidiary of the Company, or that is required to be maintained or contributed to by the Company or any Subsidiary of the Company, and covers any current or former director, officer or employee of the Company or any of its Subsidiaries or with respect to which the Company or any of its Subsidiaries has any liability.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

“ERISA Affiliate” of any entity means any other entity which, together with such entity, would be treated as a single employer under Section 414(b) or (c) of the Code.

Section 3.15. *Labor Matters.* Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, (a) neither the Company nor any of its Subsidiaries is party to any labor union or collective bargaining agreement, and as of the date of this Agreement no such agreement is being negotiated by the Company or any of its Subsidiaries, (b) no employees of the Company or any of its Subsidiaries are represented by any labor organization, (c) as of the date hereof, no labor organization or group of employees of the Company or any of its Subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the knowledge of the Company, threatened to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority, (d) to the knowledge of the Company, as of the date hereof, there are no formal organizing activities involving a material number of employees of the Company or any of its Subsidiaries pending with, or threatened by, any labor organization, (e) within the past three years, there have been no strikes, work stoppages, slowdowns, lockouts, arbitrations or other labor disputes (other than with respect to grievances) pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, (f) there are no grievances pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, (g) there is no unfair labor practice charge, claim or proceeding pending before the National Labor Relations Board or any comparable administrative body with respect to the Company or any of its Subsidiaries, (h) neither the Company nor any of its Subsidiaries is in breach of any collective bargaining agreement and (i) neither the Company nor any of its Subsidiaries is a party to, or otherwise bound by, any consent

decree with, or citation by, any Governmental Authority relating to employees or employment practices.

Section 3.16. *Compliance with Laws.* The Company and its Subsidiaries hold all Licenses necessary for them to own, lease and operate their properties and to conduct their businesses, except where the failure to hold any of the foregoing would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. The Company and its Subsidiaries are not in violation of any such Licenses or any Applicable Law, except where such violations would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Each License issued to the Company or any of its Subsidiaries by the FCC or the PPUC (collectively, the “**Communications Licenses**”) is set forth, as of the date of this Agreement, in Section 3.16 of the Company Disclosure Schedule. This Section does not relate to environmental matters, which are the subject of Section 3.19.

Section 3.17. *Finders’ Fees.* Except for Evercore, a true and complete copy of whose engagement agreement has been provided to Parent, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company or any Subsidiary of the Company who might be entitled to any fee or commission from the Company, Parent or Merger Subsidiary or any of their Affiliates in connection with the transactions contemplated by this Agreement. For purposes of this Agreement, “**Affiliate**” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person.

Section 3.18. *Title to Properties; Encumbrances; Intellectual Property.* (a) Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, the Company and each of its Subsidiaries has good and valid title to (or in the case of leased assets, valid leasehold interests in) the assets set forth on the Company Balance Sheet (other than those disposed of in the ordinary course of business since the Company Balance Sheet Date), free and clear of all Liens other than Company Permitted Liens. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, the Company and each of its Subsidiaries owns or has the lawful right to use all assets, properties, Intellectual Property Rights, operating rights, rights-of-way, easements, contracts, leases, and other instruments necessary to operate its business as presently conducted. For purposes of this Agreement, “**Company Permitted Liens**” means (i) materialmen’s, mechanics’, carriers’, workmen’s, warehousemen’s, repairmen’s, and other like Liens arising in the ordinary course of business, and deposits to obtain the release of such Liens, (ii) Liens imposed by Applicable Laws for (A) Taxes not yet due and payable or (B) Taxes that the Company or any of its Subsidiaries is contesting in good faith through appropriate proceedings and for which adequate reserves, in accordance with GAAP, have been established, (iii) Liens disclosed on the Company Balance Sheet or the notes thereto, (iv) zoning, building and other similar codes and regulations and (v) other immaterial Liens (other than Liens securing Indebtedness).

(b) Each real property owned by the Company or any of its Subsidiaries that is material to the Company and its Subsidiaries, taken as a whole (a "**Material Owned Real Property**"), is set forth, as of the date of this Agreement, in Section 3.18(b) of the Company Disclosure Schedule. The Company or a Subsidiary of the Company has good and marketable title to the Material Owned Real Property, free and clear of all Liens other than Company Permitted Liens, and there are no outstanding options, rights of first offer or rights of first refusal to purchase any Material Owned Real Property or any material portion thereof or interest therein.

(c) Each real property leased by the Company or any of its Subsidiaries that is material to the Company and its Subsidiaries, taken as a whole (a "**Material Leased Real Property**"), is set forth, as of the date of this Agreement, in Section 3.18(c) of the Company Disclosure Schedule. The Company or a Subsidiary of the Company has a good and valid title to a leasehold interest in each Material Leased Real Property.

(d) (i) Each patent, patent application, trademark registration, trademark application, registered service mark, registered copyright and internet domain name, in each case, that is owned by the Company or any of its Subsidiaries and is material to the Company and its Subsidiaries, taken as a whole ("**Material Intellectual Property**"), is set forth, as of the date of this Agreement, in Section 3.18(d) of the Company Disclosure Schedule.

(ii) Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect:

(w) all Material Intellectual Property is valid, subsisting and enforceable;

(x) there are no claims or proceedings made or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries with respect to (A) the ownership, validity, use or enforceability of any Material Intellectual Property or (B) the operation of the business of the Company or any of its Subsidiaries infringing or misappropriating any Intellectual Property Rights of any Person (including any demand or request that the Company or any of its Subsidiaries license any rights from any Person);

(y) none of the Material Intellectual Property is subject to any outstanding order, ruling, judgment, decree or stipulation by or with any Governmental Authority, or any agreement, understanding or undertaking with any Person, restricting the scope of use of any Material Intellectual Property; and

(z) no Person has infringed upon or misappropriated, or is currently infringing upon or misappropriating, any Material Intellectual Property.

(iii) For purposes of this Agreement, “**Intellectual Property Rights**” means, collectively, whether arising under the laws of the United States or any other state, country or jurisdiction: (A) trade secrets and confidential information, patents, patent applications, patent disclosures and inventions, including all reissues, continuations, divisions, continuations in part and renewals and extensions thereof; (B) trademarks, service marks, trade dress, trade names, slogans, logos and corporate names and registrations and applications for registration thereof; (C) copyrights (registered or unregistered) and registrations and applications for registration thereof; (D) computer software (including both source and object code), proprietary data and data bases; and (E) internet domain name registrations.

Section 3.19. *Environmental Matters.* (a) Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect:

(i) no written notice, demand, order, complaint, information request or other communication alleging actual or potential liability has been received by the Company or any of its Subsidiaries arising out of, relating to or based upon any Environmental Laws, and there are no judicial, administrative or other actions, suits, claims, investigations or proceedings pending or, to the Company’s knowledge, threatened which allege a violation by the Company or any of its Subsidiaries of any Environmental Laws;

(ii) the Company and each of its Subsidiaries has all Licenses necessary for their operations to comply with all applicable Environmental Laws (“**Company Environmental Licenses**”), all such Company Environmental Licenses are in full force and effect, and the Company and each of its Subsidiaries are in compliance with the terms of such Company Environmental Licenses;

(iii) the Company and each of its Subsidiaries are and have been in compliance with the terms of applicable Environmental Laws;

(iv) there has been no release of Hazardous Materials, and there are no Hazardous Materials present, in each case, at, on, under or from any property currently or formerly owned, leased or operated by the Company or any of its Subsidiaries that have resulted or would reasonably be expected to result in costs or liability to the Company or any of its Subsidiaries under any Environmental Law;

(v) none of the Company or any of its Subsidiaries has entered into or agreed to, or, to the knowledge of the Company, is otherwise subject to the terms of, any judgment, decree or order arising under, based upon or relating to Environmental Law or to the investigation or remediation of Hazardous Materials; and

(vi) none of the Company or any of its Subsidiaries has generated, stored, used, emitted, discharged, released, disposed of or arranged for the

disposal of any Hazardous Materials except in material compliance with, and in a manner that has not resulted and would not reasonably be expected to result in liability to the Company or any of its Subsidiaries under, applicable Environmental Laws.

(b) For purposes of this Agreement, the term “**Environmental Laws**” means all Applicable Laws relating to pollution, natural resources or protection of endangered or threatened species, human health (as relating to Hazardous Materials) or the environment (including ambient air, surface water, groundwater, land surface or subsurface strata). For purposes of this Agreement, the term “**Hazardous Materials**” means any petroleum or petroleum byproducts, radioactive materials or wastes, asbestos in any form, polychlorinated biphenyls, creosote, electromagnetic or radio frequency emissions, and any other chemical, material, substance or waste that in relevant form or concentration is prohibited, limited or regulated under any Environmental Law.

Section 3.20. *Contracts.* Section 3.20 of the Company Disclosure Schedule sets forth, as of the date of this Agreement, a true and complete list, and the Company has made available to Parent true and complete copies, of:

(i) each agreement, understanding or undertaking that would be required to be filed by the Company as a “material contract” pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act or that, if terminated or subject to a default by any party thereto, would reasonably be expected to result in a Company Material Adverse Effect;

(ii) each agreement, understanding or undertaking to which the Company or any of its Subsidiaries is a party that restricts in any material respect the ability of the Company or any of its Subsidiaries to compete in any business or with any Person in any geographical area;

(iii) each loan and credit agreement, note, debenture, bond, indenture or other similar agreement pursuant to which any Indebtedness of the Company or any of its Subsidiaries, in each case in excess of \$100,000, is outstanding or may be incurred, other than any such agreement between or among the Company and its wholly owned Subsidiaries;

(iv) each agreement, understanding or undertaking to which the Company or any of its Subsidiaries is a party for the acquisition or disposition by the Company or any of its Subsidiaries of properties or assets that, in each case, have a fair market value or purchase price of more than \$500,000; and

(v) each partnership, joint venture or other similar agreement or understanding to which the Company or any of its Subsidiaries is a party relating to the formation, creation, operation, management or control of any partnership or joint venture material to the Company and its Subsidiaries.

Each agreement, understanding or undertaking of the type described in clauses (i) through (v) above, and each lease agreement for any Material Leased Real Property, is

referred to herein as a "Company Material Agreement". Each Company Material Agreement is a valid, binding and legally enforceable obligation of the Company or one of its Subsidiaries, as the case may be, and, to the knowledge of the Company, of the other parties thereto, subject to the Enforceability Exceptions, and is in full force and effect, except for such failures to be valid, binding and legally enforceable or to be in full force and effect as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Subject to such exceptions as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, there is no default under any Company Material Agreement by the Company or any of its Subsidiaries or, to the knowledge of the Company, by any other party thereto, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a default thereunder by the Company or any of its Subsidiaries or, to the knowledge of the Company, by any other party thereto.

Section 3.21. *Antitakeover Statutes.* The Company has taken all action necessary to exempt this Agreement, the Merger and the other transactions contemplated hereby from Subchapters E, F, G, H, I and J of Chapter 25 of the Pennsylvania Law, and, accordingly, neither such Subchapters nor any other antitakeover or similar statute or regulation applies to any such transactions.

Section 3.22. *No Other Representations.* Except as expressly set forth in this Agreement or in any certificate delivered by or on behalf of the Company pursuant to Section 8.03(a), the Company makes no representations or warranties to Parent or Merger Subsidiary. Further, the Company acknowledges that neither Parent nor Merger Subsidiary makes or has made any representation or warranty to the Company, except as expressly set forth in this Agreement or in any certificate delivered by or on behalf of Parent pursuant to Section 8.04(a).

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF PARENT

Except as disclosed in the Parent SEC Documents filed prior to the date hereof (excluding any disclosures in the Parent SEC Documents under the heading "Risk Factors" and any other disclosures of risks that are predictive or forward-looking in nature) or in a separate disclosure schedule (the "Parent Disclosure Schedule") which has been delivered by Parent to the Company prior to the execution of this Agreement (each section of which qualifies the correspondingly numbered representation and warranty to the extent specified therein and such other representations and warranties to the extent a matter in such section is disclosed in such a way as to make its relevance to the information called for by such other representation and warranty readily apparent), Parent represents and warrants to the Company that:

Section 4.01. *Organization and Authority.* Each of Parent and Merger Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Each of Parent and Merger Subsidiary has all requisite corporate power to carry on its business as now being conducted. Each of Parent and

Merger Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, with such exceptions as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent ("Parent Material Adverse Effect"). The execution, delivery and performance by Parent and Merger Subsidiary of this Agreement and the consummation by Parent and Merger Subsidiary of the transactions contemplated hereby are within the corporate powers of Parent and Merger Subsidiary and have been duly authorized by all necessary corporate action. This Agreement has been duly executed and delivered by each of Parent and Merger Subsidiary and constitutes a valid and binding agreement of each of Parent and Merger Subsidiary, enforceable against each of Parent and Merger Subsidiary in accordance with its terms, subject to the Enforceability Exceptions. Parent has delivered to the Company true and complete copies of the Certificate of Incorporation and Bylaws of Parent, each in effect as of the date hereof, and the Articles of Incorporation and Bylaws of Merger Subsidiary, each in effect as of the date hereof. Since the date of its incorporation, Merger Subsidiary has not engaged in any activities other than in connection with or as contemplated by this Agreement.

Section 4.02. *No Breach.* The execution and delivery by Parent and Merger Subsidiary of this Agreement do not, and the consummation of the transactions contemplated hereby by Parent and Merger Subsidiary will not, (i) violate or conflict with the Certificate of Incorporation or Bylaws of Parent, or the Articles of Incorporation or Bylaws of Merger Subsidiary, (ii) constitute a breach or default of (with or without notice or lapse of time, or both), or give rise to any third-party right of termination, cancellation, modification or acceleration under, or to a loss of a benefit of Parent or any of its Subsidiaries under, any agreement, understanding or undertaking to which Parent or Merger Subsidiary or any of their Subsidiaries is a party or by which any of them is bound, or give rise to any Lien on any of their properties, or (iii) subject to obtaining the approvals and making the filings described in Section 4.03 hereof, constitute a violation or breach of any provision of any Applicable Law, with such exceptions in the cases of subsections (ii) and (iii) as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect or materially interfere with or delay the consummation of the transactions contemplated hereby.

Section 4.03. *Consents and Approvals.* The execution and delivery of this Agreement by Parent and Merger Subsidiary and the consummation of the transactions contemplated hereby by Parent and Merger Subsidiary require no consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, except (i) compliance with any applicable requirements of the Securities Act, the Exchange Act and any other applicable securities laws, whether federal, state or foreign, (ii) for notification pursuant to the HSR Act and expiration or termination of the waiting period thereunder, (iii) for the filing of the articles of merger under Pennsylvania Law, the certificate of merger under Delaware Law and related filings as set forth in Section 1.01 hereof, (iv) for approvals of and filings with the FCC and the PPUC, and (v) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, reasonably

be expected to have a Parent Material Adverse Effect or materially interfere with or delay the consummation of the transactions contemplated hereby.

Section 4.04. *Approval of the Board; No Vote Required.* The Board of Directors of Parent has, by resolutions duly adopted at meetings duly called and held, approved this Agreement, the Merger and the other transactions contemplated hereby. No vote of holders of any class or series of capital stock of Parent is necessary to approve this Agreement or the Merger.

Section 4.05. *Capitalization.* (a) The authorized capital stock of Parent consists of 600,000,000 shares of Parent Stock and 50,000,000 shares of preferred stock, par value \$0.01 per share ("**Parent Preferred Stock**"). At the close of business on August 31, 2006, there were outstanding (i) 321,311,189 shares of Parent Stock, (ii) 6,196,144 stock options to purchase shares of Parent Stock under any compensatory plan or arrangement of Parent, (iii) 1,498,271 share units granted or otherwise issued under any compensatory plan or arrangement of Parent and (iv) no shares of Parent Preferred Stock. At the close of business on August 31, 2006, 778,091 shares of Parent Stock were reserved for issuance upon conversion of the Citizens Utilities Trusts' 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036. Except as set forth in this Section 4.05, at the close of business on August 31, 2006, there were no outstanding (A) shares of capital stock or other voting securities of Parent, (B) securities of Parent convertible into or exchangeable for shares of capital stock or other voting securities of Parent, (C) options or other rights to acquire from Parent any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Parent, or any rights against or obligating Parent that give the holder thereof any economic interest of a nature occurring to the holders of shares of Parent Stock (the items in clauses (A), (B) and (C) of this sentence being referred to collectively as the "**Parent Securities**") or (D) obligations of Parent to issue, deliver or sell any Parent Security, other than the Parent Series A Participating Preferred Stock purchase rights issued pursuant to the Rights Agreement dated as of March 6, 2002, between Parent and Mellon Investor Services LLC. The authorized capital stock of the Merger Subsidiary consists of 1,000 shares of common stock, par value \$0.01 per share, of which 1,000 shares are issued and outstanding, all of which shares are beneficially owned by Parent. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, with respect to the compensatory stock options to purchase shares of Parent Stock ("**Parent Options**"), (I) each grant of a Parent Option was duly authorized no later than the Grant Date by all necessary corporate action, including, as applicable, approval by the Board of Directors of Parent (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and the award agreement governing such grant (if any) was duly executed and delivered by each party thereto, (II) each such grant was made in accordance with the terms of the applicable compensation plan or arrangement of Parent, the Exchange Act and all other Applicable Laws and regulatory rules or requirements, including the rules of the New York Stock Exchange (the "**NYSE**"), (III) the per share exercise price of each Parent Option was equal to the fair market value of a share of Parent Stock on the applicable Grant Date and (IV) each such grant was properly accounted for in accordance with GAAP in the financial statements

(including the related notes) of Parent and disclosed in the Parent SEC Documents in accordance with the Exchange Act and all other Applicable Laws.

(b) The shares of Parent Stock to be issued as part of the Merger Consideration have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will have been validly issued and will be fully paid and nonassessable and the issuance thereof is not subject to any preemptive or other similar right.

Section 4.06. *SEC Filings and the Sarbanes-Oxley Act.* (a) Parent has filed or furnished all reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) with the SEC required to be filed or furnished by Parent since January 1, 2004 (the "**Parent SEC Documents**").

(b) As of its filing date, each Parent SEC Document complied as to form in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be.

(c) As of its filing date, none of the Parent SEC Documents filed pursuant to the Exchange Act contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any such Parent SEC Document has been revised, amended, supplemented or superseded by a subsequent Parent SEC Document, none of the Parent SEC Documents filed pursuant to the Exchange Act contains any untrue statement of a material fact or omits to state any material fact in circumstances where an amendment, supplement or corrective filing to any such Parent SEC Document is required under the Exchange Act.

(d) None of the Parent SEC Documents that is a registration statement, as amended or supplemented, if applicable, filed pursuant to the Securities Act, as of the date such statement or amendment became effective, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(e) Parent has established and maintains disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act). Such disclosure controls and procedures are designed to ensure that material information relating to Parent, including its consolidated Subsidiaries, is made known to Parent's principal executive officer and its principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared. Such disclosure controls and procedures are designed to be effective in timely alerting Parent's principal executive officer and principal financial officer to material information required to be included in Parent's periodic reports required under the Exchange Act.

(f) Since March 31, 2005, Parent and its Subsidiaries have established and maintained a system of internal controls. Such internal controls are sufficient in all

material respects to provide reasonable assurance regarding the reliability of Parent's financial reporting and the preparation of Parent financial statements for external purposes in accordance with GAAP. Parent has disclosed, based on its most recent evaluation of internal controls prior to the date hereof, to Parent's auditors and audit committee (x) any significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect Parent's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls. Parent has made available to the Company a summary of any such disclosure made by management to Parent's auditors and audit committee since January 1, 2005.

(g) Parent has made available to the Company true and complete copies of all comment letters received by Parent from the SEC since January 1, 2005 and relating to the Parent SEC Documents, together with all written responses of Parent thereto. As of the date of this Agreement, there are no outstanding or unresolved comments in such comment letters received by Parent from the SEC, and, to the knowledge of Parent, none of the Parent SEC Documents is the subject of any ongoing review by the SEC.

Section 4.07. *Financial Statements.* The audited consolidated financial statements and unaudited consolidated interim financial statements of Parent included in the Parent SEC Documents when filed complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto and fairly present in all material respects, and in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated Subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements). For purposes of this Agreement, "**Parent Balance Sheet**" means the consolidated balance sheet as of June 30, 2006 of Parent and its consolidated Subsidiaries set forth in Parent's Form 10-Q for the quarter ended as of June 30, 2006 and "**Parent Balance Sheet Date**" means June 30, 2006.

Section 4.08. *Disclosure Documents.* None of the information supplied by Parent or Merger Subsidiary for inclusion in (i) the Proxy Statement will, at the time the Proxy Statement or any amendment or supplement thereto is first mailed to the stockholders of the Company or at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading or (ii) the Registration Statement will, at the time the Registration Statement or any amendment or supplement thereto is declared effective by the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

Section 4.09. *Absence of Certain Changes or Events.* (a) Since the Parent Balance Sheet Date, there has not been any change, effect, event, occurrence, state of

facts or development that has had or would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) Since the Parent Balance Sheet Date and through the date of this Agreement, Parent and its Subsidiaries have conducted their respective businesses in all material respects in the ordinary course consistent with their past practices, and there has not been (i) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of Parent, other than regular quarterly cash dividends, (ii) any repurchase, redemption or other acquisition by Parent or any of its Subsidiaries of any Parent Securities or (iii) any split, combination, subdivision or reclassification of any Parent Securities.

(c) As of the date hereof, Parent is not engaged in active negotiations or discussions with any Person other than the Company regarding any acquisition, disposition or partnership that would reasonably be expected to be material to Parent and its Subsidiaries, taken as a whole.

Section 4.10. *No Undisclosed Material Liabilities.* None of Parent or any of its Subsidiaries has any liabilities or obligations of any nature, whether accrued, contingent, absolute or otherwise, other than:

(a) liabilities or obligations disclosed and provided for in the Parent Balance Sheet or in the notes thereto;

(b) liabilities or obligations of a nature disclosed and provided for in the Parent Balance Sheet or in the notes thereto and incurred in the ordinary course of business since the Parent Balance Sheet Date in amounts consistent with past practice; or

(c) liabilities or obligations that would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.11. *Litigation.* There is no suit, claim, action, proceeding or investigation pending against or, to the knowledge of Parent, threatened against Parent or any of its Subsidiaries that would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, nor is there any judgment, settlement agreement, decree, inquiry, rule or order outstanding against Parent or any of its Subsidiaries that would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. This Section 4.11 does not relate to environmental matters, which are the subject of Section 4.15.

Section 4.12. *Taxes.* All material federal, state, local and foreign Tax Returns required to have been filed by or on behalf of Parent and each of its Subsidiaries have been timely filed, and all such filed Tax Returns were complete and accurate at the time of filing, except to the extent any failure to file or any inaccuracies in filed Tax Returns would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. All Taxes shown to be due on such Tax Returns have been paid, or adequately reserved for in accordance with GAAP, except to the extent any failure to pay or reserve would not reasonably be expected to have, individually or in the

aggregate, a Parent Material Adverse Effect. There is no audit, examination, deficiency, refund litigation, proposed adjustment or matter in controversy with respect to any Taxes due or owing by Parent or any of its Subsidiaries which would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.13. *Compliance with Laws.* Parent and its Subsidiaries hold all Licenses necessary for them to own, lease and operate their properties and to conduct their businesses, except where the failure to hold any of the foregoing would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Parent and its Subsidiaries are not in violation of any such Licenses or any Applicable Law, except where such violations would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. This Section 4.13 does not relate to environmental matters, which are the subject of Section 4.15.

Section 4.14. *Finders' Fees.* Except for Citigroup Global Markets Inc., whose fee and expenses shall be paid by Parent, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Parent or Merger Subsidiary who might be entitled to any fee or commission from Parent, Merger Subsidiary or the Company or any of their Affiliates in connection with the transactions contemplated by this Agreement.

Section 4.15. *Environmental Matters.* Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect:

(a) no written notice, demand, order, complaint, information request or other communication alleging actual or potential liability has been received by Parent or any of its Subsidiaries arising out of, relating to or based upon any Environmental Laws, and there are no judicial, administrative or other actions, suits, claims, investigations or proceedings pending or, to Parent's knowledge, threatened which allege a violation by Parent or any of its Subsidiaries of any Environmental Laws;

(b) Parent and each of its Subsidiaries has all Licenses necessary for their operations to comply with all applicable Environmental Laws ("**Parent Environmental Licenses**"), all such Parent Environmental Licenses are in full force and effect, and Parent and each of its Subsidiaries are in compliance with the terms of such Parent Environmental Licenses;

(c) Parent and each of its Subsidiaries are and have been in compliance with the terms of applicable Environmental Laws;

(d) there has been no release of Hazardous Materials, and there are no Hazardous Materials present, in each case, at, on, under or from any property currently or formerly owned, leased or operated by Parent or any of its Subsidiaries that have resulted or would reasonably be expected to result in costs or liability to Parent or any of its Subsidiaries under any Environmental Law;

(e) none of Parent or any of its Subsidiaries has entered into or agreed to, or, to the knowledge of Parent, is otherwise subject to the terms of, any judgment, decree or order arising under, based upon or relating to Environmental Law or to the investigation or remediation of Hazardous Materials; and

(f) none of Parent or any of its Subsidiaries has generated, stored, used, emitted, discharged, released, disposed of or arranged for the disposal of any Hazardous Materials except in material compliance with, and in a manner that has not resulted and would not reasonably be expected to result in liability to Parent or any of its Subsidiaries under, applicable Environmental Laws.

Section 4.16. *Financing.* Parent has, or will have prior to the Closing Date, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of the aggregate amount of Cash Merger Consideration and any other amounts to be paid by it hereunder in cash. Parent has delivered to the Company a true and complete copy of the commitment letter, dated as of September 17, 2006, between Parent and Citigroup Global Markets Inc.

Section 4.17. *Ownership of Shares.* Except as a result of entering into this Agreement or the transactions contemplated hereby, neither Parent, Merger Subsidiary nor any of Parent's other direct or indirect Subsidiaries is an "interested shareholder" (as defined in Section 2553 of Pennsylvania Law) of the Company. As of the date of this Agreement, none of Parent, Merger Subsidiary or any other direct or indirect Subsidiary of Parent beneficially owns any Common Shares.

Section 4.18. *No Other Representations.* Except as expressly set forth in this Agreement or in any certificate delivered by or on behalf of Parent pursuant to Section 8.04(a), Parent makes no representations or warranties to the Company. Further, Parent acknowledges that the Company does not make and has not made any representation or warranty to Parent or Merger Subsidiary, except as expressly set forth in this Agreement or in any certificate delivered by or on behalf of the Company pursuant to Section 8.03(a).

ARTICLE 5 COVENANTS OF THE COMPANY

The Company agrees that:

Section 5.01. *Conduct of the Company.* Except as otherwise contemplated herein, as set forth in Section 5.01 of the Company Disclosure Schedule or as may be required by Applicable Law, from the date hereof until the Effective Time, the Company and its Subsidiaries shall operate substantially in the same lines of business as they now operate in, and shall conduct their business in the ordinary course consistent with past practice in all material respects and shall use their reasonable best efforts to preserve intact their business organizations and relationships with third parties, including Governmental Authorities, and to keep available the services of their present officers and

employees in all material respects. Without limiting the generality of the foregoing, and except as contemplated herein, as set forth in Section 5.01 of the Company Disclosure Schedule or as may be required by Applicable Law, from the date hereof until the Effective Time, without the prior written consent of Parent (which, in the case of clauses (b)(ii)(y), (f), (i), (j)(ii) and (o) below, shall not be unreasonably withheld or delayed):

(a) the Company will not, and will not permit any Subsidiary of the Company to, (i) adopt or propose any change in the Articles of Incorporation or Bylaws of the Company or a comparable organizational document of any Company Significant Subsidiary or (ii) except for Permitted Share Unit Adjustments, amend any term of any Company Security or any Company Subsidiary Security (in each case, whether by merger, consolidation or otherwise);

(b) the Company will not, and will not permit any Subsidiary of the Company to, (i) merge or consolidate with, or be sold to, any other Person or (ii) acquire (x) any Person or division or line of business of any Person or (y) any asset or assets that have a purchase price in excess of \$500,000, individually, or \$2,000,000, in the aggregate, except for new capital expenditures, which shall be subject to clause (i) below (in each case, whether by merger, consolidation, purchase of stock or otherwise);

(c) the Company will not, and will not permit any Subsidiary of the Company to, issue, deliver or sell, or authorize the issuance, delivery or sale of, any Company Securities or Company Subsidiary Securities, other than (i) the Permitted Additional Company Issuances and (ii) the issuance of any Company Subsidiary Securities to the Company or a wholly owned Subsidiary of the Company;

(d) the Company will not, and will not permit any Subsidiary of the Company to, incur or assume any indebtedness for borrowed money, issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any of its Subsidiaries, guarantee any such indebtedness or any debt securities of another Person, enter into any "keep well" or other agreement to maintain any financial condition of another Person or enter into any arrangement having the economic effect of any of the foregoing (collectively, "Indebtedness"), other than (i) Indebtedness owed to the Company or any wholly owned Subsidiary of the Company, (ii) refinancings of Indebtedness of the Company or any of its Subsidiaries outstanding on the date hereof, *provided* that the aggregate amount of such refinancing Indebtedness does not exceed the aggregate amount of the Indebtedness being refinanced, (iii) Indebtedness for borrowed money incurred solely to settle in cash obligations of the Company under the Company Convertible Notes arising upon the conversion thereof and (iv) any other Indebtedness in an amount not in excess of \$2,000,000 in the aggregate; *provided, however*, that, in the case of clauses (ii) and (iii) above, the term of Indebtedness permitted to be incurred thereunder does not exceed 366 days, unless such Indebtedness is prepayable at the option of the Company or a Subsidiary of the Company, as the case may be, without any premium or penalty;

(e) the Company will not, and will not permit any Subsidiary of the Company to, (i) split, combine, subdivide or reclassify any shares of its capital stock, other equity interests, securities convertible into or exercisable or exchangeable for capital stock or other equity interests, (ii) declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, other than (x) in the case of the Company, regular quarterly cash dividends, not to exceed, in the case of any such quarterly dividend, \$0.50 per share, and (y) in the case of any direct or indirect wholly owned Subsidiary of the Company, dividends or distributions to its parent, or (iii) except as required by the terms of the Company Convertible Notes, redeem, repurchase or otherwise acquire, or offer to redeem, repurchase or otherwise acquire, any Company Security or Company Subsidiary Security;

(f) the Company will not, and will not permit any Subsidiary of the Company to, sell, lease, license or otherwise dispose of any assets or property, other than (i) sale or other disposition of inventory or obsolete equipment and (ii) sale, lease, license or other disposition of any asset or assets with a fair market value not in excess of \$250,000, individually, or \$1,000,000 in the aggregate;

(g) the Company will not, and will not permit any Subsidiary of the Company to, create or incur any Lien on any material asset, other than Company Permitted Liens;

(h) the Company will not, and will not permit any Subsidiary of the Company to, make any loan, advance or investment to or in any Person, whether by purchase of stock or securities, contributions to capital or property transfers, other than (i) investments in its wholly owned Subsidiaries made in the ordinary course of business or (ii) advances to employees in the ordinary course of business consistent with past practice;

(i) the Company will not, and will not permit any Subsidiary of the Company to, make any capital expenditures, other than (i) in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance) and (ii) otherwise substantially in accordance with the Company's capital expenditures plan made available to Parent in writing prior to the date of this Agreement;

(j) the Company will not, and will not permit any Subsidiary of the Company to, (i) amend the indentures governing the Company Convertible Notes, (ii) except in the ordinary course of business consistent with past practice and except in connection with any action permitted under clause (d) or (i) above, enter into, terminate, renew, extend, amend or modify in any material respect any Company Material Agreement (it being further agreed that the Company will, and will cause its Subsidiaries to, consult with Parent to the extent permitted by Applicable Law prior to entering into, renewing, extending, amending or modifying in any material respect any agreement, undertaking or understanding to which the Company or any of its Subsidiaries is or will be a party and that, in each case, provides for the acquisition by the Company or any of its Subsidiaries of material information technology (including software and maintenance services) or long-distance telephony services) or (iii) knowingly fail to enforce any material provision of any Company Material Agreement;

(k) the Company will not, and will not permit any Subsidiary of the Company to, except as required to comply with Employee Plans as in effect on the date hereof, (i) grant any severance, change in control or termination pay to any director, officer or employee of the Company or any of its Subsidiaries, (ii) hire or terminate the employment of any executive officer of the Company or any of its material operating Subsidiaries without reasonably consulting with Parent to the extent permitted by Applicable Law, (iii) enter into any employment, consulting, change in control, deferred compensation or other similar agreement, plan, arrangement or policy (or any material amendment to any such existing agreement, plan, arrangement or policy) with (A) any director or executive officer of the Company or any of its material operating Subsidiaries or (B), except in the ordinary course of business consistent with past practice, any other employee of the Company or any of its Subsidiaries, *provided* that no such agreement, plan, arrangement or policy may be entered into to the extent it would provide for a grant or increase of severance, change in control or termination pay prohibited under clauses (i) and (iv) of this Section 5.01(k), (iv) increase the compensation or benefits payable under any existing severance, change in control or termination pay policies or Employee Plans (except as provided under the terms thereof as a result of increases in compensation permitted under clause (v)), (v) increase the compensation, bonus or other benefits payable to any director, officer or employee of the Company or any of its Subsidiaries, except for (A) normal increases in base salary (and any corresponding increases in the dollar amount of target bonuses that result from such base salary increases) and wages in the ordinary course of business consistent with past practice and (B) increases in any other form of compensation or benefits in the ordinary course of business consistent with past practice and that do not materially increase the costs, obligations or liabilities of the Company or any of its Subsidiaries, (vi) establish, adopt, enter into, amend, modify or terminate any collective bargaining agreement, except in connection with renegotiation of expired collective bargaining agreements in the ordinary course of business consistent with past practice in a manner that does not materially increase the costs, obligations or liabilities of the Company or any of its Subsidiaries, (vii) establish, adopt, enter into, terminate, or amend or modify in any material respect any material Employee Plan, except for Employee Plans permitted to be entered into under clause (iii) above, or (viii) take any action to accelerate any material compensation or benefits, including vesting and payment, or make any material determinations, under any collective bargaining agreement or Employee Plan;

(l) the Company will not, and will not permit any Subsidiary of the Company to, effect or permit a "plant closing" or "mass layoff", as such terms are defined under the Worker Adjustment and Retraining Act of 1988, as amended;

(m) the Company will not, and will not permit any Subsidiary of the Company to, change the Company's method of accounting or accounting principles or practices, except for any such change required by reason of a change in GAAP or by Regulation S-X under the Exchange Act, as approved by its independent public accountants;

(n) the Company will not, and will not permit any Subsidiary of the Company to, amend any material Tax Return or make any material Tax election;

(o) the Company will not, and will not permit any Subsidiary of the Company to, (i) pay, discharge, settle or satisfy any material claims, liabilities, obligations or litigation (whether accrued, contingent, absolute, asserted or unasserted or otherwise), other than the payment, discharge, settlement or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities disclosed, reflected or reserved against in the most recent financial statements (or, if applicable, the notes thereto) of the Company included in the Company SEC Documents filed and publicly available prior to the date hereof (for amounts not in excess of such reserves) or incurred since the date of such financial statements in the ordinary course of business consistent with past practice, *provided, however*, that in no event shall the Company or any of its Subsidiaries settle any claim or litigation (A) for an amount in excess of \$250,000 for any such settlement individually or (B) if such settlement would reasonably be expected to prohibit or materially restrict the Company and its Subsidiaries from conducting their business in substantially the same manner as conducted on the date of this Agreement, and *provided further* that in no event shall the Company or any of its Subsidiaries settle any claim or litigation relating to the transactions contemplated by this Agreement, (ii) cancel any material Indebtedness or (iii) waive or assign any claims or rights of substantial value;

(p) file for, or otherwise seek, any material modification of any Communications License, other than in the ordinary course of business consistent with past practice, *provided* that such modification would not reasonably be expected, individually or in the aggregate, to affect the ability of the Company and its Subsidiaries to conduct their business in substantially the same manner as conducted on the date of this Agreement;

(q) the Company will not, and will not permit any Subsidiary of the Company to, take any action that would reasonably be expected to result in any of the conditions set forth in Section 8.03(a) not being satisfied; and

(r) the Company will not, and will not permit any Subsidiary of the Company to, agree or commit to do any of the foregoing.

Section 5.02. *Stockholder Meeting; Board Recommendation.* (a) The Company shall cause the Company Stockholders' Meeting to be duly called and held as soon as reasonably practicable after the date of this Agreement for the purpose of voting on the adoption of this Agreement, regardless of whether an Adverse Recommendation Change has occurred or of the commencement, public proposal, public disclosure or communication to the Company of any Acquisition Proposal. The Board of Directors of the Company shall recommend adoption of this Agreement by the Company's stockholders (the "**Company Stockholder Approval**") and shall include such recommendation in the Proxy Statement, in each case subject to its rights under Section 5.02(b).

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) (A) withdraw (or modify in a manner adverse to Parent), or publicly propose to withdraw (or modify in a manner adverse to Parent), the approval or recommendation by

such Board of Directors or any such committee of this Agreement or the Merger or (B) recommend the approval or adoption of, or approve or adopt, or publicly propose to recommend, approve or adopt, any Acquisition Proposal (any action described in this clause (i) being referred to as an “**Adverse Recommendation Change**”) or (ii) approve or recommend, or publicly propose to approve or recommend, or cause or permit the Company or any of its Subsidiaries to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, joint venture agreement, partnership agreement or other similar agreement that, in any such case, provides for or is related to an Acquisition Proposal (which, for the avoidance of doubt, shall not include, any confidentiality agreement referred to in Section 5.03) (any of the foregoing, an “**Acquisition Agreement**”); *provided* that, at any time prior to obtaining the Company Stockholder Approval, the Board of Directors of the Company shall be permitted, after consultation with its outside counsel and financial advisors, (A) to make an Adverse Recommendation Change or (B) cause the Company to terminate this Agreement, but, in each case, only if and to the extent that the Company has complied with Section 5.03 and a Superior Proposal is pending at the time the Board of Directors of the Company determines to take such action or, in the case of clause (A) of this proviso, if the Board of Directors of the Company determines in good faith that a Parent Material Adverse Effect has occurred and, as a result, such an Adverse Recommendation Change is consistent with the fiduciary duties of the Board of Directors of the Company under Applicable Law (an “**MAE Adverse Recommendation Change**”); *provided further, however*, that (1) except in the case of an MAE Adverse Recommendation Change, the Board of Directors of the Company shall not make an Adverse Recommendation Change, and the Company may not so terminate this Agreement, until after the fifth Business Day following Parent’s receipt of written notice (a “**Notice of Superior Proposal**”) from the Company advising Parent that the Board of Directors of the Company intends to take such action and specifying the reasons therefor, including the terms and conditions of the Superior Proposal that is the basis of such proposed action (it being understood and agreed that (A) any amendment to the financial terms or any other material term of such Superior Proposal shall require a new Notice of Superior Proposal and a new three-Business Day period and (B) in determining whether to make an Adverse Recommendation Change or cause the Company to terminate this Agreement, the Board of Directors of the Company shall take into account any changes to the terms of this Agreement and the Merger proposed by Parent to the Company in response to a Notice of Superior Proposal or otherwise) and (2) in the case of an MAE Adverse Recommendation Change, the Board of Directors of the Company shall not make an MAE Adverse Recommendation Change until the fifth Business Day (or such shorter period as may be reasonable in light of the timing of the Company Stockholders’ Meeting) following Parent’s receipt of written notice from the Company advising Parent that the Board of Directors of the Company intends to take such action and specifying the reasons therefor.

(c) For purposes of this Agreement, “**Superior Proposal**” means any bona fide written Acquisition Proposal that involves the acquisition, directly or indirectly, of all or substantially all of the voting power of the Common Shares or of the assets of the Company and its Subsidiaries, taken as a whole, which the Board of Directors of the Company determines in its good faith judgment, after consultation with its outside counsel

and financial advisors, to be (i) more favorable and provide greater value to the Company's stockholders than this Agreement and the Merger, taken as a whole, and (ii) reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects of such proposal. For purposes of this Agreement, "Acquisition Proposal" means any Third Party offer or proposal for (A) any acquisition or purchase, direct or indirect, of 15% or more of the consolidated assets of the Company and its Subsidiaries or over 15% of any class of equity or voting securities of the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute more than 15% of the consolidated assets of the Company, (B) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in such Third Party's beneficially owning 15% or more of any class of equity or voting securities of the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute more than 15% of the consolidated assets of the Company or (C) a merger, consolidation, share exchange, business combination, sale of substantially all the assets, reorganization, recapitalization, liquidation, dissolution or other similar transaction that results in any acquisition (including by shareholders of any Third Party) of over 15% of any class of equity or voting securities of the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute more than 15% of the consolidated assets of the Company or, if the Company or any such Subsidiary is merged into another entity, of the surviving entity in such merger; *provided* that for purposes of Section 10.04(b)(ii)(C), each reference to "15%" in this definition shall be deemed to be a reference to "35%". For purposes of this Agreement, the term "Third Party" means any Person, including as defined in Section 13(d) of the 1934 Act, other than Parent or any of its Affiliates.

Section 5.03. *Non-Solicitation; Other Offers.* From the date hereof until the Effective Time, the Company and its Subsidiaries, and the officers, directors, employees, investment bankers and other agents and advisors of the Company or any of its Subsidiaries, will not (i) take any action to solicit, initiate or knowingly encourage or facilitate any Acquisition Proposal or (ii) engage in discussions or negotiations with, or disclose any nonpublic information relating to the Company or any Subsidiary of the Company or afford access to the properties, books or records of the Company or any Subsidiary of the Company to, any Person that is known by the Company to be considering making, or has made, an Acquisition Proposal (it being understood that any discussions or negotiations, or disclosure of information (other than material nonpublic information), in each case, in the ordinary course of business consistent with past practice in connection with existing commercial arrangements (and not in connection with any Acquisition Proposal) shall not be deemed to be prohibited under this clause (ii)); *provided* that, prior to obtaining the Company Stockholder Approval, nothing contained in this Section 5.03 shall prevent the Company from furnishing nonpublic information to, or entering into discussions or negotiations with, any Person in connection with an unsolicited bona fide written Acquisition Proposal received from such Person if the Board of Directors of the Company determines in good faith, after consultation with its outside counsel and financial advisors, that to engage in such discussions or negotiations or disclose such nonpublic information would reasonably be likely to result in a Superior Proposal, *provided, however*, that (A) prior to furnishing nonpublic information to, or entering into discussions or negotiations with, such Person, the Company receives from

such Person an executed confidentiality agreement with terms not materially less favorable to the Company than those contained in the Confidentiality Agreement, except that such confidentiality agreement may contain less favorable standstill provisions so long as the Company offers Parent the opportunity to amend the Confidentiality Agreement to contain the same standstill provisions, and (B) all such nonpublic information has previously been provided to Parent or is provided to Parent on a substantially concurrent basis. The Company will promptly notify, orally and in writing, Parent of the receipt of (and the material terms and conditions thereof and the identity of the Person making the same) any inquiry, offer or proposal in connection with an Acquisition Proposal or any request (other than in the ordinary course of business and not related to an Acquisition Proposal) for nonpublic information relating to the Company or any Subsidiary of the Company or for access to the properties, books or records of the Company or any Subsidiary of the Company by any Person that the Company believes may be considering making, or has made, an Acquisition Proposal. The Company will (1) keep Parent reasonably informed of the status and details (including any material change to the terms thereof) of any such inquiry, offer, proposal or request and any discussions and negotiations concerning the material terms and conditions of any Acquisition Proposal and (2) provide to Parent as soon as practicable after receipt or delivery thereof copies of all draft agreements and all other material written correspondence and documents sent by or provided to the Company or any of its Subsidiaries in connection therewith. Nothing contained in this Agreement shall prohibit the Board of Directors of the Company from (i) taking and disclosing to the Company's shareholders a position (or issuing a "stop, look and listen" announcement) with respect to a tender offer for the Common Shares by a Third Party pursuant to Rules 14d-9 and 14e-2 promulgated under the Exchange Act, (ii) making such disclosure to the Company's shareholders as, in the judgment of the Board of Directors of the Company, with the advice of outside counsel, may be required under Applicable Law or under the rules of the NASDAQ National Stock Market System ("NASDAQ"), or (iii) responding to any unsolicited proposal or inquiry by advising the Person making such proposal or inquiry of the terms of this Section 5.03 (it being understood, however, that nothing in this sentence shall be deemed to permit the Board of Directors of the Company to make an Adverse Recommendation Change or take any of the actions referred to in clause (ii) of Section 5.02(b) except, in each case, to the extent permitted by Section 5.02(b); it being understood that any accurate disclosure of factual information to the shareholders of the Company that is required to be made to such shareholders under Applicable Law shall not be an action prohibited by Section 5.02(b)). The Company will immediately cease, and cause its advisers and agents to cease, any and all existing activities, discussions or negotiations regarding any Acquisition Proposal with any parties previously contacted (*provided* that the Company may inform such parties that this Agreement has been entered into) and will request the prompt return or destruction of all confidential information previously furnished to any such parties.

Section 5.04. *Affiliates.* Prior to the Effective Time, the Company shall cause to be delivered to Parent a letter identifying, to the best of the Company's knowledge, all Persons who are, at the time of the Company Stockholders' Meeting, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company shall use its reasonable best efforts to cause each Person who is so identified as an affiliate to deliver

to Parent on or prior to the Effective Time a letter agreement substantially in the form of Exhibit B to this Agreement.

ARTICLE 6
COVENANTS OF PARENT

Parent agrees that:

Section 6.01. *Conduct of Parent.* Except as otherwise contemplated herein, as set forth in Section 6.01 of the Parent Disclosure Schedule or as may be required by Applicable Law, from the date hereof until the Effective Time, without the consent of the Company:

(a) Parent will not, and, in the case of clause (ii) below, will not permit any Subsidiary of Parent to, (i) except for regular quarterly dividends not to exceed \$0.25 per share, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock or (ii) redeem, repurchase or otherwise acquire, or offer to redeem, repurchase or otherwise acquire, any Parent Securities;

(b) Parent will not, and will not permit any Subsidiary of Parent to, enter into or acquire any new line of business that (i) is material to Parent and its Subsidiaries, taken as a whole, and (ii) is not related to the provision of communications services;

(c) Parent shall not, and shall not permit any of its Subsidiaries to, enter into any acquisition that would reasonably be expected to prevent or materially delay the completion of the Merger;

(d) Parent will not, and will not permit any Subsidiary of Parent to, take or agree or commit to take any action that would reasonably be expected to result in any of the conditions set forth in Section 8.04(a) not being satisfied; and

(e) Parent will not, and will not permit any Subsidiary of Parent to, agree or commit to do any of the foregoing.

Section 6.02. *Obligations of Merger Subsidiary.* Parent shall take all action necessary to cause Merger Subsidiary to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

Section 6.03. *Voting of Shares.* Parent agrees to vote all Common Shares, if any, beneficially owned by it, and to cause all Common Shares, if any, beneficially owned by its Subsidiaries to be voted, in favor of adoption of this Agreement at the Company Stockholders' Meeting.

Section 6.04. *Director and Officer Liability.* (a) For six years after the Effective Time, Parent shall, and shall cause the Surviving Corporation to, (i) indemnify and hold harmless the present and former officers, directors, employees and agents of the

Company (each, an "Indemnified Person") in respect of acts or omissions occurring prior to the Effective Time (including, without limitation, in respect of acts or omissions in connection with this Agreement, the Merger and the other transactions contemplated hereby) to the fullest extent permitted under Applicable Law and (ii) promptly advance to such Indemnified Persons expenses incurred in defending any action, suit or other proceeding with respect thereto to the fullest extent permitted under Applicable Law. In the event any claim is asserted or made within such six-year period, all rights to indemnification in respect of such claim shall continue until disposition of such claim. For six years after the Effective Time, Parent will cause the Surviving Corporation to use its reasonable best efforts to provide officers' and directors' liability insurance and fiduciary liability insurance in respect of acts or omissions occurring on or prior to the Effective Time covering each such Indemnified Person currently covered by the Company's officers' and directors' liability insurance policy and fiduciary liability insurance policy, respectively, on terms with respect to coverage and amount no less favorable than those of such policies in effect on the date hereof; *provided* that (i) in satisfying its obligation under this Section, Parent shall not be obligated to cause the Surviving Corporation, and the Surviving Corporation shall not be obligated, to pay annual premiums in excess of \$1,487,700; *provided, further*, that if the premiums would exceed such amount in a given year, Parent shall cause the Surviving Corporation to use its reasonable best efforts to purchase coverage that in the reasonable opinion of Parent is the best available for such amount per year; and (ii) Parent may satisfy its obligation under this Section by causing the Surviving Corporation to obtain, at the Effective Time, prepaid (or "tail") officers' and directors' liability insurance and fiduciary liability insurance policies in respect of acts or omissions occurring on or prior to the Effective Time covering each Indemnified Person currently covered by the Company's officers' and directors' liability insurance policy and fiduciary liability insurance policy. Parent shall cause the Surviving Corporation to indemnify and hold harmless each Indemnified Person under this Section 6.04 in respect of the reasonable costs and expenses incurred by such Indemnified Person in enforcing his or her rights hereunder.

(b) If Parent, the Surviving Corporation or any of their successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of Parent or the Surviving Corporation, as the case may be, shall assume the obligations set forth in this Section 6.04.

(c) The rights of each Indemnified Person under this Section 6.04 shall be in addition to any rights such Person may have under the articles of incorporation or bylaws of the Company or any of its Subsidiaries, or under Pennsylvania Law or any other Applicable Law or under any agreement of any Indemnified Person with the Company or any of its Subsidiaries. These rights shall survive the consummation of the Merger and are intended to benefit, and shall be enforceable by, each Indemnified Person.

Section 6.05. *Stock Exchange Listing.* Parent shall use its reasonable best efforts to cause the shares of Parent Stock to be issued in connection with the Merger to be listed on the NYSE, subject to official notice of issuance.

Section 6.06. *Personnel Matters.* (a) On and after the Effective Time, Parent shall (or shall cause the Surviving Corporation and Parent's other Subsidiaries to) honor, without offset, deduction, counterclaim, interruption or deferment, the obligations of the Company and its Subsidiaries under all Employee Plans in existence on the Closing Date in accordance with the terms thereof; *provided*, that nothing in this Agreement shall be interpreted as limiting the power of Parent, the Surviving Corporation or any of their Subsidiaries to amend or terminate any Employee Plan in accordance with its terms or as requiring Parent, the Surviving Corporation or any of their Subsidiaries to offer to continue (other than as required by its terms) any written employment contract or to continue the employment of any given employee; *provided, further, however*, that, until the first anniversary of the Closing Date, (i) Parent shall continue the Company's past practice with respect to severance as set forth in Section 6.06 of the Company Disclosure Schedule) and (ii) no amendment to or termination of the Company's Key Employee Severance Plan shall be made without the consent of Eligible Employees (as defined in such plan).

(b) To the extent any benefit plan of Parent (or any plan of the Surviving Corporation or any of Parent's other Subsidiaries) shall be made applicable to any employee of the Company or any of its Subsidiaries, Parent shall (or shall cause the Surviving Corporation and Parent's other Subsidiaries to) grant to such employees credit for service with the Company or any of its Subsidiaries or predecessors prior to the Effective Time for all purposes under such plan, except for purposes of benefit accrual under any defined benefit pension plans and except to the extent a duplication of benefits would thereby result. In addition, to the extent any benefit plan of Parent (or any plan of the Surviving Corporation or any of Parent's other Subsidiaries) that constitutes an "employee welfare benefit plan," as defined in Section 3(3) of ERISA, shall be made applicable to any employee of the Company or any of its Subsidiaries, Parent shall (or shall cause the Surviving Corporation and Parent's other Subsidiaries to) waive all preexisting condition exclusions and waiting periods otherwise applicable to such employees, except to the extent any such limitations or waiting periods in effect under comparable plans of the Company and its Subsidiaries have not been satisfied as of the date such plan is made so applicable.

(c) If at any time between the Closing and December 31, 2007, the employment of any person who was an employee of the Company or any of its Subsidiaries immediately prior to Closing is terminated without Cause or for Good Reason (as each such term is defined in the Company's Key Employee Severance Plan), Parent shall (or shall cause the Surviving Corporation or one of Parent's other Subsidiaries to) pay to such employee promptly after such termination of employment, in addition to any other amounts due, a cash amount equal to a prorated portion of such employee's target 2007 bonus (having terms and in amounts consistent with past practice), with such proration based upon the portion of the 2007 calendar year that has elapsed at the time of such termination.

ARTICLE 7
OTHER AGREEMENTS OF PARENT AND THE COMPANY

The parties hereto agree that:

Section 7.01. *Proxy Statement; Registration Statement.* (a) As promptly as practicable after the execution of this Agreement, Parent and the Company shall prepare the Proxy Statement and the Registration Statement, the Company shall file the Proxy Statement with the SEC, and Parent shall file the Registration Statement (in which the Proxy Statement shall be included) with the SEC, and Parent and the Company shall cooperate with each other and use their respective reasonable best efforts in connection with the foregoing. In addition, Parent and the Company shall use their respective reasonable best efforts to cause the Registration Statement to become effective under the Securities Act and the Proxy Statement to be cleared by the SEC, in each case as soon after such filing as practicable, and to keep the Registration Statement effective as long as is necessary to consummate the Merger. The Company shall use its reasonable best efforts to cause the Proxy Statement to be mailed to the Company's stockholders as promptly as practicable after the Registration Statement becomes effective. Parent and the Company shall promptly provide to each other copies of, consult with each other regarding and together prepare written responses with respect to any written comments received from the SEC with respect to the Proxy Statement or the Registration Statement and shall advise each other of any oral SEC comments. The Registration Statement and the Proxy Statement shall comply as to form in all material respects with the Securities Act and the Exchange Act, respectively.

(b) Parent and the Company shall make all necessary filings with respect to the Merger and the other transactions contemplated hereby under the Securities Act, the Exchange Act and applicable foreign or state securities or "blue sky" laws and the rules and regulations thereunder. Parent and the Company shall advise the other party, promptly after receipt of notice thereof, of the time of the effectiveness of the Registration Statement, the filing of any supplement or amendment thereto, the issuance of any stop order relating thereto, the suspension of the qualification of Parent Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or of any SEC request for amendment to the Proxy Statement or the Registration Statement, SEC comments thereon and each party's responses thereto or SEC request for additional information. No amendment or supplement to the Proxy Statement or the Registration Statement shall be filed without the approval of each of Parent and the Company, which approval shall not be unreasonably withheld or delayed; *provided* that, with respect to documents filed by the Company or Parent which are incorporated by reference in the Proxy Statement and/or the Registration Statement, this right of approval shall apply only with respect to information relating to the other party or its business, financial condition or results of operations.

(c) If, at any time prior to the Effective Time, Parent or the Company should discover any information relating to either party, or any of their respective Affiliates, officers or directors, that should be set forth in an amendment or supplement to the Registration Statement or the Proxy Statement, so that such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make

the statements therein, in light of the circumstances under which they were made, not misleading, the party that discovers such information shall promptly notify the other party hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by Applicable Law, disseminated to the stockholders of the Company.

Section 7.02. *Reasonable Best Efforts.* Subject to the terms and conditions of this Agreement, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under Applicable Laws to consummate and make effective the transactions contemplated by this Agreement in the most expeditious manner practicable, including but not limited to the satisfaction of all conditions to the Merger and seeking to remove promptly any injunction or other legal barrier that may prevent or delay such consummation. Each of the parties shall promptly notify the other whenever a material consent is obtained and shall keep the other informed as to the progress in obtaining such material consents.

Section 7.03. *Certain Filings.* (a) The Company and Parent agree to use their respective reasonable best efforts to obtain all authorizations, consents, orders and approvals of Governmental Authorities and non-governmental third parties that may be or become necessary to consummate the transactions contemplated by this Agreement or for performance of their respective obligations pursuant to this Agreement, and will cooperate fully with the other parties in promptly seeking to obtain all such authorizations, consents, orders and approvals; *provided* that the Company and Parent will not be permitted or required to agree or proffer to divest or hold separate any assets or business of the Company, Parent or any of their respective Subsidiaries, or to take any other action (including agreeing to any condition in respect of, or any amendment to, any License or any other concession), that, in each case, individually or in the aggregate, would reasonably be expected to have an impact (whether affecting the Company, Parent or any of their respective Subsidiaries) equivalent to a Company Material Adverse Effect. The Company shall have primary responsibility, with the assistance and cooperation of Parent, for obtaining all authorizations, consents, orders and approvals with respect to the Company's and its Subsidiaries' Licenses; *provided* that the Company and Parent will have joint responsibility with respect to the joint applications required for the transfer of control of any such Licenses under the rules and regulations of the FCC and the PPUC. Each of Parent and the Company will use its reasonable best efforts to ensure that all necessary applications in connection with the transfer of control of any such Licenses are filed within ten Business Days of the date hereof, except that PPUC transfer of control notifications that do not require affirmative approval may be filed within 20 Business Days of the date hereof. Without limitation, the Company and Parent shall each 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 but in no event later than ten Business Days from the date hereof (and each such filing shall request early termination of the waiting period imposed by the HSR Act), supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

For purposes of this Agreement, “Licenses” means approvals, consents, rights, certificates, orders, franchises, determinations, permissions, licenses, authorities or grants issued, declared, designated or adopted by any Governmental Authority.

(b) Any application to any Governmental Authority for any authorization, consent, order or approval necessary for the transfer of control of any License of the Company or any of its Subsidiaries shall be reasonably acceptable to the Company and Parent. Without limiting the obligations of the Company and Parent under Section 7.03(a), each of the Company and Parent agrees, upon reasonable prior notice, to make appropriate representatives available for attendance at meetings and hearings before applicable Governmental Authorities in connection with the transfer of control of any such License.

(c) The Company and Parent shall cooperate with one another (i) in determining whether any action by or in respect of, or filing with, any Governmental Authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (ii) in seeking any such actions, consents, approvals or waivers, or making any such filings, furnishing information required in connection therewith or with the Proxy Statement, the Registration Statement or any amendments or supplements thereto, and seeking timely to obtain any such actions, consents, approvals or waivers.

Section 7.04. *Public Announcements.* Parent and the Company will consult with each other before issuing any press release, making any public statement or scheduling any press conference or conference call with investors or analysts with respect to this Agreement and the transactions contemplated hereby, and will not issue any such press release, make any such public statement or schedule any such press conference or conference call without the consent of the other party, which shall not be unreasonably withheld; *provided* that Parent and the Company may, without the prior consent of the other party, issue such press release or make such public statement if such party has used all reasonable efforts to consult with the other party and to obtain the prior consent of the other party but has been unable to do so prior to the time such press release or public statement is required to be released pursuant to Applicable Law or any listing agreement with any applicable national securities exchange or association.

Section 7.05. *Notices of Certain Events.* Each of the Company and Parent shall promptly notify the other of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication from any Governmental Authority in connection with the transactions contemplated by this Agreement; and

(c) any actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened against, relating to or involving or otherwise affecting the Company or Parent, as the case may be (or any of their respective Subsidiaries), that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to any Section of Article 3 or 4, as the case may be, or that relate to the consummation of the transactions contemplated by this Agreement;

provided that, the delivery of any notice pursuant to this Section 7.05 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice or constitute an admission that any event communicated is material or could give rise to a Company Material Adverse Effect or a Parent Material Adverse Effect.

Section 7.06. *Further Assurances.* At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Subsidiary, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Subsidiary, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

Section 7.07. *Access to Information.* (a) From the date hereof until the Effective Time and subject to Applicable Law, the Company will give to Parent, its counsel, financial advisors, auditors and other authorized representatives reasonable access, during regular business hours and upon reasonable notice, to the offices, properties, books and records of the Company and its Subsidiaries, including personnel records, and will furnish to Parent, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request and will instruct employees, counsel, financial advisors, auditors and other representatives of the Company and its Subsidiaries to cooperate with Parent in its investigation of the Company and its Subsidiaries, *provided* that Parent shall reimburse the Company and its Subsidiaries for any reasonable third party expenses incurred by them in connection with the foregoing. Without limiting generality of the foregoing, the Company shall provide to Parent, as promptly as practicable after the completion of each fiscal month of the Company, copies of the final financial and operating monthly reports described in Section 7.07(a) of the Company Disclosure Schedule. No access to or disclosure of information shall be required to the extent such access or disclosure would jeopardize the work product privilege or the attorney-client privilege of the Company or any of its Subsidiaries or violate any binding agreement entered into prior to the date of this Agreement (it being agreed that the Company and its Subsidiaries shall use their reasonable best efforts to cause such access or disclosure to be provided in a manner that does not cause such jeopardization or violation). Any investigation pursuant to this Section shall be conducted in such manner as not to interfere unreasonably with the conduct of business of the Company and its Subsidiaries.

(b) From the date hereof until the Effective Time and subject to Applicable Law, Parent will give to the Company, its counsel, financial advisors, auditors and other

authorized representatives reasonable access, during regular business hours and upon reasonable notice, to the offices, properties, books and records of Parent and its Subsidiaries at a level consistent with such access provided for due diligence purposes prior to the date of this Agreement or, in the event of a material change or development with respect to Parent or its Subsidiaries, at a level reasonable under all of the circumstances. Without limiting the generality of the foregoing, Parent shall provide to the Company, as promptly as practicable after the completion of each fiscal month of Parent, copies of the final financial and operating monthly reports described in Section 7.07(b) of the Parent Disclosure Schedule.

(c) All such access and information obtained by any party and its counsel, financial advisors, auditors and other authorized representatives shall be subject to the terms and conditions of the letter agreement between the Company and Parent dated June 26, 2006 (the "**Confidentiality Agreement**"). No representation as to the accuracy of any information provided pursuant to this Section is made, and the parties may not rely on the accuracy of any such information other than as expressly set forth in the representations and warranties in Articles 3 and 4. No information obtained in any investigation pursuant to this Section shall be deemed to modify any representation or warranty in Article 3 or 4.

Section 7.08. *Section 16 Matters.* Prior to the Effective Time, Parent and the Company shall take all such steps as may be required to cause any dispositions of Common Shares (including derivative securities with respect to Common Shares) or acquisitions of Parent Stock (including derivative securities with respect to Parent Stock) resulting from the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company and/or Parent, as applicable, to be exempt under Rule 16b-3 promulgated under the Exchange Act, such steps to be taken in accordance with the No-Action Letter dated January 12, 1999, issued by the SEC. Prior to the Effective Time, the Company shall deliver to Parent all information necessary for Parent to comply with the foregoing.

Section 7.09. *Company Convertible Notes.* Prior to the Closing, the Company will, and following the Closing, Parent will, and will cause the Surviving Corporation to, comply with the terms and conditions of the Company Convertible Notes. It is understood and agreed that, to the extent permitted by the terms of the Company Convertible Notes, the Company shall settle in cash its obligations under the Company Convertible Notes arising upon the conversion thereof.

Section 7.10. *Performance Awards.* If the Closing occurs prior to December 31, 2006, the Compensation Committee of the Board of Directors of the Company may, in its sole discretion, determine immediately prior to the Closing that the performance conditions in the Performance Awards outstanding as of the date hereof are deemed to be fully satisfied, and if such Compensation Committee makes such a determination, the Restricted Share Units issuable pursuant to such Performance Awards shall be issued immediately prior to the Closing.

Section 7.11. *Stockholder Litigation.* The Company shall give Parent the opportunity to participate in the defense or settlement of any stockholder litigation against the Company and/or its directors relating to the transactions contemplated by this Agreement, and no such settlement shall be agreed to without the prior written consent of Parent, which shall not be unreasonably withheld or delayed in the event that the settlement would not be material.

Section 7.12. *Cooperation with Respect to Financing.* The Company shall provide, and shall cause its Subsidiaries and its and their officers and employees to provide, on a timely basis all reasonable cooperation in connection with the arrangement of any financing to be consummated by Parent in connection with the transactions contemplated by this Agreement, including (i) facilitating the pledge of collateral (effective as of the Closing), (ii) providing financial and other pertinent information regarding the Company and its Subsidiaries as may be reasonably requested by Parent, including all financial statements and financial data of the type required by Regulation S-X and Regulation S-K under the Securities Act in a registered offering of securities, (iii) providing other reasonably requested certificates or documents, including a customary certificate of the Chief Financial Officer of the Company (in his capacity as such) with respect to solvency matters, (iv) requesting PricewaterhouseCoopers LLP to provide customary consents and comfort letters, (v) requesting such customary legal opinions as may be reasonably requested by Parent, (vi) participating in informational meetings and (vii) assisting Parent and its financing sources in the preparation of offering documents and other marketing and rating agency materials for any such financing.

ARTICLE 8

CLOSING; CONDITIONS TO THE MERGER

Section 8.01. *Closing.* The Closing shall take place at the offices of Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York, or at such other location as the parties may agree in writing.

Section 8.02. *Conditions to the Obligations of Each Party.* The obligations of the Company, Parent and Merger Subsidiary to consummate the Merger are subject to the satisfaction of the following conditions:

- (a) the Company Stockholder Approval shall have been obtained;
- (b) the applicable waiting period under the HSR Act relating to the Merger shall have expired or been terminated;
- (c) each of the approval of the FCC for the transfer of control of the Licenses of the Company and its Subsidiaries and the approval of the PPUC, in each case, required to permit consummation of the Merger shall have been obtained;
- (d) no Applicable Law shall have been adopted, promulgated or issued that prohibits the consummation of the Merger;

(e) the Registration Statement shall have been declared effective and no stop order suspending the effectiveness of the Registration Statement shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the SEC; and

(f) the shares of Parent Stock to be issued in the Merger shall have been approved for listing on the NYSE, subject to official notice of issuance.

Section 8.03. *Conditions to the Obligations of Parent and Merger Subsidiary.*
The obligations of Parent and Merger Subsidiary to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) (i) The Company shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, (ii) (A) the representations and warranties of the Company contained in the third and fourth sentences of Section 3.01 and Sections 3.04, 3.05 (other than the last sentence thereof), 3.06(b), 3.10(b)(iv), 3.14(e) and 3.21 shall be true and correct in all material respects, in each case, at and as of the Effective Time as if made at and as of such time (except that the accuracy of representations and warranties made as of a specific date will be determined at and as of such date) and (B) all other representations and warranties of the Company contained in this Agreement shall be true and correct (disregarding all exceptions therein for materiality and Company Material Adverse Effect) at and as of the Effective Time as if made at and as of such time (except that the accuracy of representations and warranties made as of a specific date will be determined at and as of such date), with such exceptions as have not had and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, and (iii) Parent shall have received a certificate signed by an executive officer on behalf of the Company to the foregoing effect.

(b) There shall not be pending or threatened, under or pursuant to any Applicable Laws regulating competition, any claim, suit, action or proceeding by any federal or state Governmental Authority (i) challenging or seeking to restrain or prohibit the consummation of the Merger, (ii) seeking to prohibit or limit in any respect, or place any conditions on, the ownership or operation by the Company, Parent or all or any of their respective Subsidiaries of all or any portion of the business or assets of the Company, Parent or any of their respective Subsidiaries or to require any such Person to divest or hold separate any assets or business of the Company, Parent or any of their respective Subsidiaries, or to take any other action (including agreeing to any condition in respect of, or any amendment to, any License or any other concession), in each case as a result of or in connection with the transactions contemplated by this Agreement, where the foregoing, individually or in the aggregate, would reasonably be expected to have an impact (whether affecting the Company, Parent or any of their respective Subsidiaries) equivalent to a Company Material Adverse Effect or (iii) seeking to impose limitations on the ability of Parent or any of its Affiliates to acquire or hold, or exercise full rights of ownership of, any Common Shares or any shares of common stock of the Surviving Corporation, including the right to vote the Common Shares or the shares of common stock of the Surviving Corporation on all matters properly presented to the stockholders of the Company or the Surviving Corporation, respectively. No Applicable Law that would

reasonably be expected to result, directly or indirectly, in any of the effects referred to clauses (i) through (iii) above shall be in effect.

Section 8.04. *Conditions to the Obligations of the Company.* The obligations of the Company to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) (i) Each of Parent and Merger Subsidiary shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, (ii) (A) the representations and warranties of Parent contained in the third and fourth sentences of Section 4.01 and Sections 4.04, 4.05 (other than the last sentence thereof) and 4.17 shall be true and correct in all material respects, in each case, at and as of the Effective Time as if made at and as of such time (except that the accuracy of representations and warranties made as of a specific date will be determined at and as of such date) and (B) all other representations and warranties of Parent contained in this Agreement shall be true and correct (disregarding all exceptions therein for materiality and Parent Material Adverse Effect) at and as of the Effective Time as if made at and as of such time (except that the accuracy of representations and warranties made as of a specific date will be determined at and as of such date), with such exceptions as have not had and would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, and (iii) the Company shall have received a certificate signed by an executive officer on behalf of Parent to the foregoing effect.

ARTICLE 9 TERMINATION

Section 9.01. *Termination.* This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the stockholders of the Company):

- (a) by mutual written consent of the Company and Parent;
- (b) by either the Company or Parent, if the Company Stockholder Approval shall not have been obtained at the Company Stockholders' Meeting (including any postponement or adjournment thereof);
- (c) by either the Company or Parent, if the Merger has not been consummated by June 18, 2007 (the "**Termination Date**"), *provided* that no party whose willful breach of any provision of this Agreement has resulted in the Merger not being consummated by such date shall be entitled to terminate this Agreement under this subsection (c), *provided further* that, if on the Termination Date the conditions to the Closing set forth in Section 8.02(c) and/or 8.02(d) and/or 8.03(b) shall not have been fulfilled but all other conditions to the Merger shall have been fulfilled or shall be capable of being fulfilled, then the Termination Date shall be extended to September 17, 2007;

(d) by either the Company or Parent (so long as such party has complied in all material respects with its obligations under Sections 7.01, 7.02 and 7.03), if (i) any law or regulation shall have been adopted or promulgated that makes consummation of the Merger illegal or (ii) if any judgment, injunction, order or decree enjoining the parties from consummating the Merger is entered and such judgment, injunction, order or decree shall have become final and nonappealable;

(e) by the Company, if a breach of any representation, warranty, covenant or agreement on the part of Parent set forth in this Agreement shall have occurred that would cause any of the conditions set forth in Section 8.04(a) not to be satisfied, and either (i) such condition shall be incapable of being satisfied by three Business Days prior to the Termination Date (as such date has been extended in accordance with Section 9.01(c), if applicable) or (ii) Parent does not, after receiving notice of such breach, proceed in good faith to promptly cure such breach;

(f) by Parent, if a breach of any representation, warranty, covenant or agreement on the part of the Company set forth in this Agreement shall have occurred that would cause any of the conditions set forth in Section 8.03(a) not to be satisfied, and either (i) such condition shall be incapable of being satisfied by three Business Days prior to the Termination Date (as such date has been extended in accordance with Section 9.01(c), if applicable) or (ii) the Company does not, after receiving notice of such breach, proceed in good faith to promptly cure such breach;

(g) by the Company, in accordance with Section 5.02(b), *provided* that the Company shall have paid any amounts due pursuant to Section 10.04(b) in accordance with the terms specified therein;

(h) by Parent, if prior to the Company Stockholders' Meeting, the Board of Directors of the Company shall have failed to include in the Proxy Statement its approval or recommendation of this Agreement or the Merger or an Adverse Recommendation Change shall otherwise have occurred; and

(i) by Parent, if any Applicable Law having any of the effects referred to in clauses (i) through (iii) of Section 8.03(b) shall be in effect and shall have become final and nonappealable.

The party desiring to terminate this Agreement pursuant to this Section shall give written notice of such termination to the other party (or parties) hereto in accordance with Section 10.01.

Section 9.02. *Effect of Termination.* If this Agreement is terminated pursuant to Section 9.01, this Agreement shall become void and of no effect with no liability on the part of any party (or any stockholder, director, officer, employee, agent, consultant or representative of such party) to the other parties hereto; *provided* that (a) the agreements contained in this Section 9.02, Sections 10.01, 10.04, 10.05, 10.06, 10.07, 10.08, 10.09, 10.10, 10.12, 10.13 and 10.14 hereof and the Confidentiality Agreement shall survive the

termination hereof and (b) no such termination shall relieve any party hereto of any liability or damages resulting from any willful breach by such party of this Agreement.

ARTICLE 10
MISCELLANEOUS

Section 10.01. *Notices.* All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission, with receipt of confirmation) and shall be given,

if to Parent or Merger Subsidiary, to:

Citizens Communications Company
3 High Ridge Park
Stamford, Connecticut 06905
Attention: Chief Financial Officer
Facsimile No.: (203) 614-4602

with a copy to:

Cravath, Swaine & Moore LLP
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Attention: Robert I. Townsend, III, Esq.
Facsimile No.: (212) 474-3700

if to the Company, to:

Commonwealth Telephone Enterprises, Inc.
100 CTE Drive
Dallas, Pennsylvania 18612
Attention: Chief Financial Officer
Facsimile No.: (570) 631-2823

with a copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
Attention: William L. Taylor, Esq.
Facsimile No.: (212) 450-3800

or such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. Each such notice, request and other communication shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a Business Day in the place of receipt. Otherwise, any

such notice, request or communication shall be deemed to have been received on the next succeeding Business Day in the place of receipt.

Section 10.02. *Survival of Representations, Warranties and Covenants.* The representations and warranties contained herein and in the certificates delivered pursuant to Sections 8.03(a) and 8.04(a) shall not survive the Effective Time. All covenants and agreements contained herein which by their terms are to be performed in whole or in part after the Effective Time shall survive the Effective Time and be enforceable in accordance with their terms.

Section 10.03. *Amendments; No Waivers.* (a) Any provision of this Agreement may be amended or waived prior to the Effective Time if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by each party to this Agreement or, in the case of a waiver, by the party against whom the waiver is to be effective; *provided* that after the adoption of this Agreement by the stockholders of the Company, no such amendment or waiver shall, without the further approval of such stockholders, make any change that would require further stockholder approval under the Pennsylvania Law.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by Applicable Law.

Section 10.04. *Expenses.* (a) Except as set forth herein, all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense; *provided* that the Company and Parent shall share equally all fees and expenses, other than attorneys' and accounting fees and expenses, incurred in relation to the printing and filing of the Registration Statement and to the printing, filing and distribution of the Proxy Statement.

(b) If (i) the Company shall terminate this Agreement pursuant to Section 9.01(g) hereof or Parent shall terminate this Agreement pursuant to Section 9.01(h) hereof (other than as a result of an MAE Adverse Recommendation Change) or (ii)(A) any Person has publicly announced an intention (whether or not conditional and whether or not withdrawn) to make an Acquisition Proposal or an Acquisition Proposal otherwise becomes known to the stockholders of the Company, (B) thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 9.01(c) (but only if the Company Stockholders' Meeting shall not have been held by the date that is one Business Day prior to the date of such termination, except as a result of the Registration Statement not having been declared effective prior thereto as a result of anything affecting Parent or its business (in which event termination under Section 9.01(c) shall not result in a payment being made pursuant to this Section 10.04(b)(ii))) or Section 9.01(b) and (C) prior to the date that is 12 months after such termination, the Company or any of its Subsidiaries enters into an Acquisition Agreement to consummate or consummates the transactions contemplated by any

Acquisition Proposal, then, in any such case, the Company shall pay to Parent (by wire transfer of immediately available funds (x) in the case of payment required by clause (i) above, not later than the date of termination of this Agreement and (y) in the case of payment required by clause (ii) above, on the date of the first to occur of the events referred to in clause (ii)(C)) an amount equal to \$37 million.

(c) The Company acknowledges that the agreements contained in this Section are an integral part of this Agreement, and that, without these agreements, Parent would not have entered into this Agreement. Accordingly, if the Company fails promptly to pay the amounts due pursuant to this Section, and, in order to obtain such payment, Parent commences a suit that results in a judgment against the Company for the amounts set forth in this Section, the Company shall pay to Parent its reasonable costs and expenses (including reasonable attorneys' fees and expenses) in connection with such suit and any appeal relating thereto, together with interest on the amounts set forth in this Section at the prime rate of Citibank, N.A. in effect on the date such payment was required to be made.

Section 10.05. *Parties in Interest; Successors and Assigns.* (a) This Agreement shall be binding upon and, except as provided in Sections 1.02, 1.03, 1.04, 1.08, 6.04 and 10.06, inure solely to the benefit of the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights, benefits, remedies, obligations or liabilities of any nature whatsoever under or by reason of this Agreement, except for Sections 1.02, 1.03, 1.04, 1.08, 6.04 and 10.06 (which are also intended to be for the benefit of the Persons provided for therein and may also be enforced by such Persons).

(b) No party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto.

Section 10.06. *No Personal Liability.* This Agreement shall not create or be deemed to create or permit any personal liability or obligation on the part of any direct or indirect shareholder of any party hereto or any officer, director, employee, agent, representative or investor of any party hereto.

Section 10.07. *Governing Law.* This Agreement shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania.

Section 10.08. *Jurisdiction.* Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated by this Agreement shall be brought in any federal court in the State of Delaware or any state court in the State of Delaware and each of the parties hereto hereby irrevocably consents to the exclusive jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by Applicable Law, any objection that it may now or hereafter have to the laying of venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within

or without the jurisdiction of any such court. Without limiting the generality of the foregoing, each party hereto agrees that service of process upon such party as provided in Section 10.01 shall be deemed effective service of process upon such party.

Section 10.09. *WAIVER OF JURY TRIAL.* EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 10.10. *Interpretation.* When a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference shall be to a an Article, Section or Exhibit of or a Schedule to this Agreement unless otherwise indicated. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meanings as defined in this Agreement. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation", whether or not they are in fact followed by those words or words of like import. The words "hereof", "herein" and "hereunder" and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The phrases "the date of this Agreement", "the date hereof", and terms of similar import, unless the context otherwise requires, shall be deemed to refer to September 17, 2006. The words "properties" and "assets" shall be deemed to have the same meaning and refer to any and all tangible and intangible assets and properties. The word "or", when used in this Agreement, is not exclusive. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. References to any Person include the successors and permitted assigns of that Person. In the event of any dispute concerning the construction or interpretation of this Agreement or any ambiguity hereof, there shall be no presumption that this Agreement or any provision hereof be construed against the party who drafted this Agreement.

Section 10.11. *Specific Performance.* The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to an injunction or injunctions (without being required to post any bond or surety instrument in connection therewith) to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any federal court located in the State of Delaware or any state court in the State of Delaware in addition to any other remedy to which they are entitled at law or in equity.

Section 10.12. *Entire Agreement; Schedules.* This Agreement and the Schedules and Exhibits hereto and the Confidentiality Agreement constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the

subject matter hereof. Each party acknowledges and agrees that each other party hereto makes no other representations or warranties, whether express or implied, other than the express representations and warranties contained herein or in the certificates to be delivered at the Effective Time. The fact that any item of information is disclosed in any Schedule to this Agreement shall not be construed to mean that such information is required to be disclosed by this Agreement. Such information shall not be used as a basis for interpreting the terms "material" or "Material Adverse Effect" or other similar terms in this Agreement.

Section 10.13. *Counterparts; Effectiveness.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by the other party hereto. Until and unless each party has received a counterpart hereof signed by the other party hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder (whether by virtue of any other oral or written agreement or other communication).

Section 10.14. *Severability.* If any term, provision, covenant or restriction of this Agreement is determined by a court of competent jurisdiction to be invalid, void, illegal or incapable of being enforced by any rule of law, or public policy, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated herein is not affected in any manner materially adverse to any party hereto. Upon such determination that any term, provision, covenant or restriction is invalid, void, 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 a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible. .

ARTICLE 11 DEFINITIONS

Section 11.01. *Definitions.* Each of the following terms is defined in the Article or Section set forth opposite such term:

<u>Terms</u>	<u>Section</u>
Acquisition Agreement	5.02(b)
Acquisition Proposal	5.02(c)
Adverse Recommendation Change	5.02(b)
Affiliate	3.17
Applicable Law	1.01(b)
Business Day	1.01(b)
Cash Merger Consideration	1.02(b)
Closing	1.01(a)
Closing Date	1.01(a)

Code	3.14(g)
Common Shares	3.05
Communications Licenses	3.16
Company	Preamble
Company Balance Sheet	3.08
Company Balance Sheet Date	3.08
Company Convertible Notes	3.05
Company Disclosure Schedule	Article 3
Company Environmental Licenses	3.19(a)
Company Material Adverse Effect	3.01
Company Material Agreement	3.20
Company Permitted Liens	3.18(a)
Company SEC Documents	3.07(a)
Company Securities	3.05
Company Significant Subsidiaries	3.06(a)
Company Stock Plans	1.04(a)
Company Stockholder Approval	5.02
Company Stockholders' Meeting	3.09
Company Subsidiary Securities	3.06(b)
Compensatory Awards	1.04(a)
Confidentiality Agreement	7.07(c)
Delaware Law	1.01(a)
Effective Time	1.01(b)
Employee Plan	3.14(g)
Enforceability Exceptions	3.01
Environmental Laws	3.19(b)
ERISA	3.14(g)
ERISA Affiliate	3.14(g)
ESPP Share Unit	1.04(a)
Evercore	3.04
Exchange Act	3.03
Exchange Agent	1.03(a)
FCC	3.03
GAAP	3.01
Governmental Authority	3.03
Grant Date	3.05
Grantor Trust Shares	1.04(a)
Hazardous Materials	3.19(b)
HSR Act	3.03
Indebtedness	5.01(d)
Indemnified Person	6.04(a)
internal controls	3.07(f)
Intellectual Property Rights	3.18(d)
Letter of Transmittal	1.03(a)
Licenses	7.03(a)
Lien	3.02

MAE Adverse Recommendation Change	5.02(b)
Material Adverse Effect	3.01
Material Intellectual Property	3.18(d)
Material Leased Real Property	3.18(c)
Material Owned Real Property	3.18(b)
Merger	1.01(a)
Merger Consideration	1.02(b)
Merger Consideration Value	1.04(b)
Merger Subsidiary	Preamble
NASDAQ	5.03
Notice of Superior Proposal	5.02(b)
NYSE	4.05
Option	1.06(a)
Parent	Preamble
Parent Balance Sheet	4.07
Parent Balance Sheet Date	4.07
Parent Disclosure Schedule	Article 4
Parent Environmental Licenses	4.15(b)
Parent Material Adverse Effect	4.01
Parent Options	4.05
Parent Preferred Stock	4.05(a)
Parent SEC Documents	4.06(a)
Parent Securities	4.05(a)
Parent Stock	1.02(b)
Pennsylvania Law	1.01(a)
Performance Awards	3.05
Permitted Additional Company Issuances	3.05
Permitted Share Unit Adjustments	3.05
Person	1.03(c)
PPUC	3.03
Preferred Stock	3.05
Proxy Statement	3.09
Registration Statement	3.09
Restricted Share	1.04(a)
Restricted Share Unit	1.04(a)
SEC	3.06(a)
Securities Act	3.03
Stock Merger Consideration	1.02(b)
Subsidiary	3.01
Superior Proposal	5.02(c)
Surviving Corporation	1.01(a)
Tax Return	3.13(e)
Taxes	3.13(e)
Termination Date	9.01(c)
Third Party	5.02(c)
Title IV Plan	3.14(b)

Treasury Shares

1.02(a)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

COMMONWEALTH TELEPHONE
ENTERPRISES, INC.,

By: Michael J. Mahoney
Name: Michael J. Mahoney
Title: President and Chief
Executive Officer

CITIZENS COMMUNICATIONS
COMPANY,

By: _____
Name:
Title:

CF MERGER CORP.,

By: _____
Name:
Title:

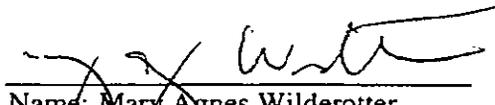
COMMONWEALTH TELEPHONE
ENTERPRISES, INC.,

By:


Name: Michael J. Mahoney
Title: President and Chief
Executive Officer

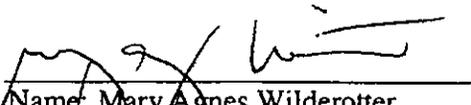
CITIZENS COMMUNICATIONS
COMPANY,

By:


Name: Mary Agnes Wilderotter
Title: Chairman and Chief
Executive Officer

CF MERGER CORP.,

By:


Name: Mary Agnes Wilderotter
Title: President

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

FIRST: The name of the corporation (hereinafter called the "Corporation") is Commonwealth Telephone Enterprises, Inc.

SECOND: The address, including street, number, city, and county, of the registered office of the Corporation in the Commonwealth of Pennsylvania is 100 CTE Drive, Luzerne County, Dallas, Pennsylvania 18612.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Pennsylvania Business Corporation Law of 1988, as the same exists or may hereafter be amended.

FOURTH: The aggregate number of shares which the Corporation shall have authority to issue is 1,000 shares of Common Stock, par value \$0.01 per share.

FIFTH: In furtherance and not in limitation of the powers conferred upon it by law, the Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the By-laws of the Corporation.

SIXTH: To the fullest extent permitted by the Pennsylvania Business Corporation Law as it now exists and as it may hereafter be amended, no director or officer of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director or officer; provided, however, that nothing contained in this Article SIXTH shall eliminate or limit the liability of a director or officer (i) for any breach of the director's or officer's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 1553 of the Pennsylvania Business Corporation Law or (iv) for any transaction from which the director or officer derived an improper personal benefit. No amendment to or repeal of this Article SIXTH shall apply to or have any effect on the liability or alleged liability of any director or officer of the Corporation for or with respect to any acts or omissions of such director or officer occurring prior to such amendment or repeal.

SEVENTH: The Corporation shall, to the fullest extent permitted by Subchapter D, Sections 1741 through 1750 of the Pennsylvania Business Corporation Law, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said Sections from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said Sections. Such indemnification shall be mandatory and not discretionary. The indemnification provided for herein shall not be deemed exclusive of any other rights to which those

indemnified may be entitled under any by-laws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person. Any repeal or modification of this Article SEVENTH shall not adversely affect any right to indemnification of any persons existing at the time of such repeal or modification with respect to any matter occurring prior to such repeal or modification.

The Corporation shall to the fullest extent permitted by the Pennsylvania Business Corporation Law advance all costs and expenses (including, without limitation, attorneys' fees and expenses) incurred by any director or officer within 15 days of the presentation of same to the Corporation, with respect to any one or more actions, suits or proceedings, whether civil, criminal, administrative or investigative, so long as the Corporation receives from the director or officer an unsecured undertaking to repay such expenses if it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation under the Pennsylvania Business Corporation Law. Such obligation to advance costs and expenses shall be mandatory, and not discretionary, and shall include, without limitation, costs and expenses incurred in asserting affirmative defenses, counterclaims and cross claims. Such undertaking to repay may, if first requested in writing by the applicable director or officer, be on behalf of (rather than by) such director or officer, provided that in such case the Corporation shall have the right to approve the party making such undertaking.

EIGHTH: Unless and except to the extent that the By-laws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

FORM OF RULE 145 LETTER FOR COMPANY AFFILIATES

[Date]

Citizens Communications Company
3 High Ridge Park
Stamford, Connecticut 06905

Commonwealth Telephone Enterprises, Inc.
100 CTE Drive
Dallas, Pennsylvania 18612

Ladies and Gentlemen:

The undersigned has been advised that, as of the date of this letter, the undersigned may be deemed to be an "affiliate" of Commonwealth Telephone Enterprises, Inc., a Pennsylvania corporation (the "**Company**"), as the term "affiliate" is defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulations (the "**Rules and Regulations**") of the Securities and Exchange Commission (the "**SEC**") under the Securities Act of 1933, as amended (the "**Securities Act**"). Pursuant to the terms of the Agreement and Plan of Merger dated as of September 17, 2006 (the "**Merger Agreement**") among the Company, Citizens Communications Company, a Delaware corporation ("**Parent**"), and CF Merger Corp., a Delaware corporation and wholly-owned subsidiary of Parent ("**Merger Subsidiary**"), Merger Subsidiary will be merged with and into the Company, with the Company to be the surviving corporation in the merger (the "**Merger**").

As a result of the Merger, the undersigned may receive shares of common stock, par value \$0.25 per share, of Parent ("**Parent Common Shares**") in exchange for shares owned by the undersigned of common stock, par value \$1.00, of the Company as set forth in the Merger Agreement.

The undersigned represents, warrants and covenants to Parent and the Company, as of the date the undersigned receives any Parent Common Shares as a result of the Merger, that:

A. The undersigned shall not make any sale, transfer or other disposition of the Parent Common Shares in violation of the Securities Act or the Rules and Regulations.

B. The undersigned has carefully read this letter and the Merger Agreement and discussed, to the extent the undersigned felt necessary, with the undersigned's counsel or counsel for the Company, the requirements of such documents and other applicable limitations upon the undersigned's ability to sell, transfer or otherwise dispose of Parent Common Shares.

C. The undersigned has been advised that the issuance of Parent Common Shares to the undersigned pursuant to the Merger will be registered with the SEC under the Securities Act on a Registration Statement on Form S-4. The undersigned has also been advised that, because, at the time the Merger is submitted for a vote of the stockholders of the Company, the undersigned may be deemed an affiliate of the Company, the undersigned agrees that it shall not sell, transfer or otherwise dispose of Parent Common Shares issued to the undersigned in the Merger unless such sale, transfer or other disposition (i) has been registered under the Securities Act, (ii) is made in conformity with Rule 145 promulgated by the SEC under the Securities Act, and the undersigned has delivered to Parent evidence of compliance with Rule 145 in the form of Annex I hereto, or (iii) in the opinion of counsel reasonably acceptable to Parent, or pursuant to a "no action" letter obtained by the undersigned from the SEC staff, is otherwise exempt from registration under the Securities Act.

D. The undersigned understands and agrees that none of Parent, the Company or the Surviving Corporation (as defined in the Merger Agreement) is under any obligation to register the sale, transfer or other disposition of the Parent Common Shares by the undersigned or on the undersigned's behalf under the Securities Act or to take any other action necessary in order to enable the undersigned to make such sale, transfer or other disposition in compliance with an exemption from such registration.

E. The undersigned also understands and agrees that there will be placed on the certificates for the Parent Common Shares issued to the undersigned, or on any substitutions therefor, a legend stating in substance:

**"THE SECURITIES REPRESENTED BY THIS
CERTIFICATE WERE ISSUED IN A
TRANSACTION TO WHICH RULE 145
PROMULGATED UNDER THE SECURITIES ACT
OF 1933 APPLIES. THE SECURITIES
REPRESENTED BY THIS CERTIFICATE MAY BE
SOLD, TRANSFERRED OR OTHERWISE
DISPOSED OF ONLY IN ACCORDANCE WITH
THE TERMS OF A LETTER AGREEMENT
BETWEEN THE REGISTERED HOLDER HEREOF
AND CITIZENS COMMUNICATIONS COMPANY, A
COPY OF WHICH AGREEMENT IS ON FILE AT
THE PRINCIPAL OFFICES OF CITIZENS
COMMUNICATIONS COMPANY."**

F. The undersigned also understands and agrees that, unless the transfer by the undersigned of the undersigned's Parent Common Shares has been registered under the Securities Act or a sale is made in conformity with the provisions of Rule 145 (and Parent receives the foregoing evidence of compliance therewith), Parent reserves the right to put the following legend on the certificates issued to the undersigned's transferee:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND WERE ACQUIRED FROM A PERSON WHO RECEIVED SUCH SECURITIES IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933 APPLIES. THE SECURITIES HAVE NOT BEEN ACQUIRED BY THE HOLDER WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF WITHIN THE MEANING OF THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR IN ACCORDANCE WITH AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933.”

It is understood and agreed that the legends set forth in paragraphs E and F above shall be removed by delivery of substitute certificates without such legend if (i) the securities represented thereby have been registered for sale by the undersigned under the Securities Act or (ii) Parent has received either an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to Parent, or a “no-action” letter obtained by the undersigned from the SEC staff to the effect that the restrictions imposed by Rule 145 under the Securities Act no longer apply to the undersigned.

G. The undersigned further understands and agrees that the representations, warranties, covenants and agreements of the undersigned set forth herein are for the benefit of Parent, the Company and the Surviving Corporation (as defined in the Merger Agreement) and will be relied upon by such firms and their respective counsel and accountants.

H. The undersigned understands and agrees that this letter agreement shall apply to all shares of the capital stock of Parent and the Company that are deemed beneficially owned by the undersigned pursuant to applicable federal securities laws.

Parent agrees that it will (A) take all such actions as may be reasonably available to it to permit the sale or other disposition of Parent Common Shares by the undersigned under Rule 145 and (B) furnish to the undersigned upon request a written statement as to whether Parent has complied with the reporting requirements pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, during the twelve months preceding any proposed sale of Parent Common Shares by the undersigned under Rule 145.

Execution of this letter should not be considered an admission on the part of the undersigned that the undersigned is an “affiliate” of the Company as described in the first paragraph of this letter, nor as a waiver of any rights that the undersigned may have to

object to any claim that the undersigned is such an affiliate on or after the date of this letter.

Very truly yours,

By: _____
Name:

Accepted and agreed this [] day of
[], 2006 by

CITIZENS COMMUNICATIONS
COMPANY,

By: _____
Name:
Title:

[Date]

[Name]

On _____, the undersigned sold the shares of common stock, par value \$0.25 per share of Citizens Communications Company, a Delaware corporation ("Parent"), described below in the space provided for that purpose (the "Parent Common Shares"). The Parent Common Shares were received by the undersigned in connection with the merger of Commonwealth Telephone Enterprises, Inc., a Pennsylvania corporation, and CF Merger Corp., a Delaware corporation.

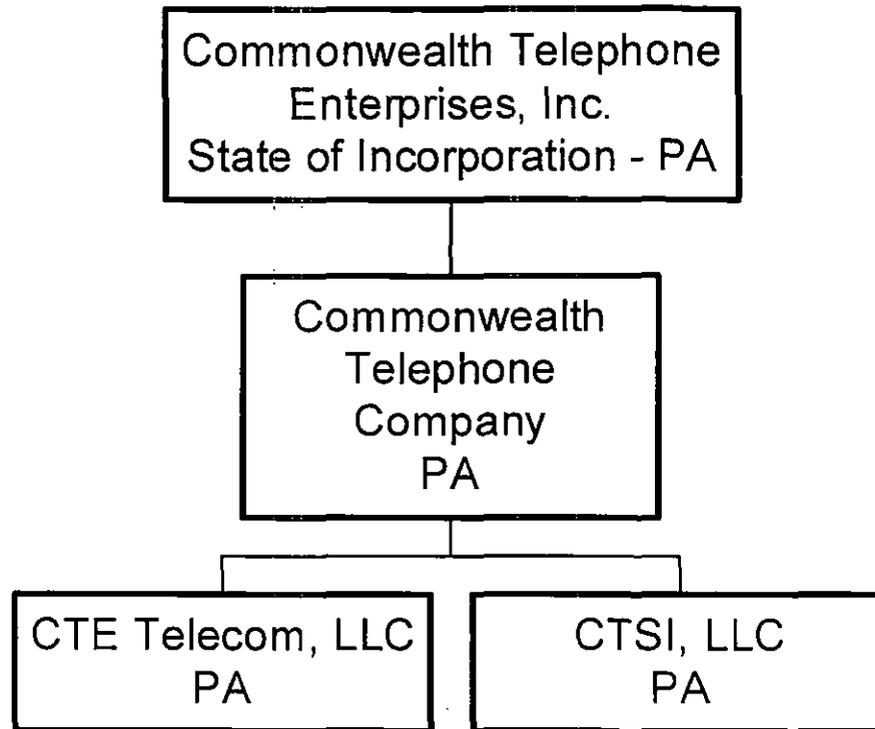
Based upon the most recent report or statement filed by Parent with the Securities and Exchange Commission, the Parent Common Shares sold by the undersigned were within the prescribed limitations set forth in paragraph (e) of Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The undersigned hereby represents that the Parent Common Shares were sold in "brokers' transactions" within the meaning of Section 4(4) of the Securities Act or in transactions directly with a "market maker" as that term is defined in Section 3(a)(38) of the Securities Exchange Act of 1934, as amended. The undersigned further represents that the undersigned has not solicited or arranged for the solicitation of orders to buy the Parent Common Shares, and that the undersigned has not made any payment in connection with the offer or sale of the Parent Common Shares to any person other than to the broker who executed the order in respect of such sale.

Very truly yours,

[Space to be provided for description of the Parent Common Shares]

Commonwealth Corporate Structure (Pre Transaction)



Commonwealth Corporate Structure (Post Transaction)

