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CITIZENS COMMUNICATIONS CO  
Form 8-K  
August 10, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report:  
(Date of earliest event reported)  
June 29, 2001

CITIZENS COMMUNICATIONS COMPANY

-----  
(Exact name of registrant as specified in charter)

Delaware	001-11001	06-0619596
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number Identification No.)	(IRS Employer No.)

3 High Ridge Park, P.O. Box 3801, Stamford, Connecticut 06905

-----  
(Address of principal executive offices) (Zip code)

(203) 614-5600

-----  
(Registrant's telephone number, including area code)

No change since last report

-----  
(Former name or former address, if changed since last report)

Item 5. Other Events.  
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On June 29, 2001, we completed our previously announced acquisition of Global Crossing's local exchange telephone business, which operates under the name Frontier Telephone (Frontier) for \$3,368,000,000 in cash (subject to purchase price adjustment).

On July 2, 2001, we completed our previously announced sale of our Louisiana Gas operations to Atmos Energy Corporation for approximately \$363,400,000 in cash.

On July 20, 2001, we terminated our previously announced acquisition agreements with Qwest Communications International, Inc.

We had previously filed on Form 8-K, on May 7, 2001, the audited financial statements for the Frontier Local Exchange Carrier Businesses for the years ended December 31, 2000, 1999 and 1998; and the audited financial statements of the selected U S WEST (Qwest) exchanges for the years ended

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December 31, 2000, 1999 and 1998. We also included in that Form 8-K a pro forma balance sheet (as of December 31, 2000) and a pro forma income statement (for the year ended December 31, 2000). These pro forma statements reflected at that time, our probable acquisitions of Frontier and the selected U S WEST exchanges in addition to our probable acquisitions of the remaining Verizon exchanges to be acquired and our previously announced dispositions of our public services operations.

In this Form 8-K, we are filing the March 31, 2001 financial statements of the Frontier business acquired and pro forma financial information related to the Frontier business acquired and the disposition of our Louisiana Gas operations as of March 31, 2001 and for the year ended December 31, 2000 and for the three months ended March 31, 2001.

This Current Report on Form 8-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. In addition, 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. All forward-looking statements may differ from actual results because of, but not limited to, changes in the local and overall economy, changes in market conditions for debt and equity securities, the nature and pace of technological changes, the number and effectiveness of competitors in our markets, success in overall strategy, changes in legal or regulatory policy, changes in legislation, our ability to identify future markets and successfully expand existing ones, the mix of products and services offered in our target markets, the effects of acquisitions and dispositions and the ability to effectively integrate businesses acquired. These important factors should be considered in evaluating any statement contained herein and/or made by us or on our behalf. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

### Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

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#### (a) Financial Statements of Business acquired

\* Frontier Incumbent Local Exchange Carrier Business for the three months ended March 31, 2001.

#### (b) Pro forma Financial Information

\* Pro forma Balance Sheet as of March 31, 2001 and Pro forma Income Statements for the three months ended March 31, 2001 and the year ended December 31, 2000

SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITIZENS COMMUNICATIONS COMPANY

-----  
(Registrant)

By: /s/ Robert J. Larson

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Robert J. Larson  
Vice President and Chief Accounting Officer

Date: August 10, 2001

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

NOTES TO COMBINED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1999 AND 2000

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2000 AND 2001  
UNAUDITED

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES      UNAUDITED

COMBINED BALANCE SHEETS  
December 31, 2000 and March 31, 2001  
(in thousands of dollars)

December 31, 2000

ASSETS:

Current assets:

Cash and cash equivalents	\$ 41,550
Telecommunications accounts receivable	112,955
Accounts receivable, affiliates	68,880
Advances to affiliates	311,752
Materials and supplies	1,389
Deferred income taxes	7,618
Notes receivable, affiliate	1,031,095
Prepayments and other	32,759
	-----
Total current assets	1,607,998
Property, plant, and equipment, net	1,052,745
Goodwill and customer base, net	1,521,250
Due from affiliate	46,932

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Other assets	18,709
	-----
Total assets	\$ 4,247,634
	=====
LIABILITIES AND SHAREHOLDER'S EQUITY:	
Current liabilities:	
Accounts payable	\$ 102,637
Accounts payable, affiliates	113,606
Advances from affiliates	26,225
Deferred credits	2,997
Current portion of long-term debt	3,142
Accrued income taxes	20,508
Advanced billings	11,852
Notes payable	1,000,000
Other current liabilities	16,478
	-----
Total current liabilities	1,297,445
Long-term debt, net of current maturities	116,057
Notes payable to affiliates	4,700
Deferred income taxes	120,124
Post-retirement benefit obligation	109,617
Due to affiliate	24,852
Other long-term liabilities	9,063
	-----
Total liabilities	1,681,858
	-----
Shareholder's equity:	
Contributed capital	2,609,961
Accumulated deficit	(44,185)
	-----
Total shareholder's equity	2,565,776
	-----
Total liabilities and shareholder's equity	\$ 4,247,634
	=====

The accompanying notes to financial statements are an integral part of these balance sheets.

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED STATEMENTS OF INCOME  
FOR THE THREE MONTH PERIODS ENDED  
MARCH 31, 2000 AND 2001  
(in thousands of dollars)

January 1, 2000 through March 31, 2000	January 1, 2001 through March 31, 2001
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Revenues	\$ 188,122	\$ 192,268
Costs and expenses:		
Operating expenses	87,409	91,161
Depreciation and amortization	52,385	51,625
Taxes other than income taxes	9,564	4,374
	-----	-----
Total costs and expenses	149,358	147,160
	-----	-----
Operating income	38,764	45,108
Interest expense	(1,683)	(21,680)
Interest income	7,748	24,222
Equity in earnings on investments in affiliates	489	381
Other income (expense), net	(554)	(39,161)
	-----	-----
Income before taxes	44,764	8,870
Income tax expense	23,025	3,371
	-----	-----
Net income	\$ 21,739	\$ 5,499
	=====	=====

The accompanying notes to financial statements are an integral part of these statements.

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED STATEMENTS OF CASH FLOWS  
 COMBINED STATEMENTS OF INCOME  
 FOR THE THREE MONTH PERIODS ENDED  
 MARCH 31, 2000 AND 2001  
 (in thousands of dollars)

	January 1, 2000 Through March 31, 2000
	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 21,739
	-----
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	52,385
Foreign Exchange Loss	-
(Gain)/loss on sale of assets	-
Equity in earnings on investments in affiliates	-
Changes in operating assets and liabilities, exclusive of impacts of dispositions and acquisitions:	
Accounts receivable	8,499
Accounts receivable affiliates and due from affiliates	-
Material and supplies	(168)
Prepayments and other current assets	4,659

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Other assets	(1,775)
Accounts payable	(21,669)
Accounts payable affiliates and due to affiliates	-
Accrued taxes, advanced billings and other liabilities	12,896
Post-retirement benefit obligation	1,198
Deferred income taxes	(5,247)
	-----
Total adjustments	50,778
	-----
Net cash provided by operating activities	72,517
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property, plant, and equipment	(50,940)
Distributions from investment in affiliates	-
Advance to affiliates	(33,100)
	-----
Net cash used in investing activities	(84,040)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from debt borrowings	
Repayments of debt	(860)
Dividends paid	(7,750)
Advances from affiliates	-
Other financing activities	-
	-----
Cash flows used in financing activities	(8,610)
	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,133)
CASH AND CASH EQUIVALENTS, beginning of period	83,842
	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 63,709
	=====

The accompanying notes to financial statements are an integral part of these statements.

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

NOTES TO COMBINED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1999 AND 2000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Description of Business and Organization  
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The accompanying combined financial statements include the following wholly owned subsidiaries of Global Crossing North America ("GCNA"):

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Frontier Telephone of Rochester, Inc. ("FTR")  
Frontier Communications of Rochester, Inc.  
Frontier Subsidiary Telco Inc. and Subsidiaries  
Frontier Communications of Sylvan Lake, Inc.

Frontier Communications of Seneca-Gorham  
Frontier Communications of New York, Inc.  
Frontier Communications of Ausable Valley

These entities are hereafter collectively referred to as the Frontier Incumbent Local Exchange Businesses (the "Company" or the "Frontier ILEC's"). The Frontier ILEC's, headquartered in Rochester, New York, are providers of local telephone services to customers in 11 states.

### Citizens Transaction

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On July 11, 2000, GCNA and GCNA's parent company, Global Crossing Limited, signed a Stock Purchase Agreement (the "Agreement") with Citizens Communications Company ("Citizens") to sell the Frontier ILEC's to Citizens for \$3.65 billion, subject to adjustment under the terms of the Agreement.

In February 2001, the Agreement with Citizens was amended to provide for the transfer of certain assets and liabilities related to GCNA's qualified pension and other postretirement benefits from GCNA to Citizens. Assets and liabilities for virtually all retirees and all transferring active employees will be transferred upon the sale. GCNA will retain only those liabilities and assets associated with certain active nontransferring Global Crossing employees.

In April 2001, the Agreement with Citizens was amended to provide for, among other things, (i) an acceleration of the anticipated closing date for the transaction, (ii) an adjustment to the purchase price, which reflects a reduction in the amount of cash to be received by Global Crossing at closing in connection with the transaction from \$3.65 billion to \$3.5 billion, subject to adjustments concerning closing date liabilities and working capital balances, and (iii) a \$100 million credit, which will be applied against future services to be rendered to Citizens over a five year period.

The transaction closed on June 30, 2001.

### Principles of Combination

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The combined financial information includes the companies identified above and their majority-owned subsidiaries after elimination of all significant intercompany transactions. Investments in entities in which the Company does not have a controlling interest are accounted for using the equity method.

## FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

### NOTES TO COMBINED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1999 AND 2000

### Basis of Presentation

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These unaudited consolidated financial statements include all adjustments, which consist of normal recurring accruals necessary to present fairly the results for the interim period shown and should be read in conjunction with our consolidated audited financial statements for the year ended December 31, 2000. Certain

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information and footnote disclosures have been condensed pursuant to Securities and Exchange Commission rules and regulations. The results of the interim periods are not necessarily indicative of the results for the full year. Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. It is the Company's policy to reclassify prior year balances to conform to current year presentation.

### Revenue Recognition

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The Company derives revenue primarily from charges for local telephone services, network access for interconnection of long distance companies, directory advertising, billing and collection, and other services provided to long distance companies. The Company also derives revenue from the sale, leasing, and maintenance of telephone equipment and the sale of enhanced services such as voice mail, custom calling features, Internet, and advanced number identification products such as Caller ID. Customers are billed on monthly cycle dates. Revenue is recognized as service is provided. An estimate for uncollectible accounts is recorded in operating expenses. Unbilled usage is accrued. Certain revenues derived from local telephone services are billed monthly in advance and are recognized the following month when services are provided. Customers are billed an activation fee upon installation which is deferred by the Company and amortized over the estimated average customer life in accordance with Staff Accounting Bulletin No. 101.

### Allocation of Corporate Overhead

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The results of operations of the Company include allocations of corporate expenses from GCNA. These costs primarily include executive, corporate planning, legal, tax, human resources, treasury, corporate communications, and corporate accounting functions. They are allocated to the Company based on a weighted average of four factors: employees, revenues, capitalization, and common equity. Allocations of these corporate mutually beneficial costs is performed on a basis management considers reasonable.

### Other Comprehensive Income

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The Company did not have any other comprehensive income in 2000 and 2001.

## Proforma Financial Information

### Frontier Acquisition

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On July 12, 2000, we announced a definitive agreement to purchase from Global Crossing Ltd. (Global) 100% of the stock of Frontier Corp., which owned approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately \$3,650,000,000 in cash which price was later reduced to \$3,500,000,000. On June 29, 2001, we closed on the Frontier acquisition for approximately \$3,368,000,000 in cash, subject to purchase price adjustment.

### Louisiana Gas Disposition

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On April 13, 2000, we announced the agreement to sell our Louisiana Gas



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operations to Atmos Energy Corporation for \$365,000,000 in cash plus the assumption of certain liabilities. Regulatory approval was received in April 2001. On July 2, 2001, we closed on the sale for \$363,400,000 in cash. The estimated pre-tax gain on the sale is approximately \$150,000,000 that will be recognized in the third quarter of 2001. The Louisiana Gas Operations were reported as assets held for sale and liabilities related to assets held for sale on our December 31, 2000 and March 31, 2001 balance sheets.

The following unaudited pro forma condensed combined financial information of Citizens Communications Company, the Frontier Acquisition and the Louisiana Gas Disposition, which is referred to as "Pro Forma Citizens Communications Company," has been prepared to illustrate the effects of the Frontier Acquisition and related financing (including the sale of the Louisiana Gas operations) had the Acquisition and Disposition been completed as of March 31, 2001 for the pro forma balance sheet and at the beginning of each period presented for the pro forma income statements. The Frontier Acquisition column on the pro forma balance sheet represents the balance sheet of the Frontier Acquisition at March 31, 2001.

We have prepared the pro forma financial information using the purchase method of accounting for the Frontier Acquisition. We expect to achieve economies of scale with the acquired properties that will both expedite our ability to provide an expanded menu of telecommunication services and make those services incrementally more profitable but can provide no assurance that such economies will be realized. We expect that this acquisition will therefore provide us the opportunity to increase revenue and decrease cost per access line. The unaudited pro forma information reflects the increased expenses to the extent they have been incurred in the periods presented, but does not reflect economies of scale.

Certain of our regulated telecommunications operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires regulated entities to record regulatory assets and liabilities as a result of actions of regulators. We are currently evaluating the continued applicability of SFAS 71. We are not accounting for the Frontier Acquisition under SFAS 71.

The pro forma information, while helpful in illustrating the financial characteristics of the combined company, does not attempt to predict or suggest future results. The pro forma information also does not attempt to show how the combined company would actually have performed had Citizens and Frontier been combined at the beginning of the periods presented and the Louisiana Gas property been sold at those times. If the companies had actually been combined at the beginning of the period, these companies and businesses might have performed differently. You should not rely on pro forma financial information as an indication of the results that would have been achieved if the Acquisition and Disposition had taken place earlier or the future results that the companies will experience.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the historical financial statements of Frontier and the historical financial statements of Citizens Communications Company.

Citizens Communications Company and Subsidiaries  
Pro Forma Balance Sheet Data  
As of March 31, 2001  
(unaudited)

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(Amounts in thousands)	Citizens Communications 3/31/2001	Frontier Acquisition	Pro For Adjustments
Cash	\$ 28,448	\$ 45,235	\$ 363,4
Accounts receivable, net	229,605	1,483,477	(363,4
Short-term investments	5,630	-	(1,387,1
Other current assets	16,115	42,230	
Assets held for sale	1,222,773	-	(247,4
Assets of discontinued operations	673,994	-	
<b>Total current assets</b>	<b>2,176,565</b>	<b>1,570,942</b>	<b>(1,634,6</b>
Net property, plant & equipment	3,508,257	1,059,248	
Excess cost over net assets acquired	621,547	1,503,500	1,079,4
Investments	181,851	-	
Regulatory assets	174,902	-	(16,0
Deferred debits and other assets	148,581	73,757	(16,1
			(54,3
<b>Total assets</b>	<b>\$ 6,811,703</b>	<b>\$ 4,207,447</b>	<b>\$ (641,6</b>
Long-term debt due within one year	\$ 181,215	\$ 3,185	\$
Accounts payable and other current liabilities	299,481	1,264,279	59,3
Liabilities related to assets held for sale	260,810	-	(1,144,2
Liabilities of discontinued operations	185,197	-	(55,3
<b>Total current liabilities</b>	<b>926,703</b>	<b>1,267,464</b>	<b>(1,140,1</b>
Deferred income taxes	490,007	118,775	(5,4
Customer advances for construction and contributions in aid of construction	203,012	-	
Deferred credits and other liabilities	104,913	153,620	(34,3
Regulatory liabilities	24,001	-	(1,9
Long-term debt	2,981,496	115,225	2,715,7
<b>Total liabilities</b>	<b>4,730,132</b>	<b>1,655,084</b>	<b>1,533,8</b>
Equity forward contracts	150,013	-	
Company Obligated Mandatorily Redeemable Convertible Preferred Securities *	201,250	-	
Shareholders' equity	1,730,308	2,552,363	87,0
			(2,552,3
			289,7
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,811,703</b>	<b>\$ 4,207,447</b>	<b>\$ (641,6</b>

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

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See Notes to Pro Forma Condensed Financial Statements.

Citizens Communications Company and Subsidiaries  
Proforma Income Statement Data  
For the three month period ended March 31, 2001  
(unaudited)

(Amounts in thousands, except per-share amount)	Citizens Communications	Frontier Acquisition	Frontier Proforma Adjustments	
			-----	-----
Revenue	\$ 624,281	\$ 192,268	\$ -	816,
Operating expenses	430,692	95,535	-	526,
Depreciation and amortization	105,706	51,625	27,991	(3) 185,
Income from operations	87,883	45,108	(27,991)	105,
Investment and other income, net	2,784	(14,558)	38,881	(4) 27,
Interest expense	61,452	21,680	53,916	(5) 137,
Convertible preferred dividends	1,553	-	-	1,
Pre-tax income	27,662	8,870	(43,026)	(6,
Income tax expense (benefit)	9,047	3,371	(6,992)	(6) 5,
Income (loss) from continuing operations	\$ 18,615	\$ 5,499	\$ (36,034)	\$ (11,
Weighted average shares outstanding -Basic	263,036		25,156	(7)
Weighted average shares outstanding -Diluted	270,283		25,156	(7)
Loss from continuing operations per basic share	\$ 0.07			
Loss from continuing operations per diluted share	\$ 0.07			

See Notes to Pro Forma Condensed Financial Statements.

Citizens Communications Company and Subsidiaries  
Proforma Income Statement Data  
For the year ended December 31, 2000  
(unaudited)

(Amounts in thousands, except per-share amounts)	Citizens Communications	Frontier Acquisition	Frontier Proforma Adjustments	
			-----	-----
Revenue	\$ 1,802,358	\$ 746,302	\$ -	\$ 2,54

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Operating expenses	1,292,950	370,893	-		1,66
Depreciation and amortization	387,607	200,669	111,963	(3)	70
<hr/>					
Income from operations	121,801	174,740	(111,963)		18
Investment and other income, net	3,350	64,583	(21,900)	(4)	4
Minority interest	12,222	-	-		1
Interest expense	187,366	24,067	215,666	(5)	42
Convertible preferred dividends	6,210	-	-		
<hr/>					
Pre-tax income	(56,203)	215,256	(349,528)		(19
Income tax expense (benefit)	(16,132)	103,417	(117,924)	(6)	(3
<hr/>					
Income (loss) from continuing operations	\$ (40,071)	\$ 111,839	\$ (231,604)		\$ (15
<hr/>					
Weighted average shares outstanding					
-Basic	261,744		25,156	(7)	
Weighted average shares outstanding					
-Diluted	266,931		25,156	(7)	
Loss from continuing operations					
per basic share	\$ (0.15)				
Loss from continuing operations					
per diluted share	\$ (0.15)				

See Notes to Pro Forma Condensed Financial Statements.

Notes to Pro Forma Condensed Financial Statements

- (1) Reflects the effect of the sale of our Louisiana Gas operations, one of our public utilities services properties, including adjustments for the estimated income taxes due on the gain.
- (2) Represents the acquisition of the stock of the Frontier Acquisition. The acquisition is assumed to be funded from the cash proceeds of the sale of our Louisiana Gas operations, the issuance of long-term debt securities and the issuance of equity securities. The following represents the adjustment to record the Acquisition:

(In thousands)

Elimination of historical shareholders' equity of the Frontier Acquisition	\$ (2,552,
Elimination of related party balances of Frontier, net (a)	262,
Proceeds from the sale of Louisiana Gas	363,
Issuance of long-term debt (Note 5)	2,715,
Issuance of equity (Note 7)	289,
<hr/>	
Excess of cost over net assets acquired	\$ 1,079,
<hr/>	

- (a) The Frontier related party balances are included in accounts receivable, net, other assets, accounts payable and other liabilities. Upon acquisition

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by Citizens, certain related party balances were settled by Frontier's parent. The remaining amount, representing a net receivable of \$262.9 million, (accounts receivable of \$1,387.2 million, deferred debits and other assets of \$54.3 million, accounts payable and other current liabilities of \$1,144.3 million and deferred credits and other liabilities of \$34.3 million) was eliminated at the date of acquisition. As a result, all of these related party balances have been eliminated as part of the pro forma adjustments with the difference resulting in an increase to "Excess cost over net assets acquired."

For purposes of the accompanying pro forma combined financial statements, we have reflected the assets acquired at their historical carrying values and have reflected the excess of cost over such amounts as excess of cost over net assets acquired. The final allocation of purchase price to assets and liabilities acquired will depend upon the final purchase price and the final estimate of fair values of the assets and liabilities acquired. We undertake studies to determine the fair values of assets acquired and allocate the purchase prices accordingly. We believe that the excess of cost over historical net assets acquired will be allocated to property, plant and equipment, customer base, other identifiable intangibles and goodwill. However, there can be no assurance that the actual allocation will not differ significantly from the pro forma allocation.

- (3) Reflects amortization expense of the excess of cost over net assets acquired in the Frontier Acquisition using the straight-line method over a 15 year period. Should the allocation of such excess of cost over historical net assets acquired differ significantly from that described in Note 2, amortization expense could be impacted since the depreciable lives of assets other than goodwill may be shorter or longer than 15 years.

On September 30, 1999, Global Crossing acquired Frontier Corporation and all of its subsidiaries (including the businesses that we are acquiring), in a merger transaction. In accordance with Accounting Principles Board Opinion No. 16, "Business Combinations", the purchase price was allocated to Frontier Corporation and its subsidiaries based upon their fair market value at the date of the acquisition. Frontier was amortizing the associated goodwill over a 25-year period. Citizens included amortization of goodwill over a 15-year period for the full year 2000 and the three months ended March 31, 2001.

- (4) Represents the reversal of a foreign exchange gain of \$21,900,000 for the year ended December 31, 2000 and a foreign exchange loss of \$38,881,000 for the quarter ended March 31, 2001 recorded by Frontier Corp. related to a note receivable due from an affiliate of Frontier. Such note is not part of the assets acquired by Citizens.
- (5) Represents pro forma interest expense from the beginning of the periods presented on the debt assumed to have been issued to partially fund the Frontier Acquisition. On May 18, 2001, we issued an aggregate of \$1.75 billion of notes consisting of \$700 million principal amount of 8.50% notes, due May 15, 2006 and \$1.05 billion principal amount of 9.25% notes due May 15, 2011. The net proceeds of this issuance was \$1,726,000,000 (after underwriting discounts and commissions and before offering expenses). Of this amount, \$650 million was used to pay down borrowings under existing bank credit lines. On June 13, 2001, we issued 18,400,000 equity units at \$25 per unit for net proceeds of \$446,200,000 (after underwriting discounts and commissions and before offering expenses). Each equity unit consists of a 6 3/4 % senior note due 2006 and a purchase contract for our common stock. The remainder of the debt assumed to have been issued to finance the Frontier Acquisition was at an assumed interest rate of 8.10%.

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- (6) Represents adjustments to income taxes based on income before income taxes using the applicable incremental income tax rate.
- (7) On June 13, 2001, we issued 25,156,250 shares of our common stock at \$12.10, for net proceeds of \$289,787,000 (after underwriting discounts and commissions).