

TC000-112

In the Matter of _____

IN THE MATTER OF THE
APPLICATION OF CITIZENS
TELECOMMUNICATIONS COMPANY
OF MINNESOTA, INC. FOR A
CERTIFICATE OF AUTHORITY TO
PROVIDE LOCAL EXCHANGE
SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE

MEMORANDA

2/19/00 Filed and Docketed;
2/22/00 Weekly Filing;
4/30/01 Surety Bond;
4/30/01 Petition to Amend Application for Certificate of Authority;
2/13/01 Order Granting COA;
2/13/01 Docket Closed.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

RECEIVED

JUL 19 2000

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICE

Docket No. _____

APPLICATION FOR
CERTIFICATE OF AUTHORITY

I. INTRODUCTION

CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC. (Citizens Minnesota) hereby respectfully requests that the South Dakota Public Utilities Commission (Commission) grant it a Certificate of Authority to provide service to South Dakota customers who are served out of the Jasper, Minnesota Exchange to be purchased from GTE, and the Ortonville-Big Stone, Minnesota Exchange to be purchased from U S WEST. This application is being submitted pursuant to the requirements of SDCL 49-31-3 and ARSD 20:10:32.

II. APPLICATION FOR CERTIFICATE OF AUTHORITY

In support of its application for a Certificate of Authority, Citizens Minnesota provides the following information:

1. Name, address and telephone number:

CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC.

Address: 2378 Wilshire Blvd
Mound, MN 55354

Telephone: (612) 472-5590

Fax: (612) 472-4822

Email: Jlass@czn.com

The entity is a corporation.

2. State of incorporation, date of incorporation, certificate of incorporation:

A copy of the Certificate of Incorporation for Citizens Minnesota is attached as Exhibit A. Also attached is a copy of the Certificate of Foreign Corporation for Citizens Minnesota (State of Minnesota).

3. Business name:

The Applicant will provide local exchange services under the name in Paragraph I above.

4. Corporate information:

A. The location of the applicant's principal office in state, if any, and the name and address of its current registered agent: No offices will be maintained in South Dakota; principal office will be in Mound, Minnesota. (See response to #1.)

Registered Agent: CSC
503 S. Pierre Street
Pierre, South Dakota 57501

B. List of shareholders owning 20% or greater interest in the business:

Citizens Minnesota is a wholly-owned subsidiary of Citizens Communication Company (Citizens), a diversified public utility which, through its various operating divisions and subdivisions, presently provides telecommunications, electric, gas, water and wastewater services to approximately 1.8 million customers in 22 states.

C. State of incorporation, date of incorporation and certificate of incorporation:

Copies of these documents are attached in Exhibit A.

D. Out-of-state Certificate of Authority:

Citizens Minnesota's authority to do business in the state of Minnesota is included in Exhibit A. Authority for Citizens Minnesota to do business in the state of South Dakota is attached as Exhibit B.

5. Applicant's telecommunications experience:

As noted above, Citizens Minnesota is a wholly-owned subsidiary of Citizens, a diversified public utility which, through its various operating divisions and subdivisions, presently provides telecommunications, electric, gas, water and wastewater services to approximately 1.8 million customers in 22 states. As part of those services, Citizens provides both regulated and competitive communication services to residential, business, and wholesale customers. Through subsidiaries, Citizens presently operates as an incumbent local exchange carrier (ILEC) in thirteen states and provides local, intralata and long-distance services to approximately one million access lines. Citizens also owns 83% of Electric Lightwave, Inc., a leading full-service, facilities-based, competitive local exchange carrier.

Citizens intends to focus its business on acquiring and operating telecommunications businesses in small and medium-sized cities and towns that are experiencing above-average economic and population growth. To that end, Citizens entered into agreements with GTE and US WEST to acquire telephone access lines, including all of GTE's local exchange properties and US WEST's exchange in Ortonville-Big Stone, Minnesota.

6. Name and address of applicant's affiliates, subsidiaries and parent organizations, if any:

Parent organization of Citizens Minnesota is:

Name: **CITIZENS COMMUNICATIONS COMPANY**

Address: Three High Ridge Park
Stamford, CT 06905-1390

Telephone: (203) 614-5600

Fax: (203) 614-4640

Email: www.czn.net

7. Description of Services:

A. Classes of customers to be served:

Citizens Minnesota will be providing local exchange service to the South Dakota customers of the Jasper and Ortonville-Big Stone, Minnesota exchanges. Citizens Minnesota will offer customers residing in South Dakota long distance services, internet access, and may expand services to include cellular, paging and personal communications services.

B. Extent and timeframe of provision of services through owned facilities:

Citizens currently contracts with AT&T to provide the nationwide network for its long distance products, which include facts/data communications, 800-800 service, international calling, calling cards and direct dial. While exact details are still being developed, Citizens Minnesota expects to invest approximately \$24 million dollars per year for at least three years in the GTE Minnesota exchanges it is acquiring, including the Jasper exchange.

C. A description of all facilities to be utilized by applicant:

See response to No. B above.

D. Types of services:

Services will include local exchange service, long distance and internet access and may expand to include cellular, paging and personal communications services.

8. Geographic area to be served:

Citizens Minnesota seeks authority to provide local exchange service to subscribers of the Ortonville-Big Stone and Jasper Minnesota exchanges located within the state of South Dakota.

9. Technical competence of applicant:

A. Education and experience of applicant's management personnel who will oversee proposed local exchange services:

(1) **John Lass, Vice President and General Manager, Central Region for Communications Sector.** Mr. Lass is also a Vice President of Citizens Telecommunications Company of Illinois. He holds a Bachelor's degree in civil engineering from Iowa State University. Prior to his current position, Mr. Lass was Vice President-Integration, responsible for all aspects of acquisition-related integration efforts for Citizens Communications. Other positions previously held include: Vice President, Revenue Assurance and Regional Operations; Vice President for New York, Pennsylvania, Tennessee, and West Virginia. Mr. Lass joined Citizens as the Central District Telephone Operations Manager for the Sherburne, New York area in 1994. Prior to that, he held a variety of operations positions in New York and the Midwest with GTE and Con-tel. Mr. Lass is currently responsible for all facets of Citizens Communications Central Region operations. The Central Region consists of the states of Iowa, Illinois, Minnesota, Nebraska, North Dakota and Wisconsin. His responsibilities for the Central Region

include the oversight of all functions within the region that impact customers, such as plant service, customer care, sales, and marketing.

(2) Richard M. Shelton, Vice President/General Manager, Minnesota, will be employed by Citizens Communications as a Vice President and General Manager for the Minnesota, South Dakota, and eastern half of North Dakota properties. His prior work history includes Area Manager for the GTE properties in Minnesota and previous to that, a Division Manager for Minnesota, North and South Dakota, and Nebraska, working for GTE. Prior to that time, Mr. Shelton held a variety of engineering and operations positions for Contel and GTE. He has worked 37 years in the communications industry. His current responsibilities include operations, engineering and retail sales for Citizens Communications Central Region properties in Minnesota, Iowa, Nebraska, South Dakota and eastern North Dakota.

B. Ability to respond to customer complaints and inquiries regarding quality of service:

Citizens Minnesota will continue to utilize personnel in place at the present time, so a high degree of familiarity with the exchanges and related plant will remain. The Jasper and Ortonville-Big Stone Exchanges will be managed out of the regional office in Mound, Minnesota, and appropriate toll-free numbers for registering complaints will be in place.

10. Emergency services, operator services, interexchange services, directory assistance, and telecommunications relay services:

Citizens Minnesota will continue to offer a full range of emergency services, operator services, interexchange services, directory assistance and telecommunications

tions relay services. The transfer of exchanges should appear to be seamless for customers.

11. Financial information:

A. A Financial Statements for the most recent 12-month period is included in Citizens Communications Annual Report.

B. The latest annual report and report to stockholders of Citizens Communications is attached as Exhibit C.

12. Interconnections:

A. Local Exchange Carriers with whom applicant plans to interconnect: Not applicable, as Citizens Minnesota will be the incumbent local exchange carrier.

B. Timing of interconnection services:

N/A

C. Copy of any requests for interconnection:

N/A

13. Tariff or price listing:

Initially, Citizens Minnesota will adopt the existing tariff offerings of GTE and US WEST. As these rates have been found to be reasonable, there is every assurance that the affected South Dakota customers will have reasonable rates. Moreover, in the longer term, Citizens Minnesota anticipates that it will be able to utilize its management expertise to provide both technological improvement and competitive rates to its largely suburban and rural customers.

14. Cost support for tariff or price list:

This is not required under South Dakota rules because the applicant will not be serving more than 50,000 customers in South Dakota.

15. Marketing of local exchange services:

Citizens Minnesota intends to offer one-stop shopping to its customers, including those in South Dakota. Citizens Minnesota will work with the Commission staff to develop a customer education outreach to ensure a smooth transition from GTE and US WEST to Citizens Minnesota. This will include newspaper advertising and bill inserts as appropriate. Through this outreach effort, customers will be informed of new service and repair numbers and other important information needed as a result of this transition.

16. Local exchange service in a rural telephone company service area:

Applicant is not seeking authority to provide local exchange service in the service area of a rural telephone company.

17. States in which applicant is registered or certified to provide telecommunications services:

Citizen Minnesota is certified to provide telecommunications services in Minnesota, has never been denied registration in Minnesota or any state, and is in good standing with the Minnesota Public Utilities Commission.

18. Customer complaints:

Citizens Minnesota values its customers and is committed to providing the best customer relations in the industry. Citizens Minnesota presently expects to expand its existing call centers to handle new service and repair calls originating in the Minne-

sota exchanges. This service change should be transparent to South Dakota customers.

Citizens will retain the current GTE local service response employees.

19. With regard to regulatory matters, the following representatives would receive notice:

For Citizens Minnesota:

Scott Bohler
Citizens Communications
137 Harrison Street
P. O. Box 609
Johnstown, NY 12095

Craig A. Marks, Associate General Counsel
Citizens Communications Company
Suite 1660, 2901 North Central Avenue
Phoenix, AZ 85012

Charles A. Hoffman
Maslon Edelman Borman & Brand LLP
3300 Norwest Center
90 South Seventh St.
Minneapolis, MN 55402

Darla Pollman Rogers
Meyer & Rogers
P. O. Box 1117
Pierre, South Dakota 57501

20. Billing and collecting charges from customers:

Customers will be billed in the same manner as they were prior to the sales. Customers will receive their bills monthly in the mail, and they will remit payment to the Mound City, Minnesota office.

21. Applicant's policies relating to solicitation of new customers and prevention of unauthorized switching of local service:

Citizens Minnesota abides by the letter and spirit of all applicable state and federal statutes and does not engage in slamming. As Citizens Minnesota is an incumbent local exchange carrier, this issue is unlikely to arise.

22. Number and nature of complaints:

There are no pending complaints lodged by South Dakota customers in the Jasper Exchange against GTE in Minnesota. There are also no pending complaints filed by South Dakota customers in the Ortonville-Big Stone Exchange against U S WEST.

23. Written request for waiver of inapplicable rules:

Applicant respectfully requests waivers of any inapplicable rules pertaining to application for certificate of public convenience and necessity submitted by applicant.

24. Federal Tax Identification Numbers:

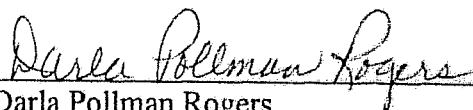
For Citizens Minnesota:

061554080

III. CONCLUSION

In conclusion, Citizens Minnesota respectfully requests that this Commission grant it a Certificate of Authority to provide local exchange services in the requested areas. Applicant requires a Certificate of Authority to provide state-of-the-art telecommunications services to the South Dakota customers located in the Ortonville-Big Stone, Minnesota, and Jasper, Minnesota, exchanges.

Respectfully submitted this 19th day of July, 2000.


Darla Pollman Rogers
MEYER & ROGERS
P. O. Box 1117
Pierre, South Dakota 57501
Attorney for Citizens Telecommunications
Company of Minnesota, Inc.

NEXT

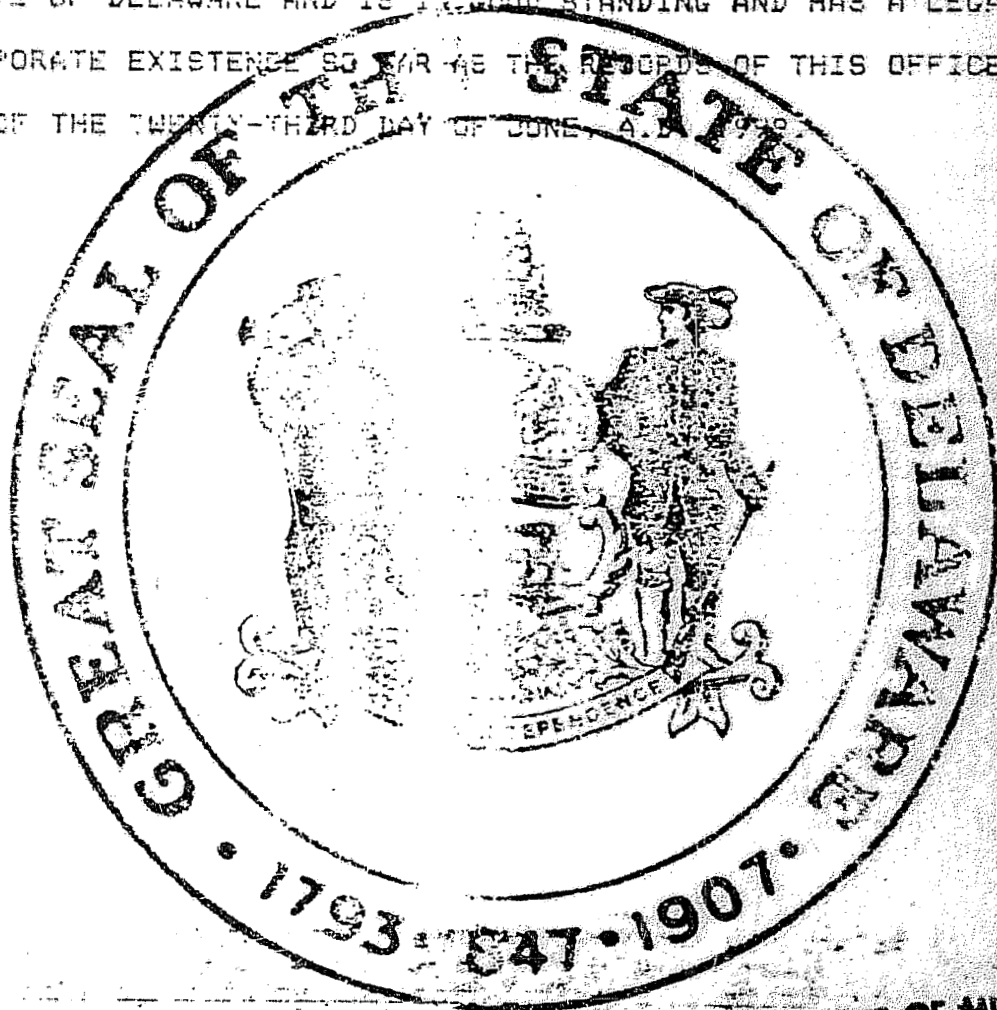
DOCUMENT (S)

BEST IMAGE

POSSIBLE

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW AS OF THE TWENTY-THIRD DAY OF JUNE, A.D. 1999.



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STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
JUN 24 1999
EDWARD J. FREEL
Secretary of State

Edward J. Freel, Secretary of State

9822759

AUTHENTICATION:

DATE:

06-23-99

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v2

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "CITIZENS UTILITIES COMPANY", FILED IN THIS OFFICE ON THE EIGHTEENTH DAY OF JUNE, A.D. 1996, AT 9 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

0345219 8100

991376646

AUTHENTICATION:

9962017

Exhibit 1

DATE:

09-09-99

NEXT

DOCUMENT (S)

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POSSIBLE

**RESTATED CERTIFICATE OF INCORPORATION
OF
CITIZENS UTILITIES COMPANY**

CITIZENS UTILITIES COMPANY, a corporation organized and existing under the laws of the State of Delaware (the "Company"), hereby certifies as follows:

1. The name of the corporation is

CITIZENS UTILITIES COMPANY

The date of filing its original Certificate of Incorporation with the Secretary of State was November 12, 1935.

2. The provisions of the Amended and Restated Certificate of Incorporation of the Company as heretofore amended, are hereby amended and restated and integrated into the single instrument which is hereinafter set forth, and which is entitled Amended and Restated Certificate of Incorporation of Citizens Utilities Company without any further amendments and without any further discrepancy between the provisions of the Amended and Restated Certificate of Incorporation as heretofore amended and the provisions of the said single instrument hereinafter set forth.

3. The amendments and the restatement of the Amended and Restated Certificate of Incorporation herein certified have been duly adopted by the stockholders and the Board of Directors, respectively, of the Company in accordance with the provisions of Section 242 and of Section 245 of the General Corporation Law of the State of Delaware.

4. The capital of the Company will not be reduced under or by reason of any amendment in this Amended and Restated Certificate of Incorporation hereinafter set forth.

5. The text of the Amended and Restated Certificate of Incorporation shall upon the effective date of this Amended and Restated Certificate of Incorporation read as follows:

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 06/10/1996
580176341 - 345219

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF

CITIZENS UTILITIES COMPANY

FIRST: The name of this corporation is

CITIZENS UTILITIES COMPANY.

SECOND: Its principal office in the State of Delaware is to be located at 1013 Centre Road, in the City of Wilmington, County of New Castle, and its resident agent is The Prentice-Hall Corporation System, Inc.

THIRD: The nature of the business and the objects and purposes to be transacted, promoted, and carried on are to do any or all of the things herein mentioned as fully and to the same extent as natural persons might or could do, and in any part of the world, viz.:

(a) To purchase or otherwise acquire, own, operate and dispose of all or any part of the business and properties of persons, partnerships, associations, and other corporations engaged in any business, including that of operating public utilities, and to make payment therefor by the issuance of securities of this corporation or in any other manner permitted by law, and in connection therewith to assume any or all of the bonds, mortgages, franchises, leases, contracts, indebtedness, liabilities, and obligations of such corporations, and to do any things necessary or expedient in connection therewith or with the carrying out of any plan of reorganization of predecessor company or any modification therefor.

(b) To generate, produce, buy, or in any manner acquire, and to sell, dispose of, and distribute electricity for light, heat, power, and other purposes and to carry on the business of furnishing, supplying, manufacturing, and vending light, heat, power, gas, water, steam heat, ice, refrigeration, and any and all businesses incident thereto, and to build, construct, develop, improve, acquire, hold, own, lease, maintain, and operate plants, facilities, and works for the manufacture, generation, production, accumulation, transmission, and distribution of electric energy, gas and steam, for light, power, heat and other purposes, and to acquire, construct, maintain, and operate systems of water works, gas works, steam heating plants, for the supply of water, gas, and steam heat, and to exercise rights of condemnation and eminent domain in connection with the doing of its business objects and purposes as herein set forth so far as may be permissible by law; to acquire, maintain, operate, and exercise all the rights of ownership of any telephone, telegraph, and/or other communication system or systems.

(c) To build, construct, develop, improve, acquire, hold, own, lease, maintain and operate, by electricity or other power, street railways and interurban railways for the transportation of passengers, mail, express, merchandise, or other freight in any part of the world.

(d) To produce, mine, buy, sell, store, market, deal in, and prospect for coal and minerals of all kinds and the products and by-products thereof.

(e) To organize, incorporate, reorganize, finance, and to aid and assist financially or otherwise, companies, corporations, joint stock companies, syndicates, partnerships, and associations of all kinds, and to underwrite, subscribe for, and endorse the bonds, stocks, securities, debentures, notes, or undertakings of any such company, corporation, joint stock company, syndicate partnership or association, and to make any guarantee in connection therewith or otherwise for the payment of money or for the performance of any obligation or undertaking, and to do any and all things necessary or convenient to carry any of such purposes into effect.

(f) To carry on the business of engineering and contracting in all of its branches; to appraise, value, design, build, construct, enlarge, develop, improve, extend, and repair works, plants, systems, lines, stations, buildings, structures, mines, shafts, tunnels, wells, canals, viaducts, highways, facilities, apparatus, machinery, equipment, appliances and appurtenances, of any and every nature and kind whatsoever.

(g) To purchase and acquire securities, assets, and property of every kind and description at judicial, judiciary, trustee's, pledgee's, mortgagee's or liquidating or public or private sales, either pursuant to a plan of reorganization or otherwise, and to carry on a general salvage, liquidation, and realization business; and also to do a general commission and brokerage business.

(h) To hold in trust, issue on commission, make advances upon or sell, lease, license, transfer, organize, reorganize, incorporate, or dispose of any of the undertakings or resulting investments aforesaid, or the stock or securities thereof; to act as agent or depository for any of the above or like purposes or any purpose herein mentioned, and to act as fiscal agent of any other person, firm or corporation.

(i) To obtain the grant of, purchase, lease, or otherwise acquire any concessions, rights, options, patents, privileges, lands, rights of way, sites, properties, undertakings or businesses, or any right, option or contract in relation thereto, and to perform, carry out, and fulfill the terms and conditions thereof and to carry the same into effect, and to develop, maintain, lease, sell, transfer, dispose of, and otherwise deal with the same.

(j) From time to time to apply for, obtain the grant of, purchase or acquire by assignment, transfer or otherwise, and to exercise, carry out and enjoy any license, power, authority, franchise, ordinance, order, right or privilege, which any government or authority, supreme, municipal or local, or any corporation or other public body shall enact, make, or grant.

(k) To issue shares of the capital, stock, bonds, debentures, debenture stock, notes, and other obligations of this corporation for cash, for labor done, for property, real or personal, or leases thereof, or for any combination of any of the foregoing, or for services rendered or in exchange for the stock debentures, debenture stock, bonds, securities, or obligations of any person, firm, association, corporation, or other organization.

(l) To purchase, acquire, and lease, and to sell, lease, and dispose of water, water rights, water records, power privileges, and appropriations for power, light, heat, mining, milling, irrigation, agricultural, domestic or any other use or purpose.

(m) To acquire by purchase, lease, own, hold, sell, mortgage, and encumber both improved and unimproved real estate wherever situate; to survey, subdivide, plat, colonize, and improve the same for the purposes of sale or otherwise; and to construct and erect thereon factories, works, plants, shops, stores, mills, hotels, houses, buildings, and other structures, and to own, use, maintain, manage, and operate the same or any thereof.

(n) To own and control and acquire, by lease, purchase, construction, or otherwise, steamships, boats, barges, hydroplanes, and vessels of all kinds or interests therein and to operate the same either on Alaska Waters and on the Waters of Puget Sound and on all navigable rivers and waters connected therewith and elsewhere, or both, for the transportation of passengers and freight of all kinds, with power to purchase, build, construct, repair, lease, sell, convey, and operate vessels of all kinds, and all machinery, appliances and apparatus incident, necessary or convenient thereto, or in any way connected therewith; with power also to do a towing business, and also to purchase, own, lease, construct, control, and operate and sell docks, wharves, landings, floats, warehouses, dry docks and dock machinery, appliances and apparatus of all kinds; and with the power also to do a general shipbuilding, stevedore, dockage, warehouse, and commission business; to conduct a general cold storage and refrigeration business.

(o) To subscribe for, or cause to be subscribed for, buy, own, hold, purchase, receive, or acquire, and/or to sell, negotiate, guarantee, assign, deal in, exchange, transfer, mortgage, pledge and/or otherwise dispose of shares of the capital stock, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, acceptances, drafts, and/or evidences of indebtedness issued and/or created by any government or by any political subdivision thereof or by any other corporations,

joint stock companies, or associations, whether public, private, or municipal, or any corporate body, and while the owner thereof, to possess and to exercise in respect thereof all the rights, powers, and privileges of ownership, including the right to vote thereon; to guarantee the payment of dividends on any shares of the capital stock of any of the corporations, joint stock companies, or associations in which this corporation has or may at any time have an interest, and to become surety in respect of, endorse, or otherwise guarantee the payment of the principal of or interest on any scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, bills of exchange, or evidences of indebtedness, issued or created by any such corporations, joint stock companies, or associations; to assume and agree to pay all or part of the indebtedness, evidenced by bonds or otherwise, of any corporation, and to assume and agree to perform any covenants, conditions, or agreements contained in any mortgage or trust indenture, and to assume any other obligation, or liability of any corporation; to become surety for or guarantee the carrying out and performance of any and all contracts, leases, and obligations of every kind of any corporations, joint stock companies, or associations, and in particular of any corporation, joint stock company, or association any of whose shares, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, bills of exchange, or evidences of indebtedness, are at any time held by or for this corporation, and to do any acts or things designed to protect, preserve, improve or enhance the value of any such shares, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, bills of exchange, or evidences of indebtedness, provided, however, that this Subdivision (c) shall not be construed to authorize this corporation to engage in the business of banking.

(p) To manufacture, buy, sell, and generally deal in, goods, wares, merchandise, property, and commodities of any and every class and description, and all articles used or useful in connection therewith; to engage in any business whether manufacturing or otherwise which this corporation may deem advantageous or useful in connection with any or all of the foregoing, and to purchase, acquire, manufacture, market, or prepare for market, sell or otherwise dispose of any article, commodity, or thing which this corporation may use in connection with its business.

(q) To manage, operate, conduct and supervise the business, properties, and affairs, in whole or in part, of any companies, corporations, joint stock companies, syndicates, partnerships, and associations of all kinds whether it owns any or all of the securities and/or obligations of such companies, corporations, joint stock companies, syndicates, partnerships, and associations or not.

(r) To secure, purchase, acquire, apply for, register, own, hold, sell, or dispose of any and all copyrights, trademarks and other trade rights.

(s) To organize, or cause to be organized, under the laws of the State of Delaware, or of any other state, territory, or country, or the District of Columbia, a

corporation or corporations for the purpose of accomplishing any or all of the objects for which this corporation is organized, and to dissolve, wind up, liquidate, merge or consolidate any such corporation, or corporations, or to cause the same to be dissolved, wound up, liquidated, merged, or consolidated.

(t) To purchase, apply for, obtain, or otherwise acquire any and all letters patent, licenses, patent rights, patented processes, and similar rights granted by the United States or any other government or country, or any interest therein, or any inventions which may seem capable of being used for or in connection with any of the objects or purposes of this corporation, and to use, exercise, develop, sell, dispose of, lease, grant licenses in respect to, or other interests in the same, and otherwise turn the same to account, and to carry on any business, manufacturing or otherwise, which may be deemed to directly or indirectly aid, effectuate, or develop, the objects or any of them of this corporation.

(u) To lend money, to borrow money for any of the purposes of this corporation, and to issue bonds, debentures, debenture stock, notes, and other obligations, and to secure the same by pledge or mortgage of the whole or any part of the property, of this corporation, either real or personal, or to issue bonds, debentures, debenture stock, notes, or other obligations without any such security.

(v) To enter into, make, perform, and carry out contracts of every kind for any lawful purpose, without limit as to amount, with any person, firm, association, or corporation.

(w) In connection with its business, to draw, make, accept, endorse, discount, guarantee, execute, and issue promissory notes, bills of exchange, drafts, warrants and all kinds of obligations and certificates and negotiable or transferable instruments.

(x) To purchase, hold, sell, and transfer shares of its own capital stock, bonds, notes, and other obligations of this corporation from time to time to such extent and in such manner and upon such terms as its Board of Directors shall determine; provided that any purchase of any of the shares of the capital stock of the corporation shall not be made when such purchase would cause any impairment of the capital of the corporation; and provided further that shares of its own capital stock belonging to this corporation shall not be voted upon directly or indirectly.

(y) To have one or more offices, to carry on any or all of its operations and business and without restriction or limit as to amount, to purchase, lease, or otherwise acquire, hold, and own, and to mortgage, sell, convey, lease or otherwise dispose of, real and personal property of every class and description in any of the states or territories of the United States and in the District of Columbia, and in any and all foreign countries, subject to the laws of such state, district, territory, or country.

(z) To do any and all things herein set forth, and in addition such other acts and things as are necessary or convenient to the attainment of the purposes of this corporation, or any of them, to the same extent as natural persons lawfully might or could do in any part of the world.

The foregoing clauses shall be construed both as objects and powers and it is hereby expressly provided that the foregoing enumeration of specific power shall not be held to limit or restrict in any manner the powers of this corporation, and are in furtherance of, and in addition to, and not in limitation of the general powers conferred by the laws of the State of Delaware.

It is the intention that the purposes, objects and powers specified in this Article Third and all subdivisions thereof shall, except as otherwise expressly provided, in nowise be limited or restricted by reference to or inference from the terms of any other clause or paragraph of this Article, and that each of the purposes, objects, and powers specified in this Article Third shall be regarded as independent purposes, objects, and powers.

FOURTH: (a) The total number of shares of stock which this corporation shall have authority to issue is six hundred and fifty million (650,000,000) shares of which fifty million (50,000,000) shares shall be shares of Preferred Stock with a par value of one cent (\$.01) each, amounting in aggregate to five hundred thousand dollars (\$500,000), two hundred fifty million (250,000,000) shares shall be shares of Common Stock Series A of the par value of twenty-five cents (\$.25) each, amounting in the aggregate to sixty two million five hundred thousand dollars (\$62,500,000), and three fifty hundred million (350,000,000) shares shall be of common Stock Series B of the par value of twenty-five cents (\$.25) each, amounting in the aggregate to eighty-seven million five hundred thousand dollars (\$87,500,000).

(b) The Preferred Stock may be issued from time to time in one or more series, and in such amounts as may be determined by the Board of Directors. The designations, powers, preferences and relative, participating optional, conversion and other rights, and the qualifications, limitations and restrictions thereof, of the Preferred Stock of each series, which shall not be fixed by the Certificate of Incorporation, shall be such as may be fixed or altered by resolution or resolutions by the Board of Directors (authority so to do being hereby expressly granted to, and vested in, the Board of Directors) to the full extent now or hereafter permitted by the laws of Delaware.

(c) The designations, powers, preferences and relative, participating, optional, conversion and other special rights, and the qualifications, limitations and restrictions thereof, of the Common Stock Series A and the Common Stock Series B shall be as follows:

(1) Whenever full dividends have been paid or declared and funds set apart for the payment of dividends on each series of

Preferred-Stock which may be issued and outstanding, for the current dividend period and for all past dividend periods in respect of which dividends are cumulative and remain unpaid, and a cash dividend upon the Common Stock Series B shall at any time and from time to time be declared and paid, there shall at that time or at any time thereafter but within the time limits hereinafter in this paragraph set forth, be declared and paid a stock dividend or dividends on the Common Stock Series A payable in shares of Common Stock Series A, the fair value as of the respective dates of declaration (as hereinafter defined) of such stock dividend or dividends paid or payable on each share of Common Stock Series A during any calendar year to be equivalent to the cash dividend or dividends paid or payable on each share of Common Stock Series B during such calendar year pursuant to this paragraph. For the purpose of the foregoing sentence the determination of the fair value of the Common Stock Series A shall be made as of the respective dates of declaration of such dividend or dividends by the Board of Directors of the corporation in its sole discretion and such determination shall be final and conclusive. Without limiting the generality of the foregoing, the Board of Directors may, in making such determination of fair value, consider the bid and asked price of the Common Stock Series A on the business day next preceding the date of the declaration of such dividend (or if not available for such date on the next preceding date on which such quotation is available) as quoted by the National Quotation Bureau, Inc. or an organization performing functions similar thereto and such other factors as the Board of Directors may deem to be relevant, including without limitation, that the value of such stock after the record date may be reduced by the declaration of the dividend and any factors which would affect the market value of such stock dividend shares. The Board of Directors of the corporation may in its sole discretion declare a dividend or dividends on the Common Stock Series A on dates different from the date on which a cash dividend or dividends are declared on the Common Stock Series B and may fix separate record dates and/or separate payment dates different from the record dates or payment dates of the cash dividend or dividends declared on the Common Stock Series B, provided however, that the record date and the payment date of any dividend on the Common Stock Series A shall be within one year from the date of declaration thereof, and provided further that the fair value as of the respective dates of declaration (as herein defined) of all stock dividends paid on each share of Common Stock Series A during any calendar year pursuant to this Paragraph shall be equivalent to the total cash dividends paid only on each share of Common Stock Series B during such calendar year pursuant to this paragraph. This paragraph shall be applicable only where a dividend is declared on the Common Stock Series B payable only in cash and the Board of Directors does not at the same time declare a dividend in an equal amount only in cash on

the Common Stock Series A, which the Board of Directors shall have the right to do. The provisions of this paragraph are not intended to cover, or apply to, any case where a dividend is declared on the Common Stock Series B payable in stock or any other property in which event the same dividend shall be declared at the same time on the Common Stock Series A as provided in paragraph (4) of subdivision (c) of this Article FOURTH. The corporation shall not issue fractional shares in satisfaction of any stock dividend but in lieu of fractional shares it shall issue scrip certificates (exchangeable, together with other scrip certificates aggregating one or more full shares, for stock certificates representing such full share or shares of stock), for any fraction of a share of stock. The terms and form of which are to be approved by the Board of Directors of the corporation. Until the exchange thereof for certificates for full shares of stock, the holders of such scrip certificates shall not be entitled to receive dividends or to vote or to any other rights and/or privileges as stockholders of the corporation. The Board of Directors of the corporation shall, in any instance, have the full power and authority to prescribe other methods by which settlement for fractional shares shall be made, in lieu of delivering such scrip certificates for fractional shares, and may, without limiting the generality of the foregoing, make a cash settlement in respect thereof in such amount as shall be determined by the Board of Directors or provide for the combination of such fractions into a number of whole shares of stock equal to the aggregate of the fractional shares which the holders of the shares of Common Stock of the corporation would otherwise be entitled to receive and the delivery thereof to the corporation or its designee as agent for said stockholders to sell the said whole shares of stock and to pay the net proceeds of the sale to those stockholders who would otherwise have been entitled to fractional shares pro rata in accordance with their respective fractional share interests and upon such other terms as may be provided by the Board of Directors of the corporation.

(2) The Common Stock Series A, at the option of the respective holders thereof, shall be exchangeable for Common Stock Series B of the corporation, from time to time, subject to the provisions hereinafter set forth in the ratio of one (1) share of Common Stock Series B for one (1) share of Common Stock Series A (whether or not any dividend shall have been declared on the Common Stock Series A and remain unpaid but this shall not prevent a stockholder who shall exchange his shares after a record date from receiving any dividend payable to Series A stockholders of record on that date), upon surrender to the corporation or to its transfer agent of the certificates of Common Stock Series A, so to be exchanged, duly endorsed in blank for transfer; provided however that if any such shares of Common Stock Series A are surrendered for exchange on or between the date on which a cash dividend is declared

on the Common Stock Series B and the date fixed by the Board of Directors of the corporation for determining the holders of the Common Stock Series B entitled to receive such cash dividend, the said shares of Common Stock Series A shall be exchanged for shares of Common Stock Series B on and as of the business day next following the record date for determining the holders of the Common Stock Series B entitled to receive such cash dividend and until such exchange is so made any such stockholder shall be treated for all purposes as the holder of the shares of Common Stock Series A so surrendered for exchange. So long as any of the Common Stock Series A remains outstanding, there shall be reserved such number of shares of Common Stock Series B for exchange as shall be required pursuant to the provisions herein contained.

(3) The Board of Directors of the corporation shall have the right, in its sole discretion, to require all of the holders of the Common Stock Series A to exchange all of their Common Stock Series A for Common Stock Series B of the corporation in the ratio of one (1) share of Common Stock Series B for one (1) share of Common Stock Series A (whether or not any dividend shall have been declared on the Common Stock Series A and remain unpaid but this shall not prevent a stockholder who shall exchange his shares after a record date from receiving any dividend payable to Series A stockholders of record on that date). Notice of the requirement for such exchange shall be given by the corporation at least thirty days prior to the date fixed for such exchange to the holders of record of all the outstanding Common Stock Series A and an affidavit of mailing of such notice by an employee of the corporation or any employee of the transfer agent shall be conclusive evidence of the mailing of such notice. If notice of such exchange shall have been duly given as herein provided, and any holder of Common Stock Series A shall not have surrendered all his certificates of Common Stock Series A to the corporation or its transfer agent for exchange, duly endorsed in blank for transfer, then from and after the exchange date so specified in the notice, any and all rights and privileges of such holders of Common Stock Series A, as holders of Common Stock Series A, shall cease and terminate, except the right to receive shares of Common Stock Series B in exchange for his shares of Common Stock Series A as hereinabove provided, and from and after the exchange date so specified in the notice all Common Stock Series A outstanding shall be and become Common Stock Series B with the effect that each holder of the outstanding shares of Common Stock Series A shall thereupon be and become the holder of one share of Common Stock Series B for every share of Common Stock Series A then held by him.

(4) In all other respects the designations, powers, preferences and relative, participating, optional, conversion and other special rights, and the qualifications, limitations and restrictions thereof, of the Common Stock Series A and the Common Stock Series B shall be the same, and without limiting the generality of the foregoing, in the event any dividends payable in any class of stock of the corporation, or in any property, are declared upon the shares of Common Stock Series B of the corporation (which the corporation by action of its Board of Directors shall have the full power and authority to do) the same dividend shall be declared upon the Common Stock Series A of the corporation and in the event any dividends payable in any class of stock of the corporation, or in any property, (except stock dividends which are paid to equalize cash dividends as hereinabove set forth) are declared upon the shares of Common Stock Series A of the corporation, (which the corporation by action of its Board of Directors shall have the full power and authority to do) the same dividend shall be declared upon the Common Stock Series B of the corporation and in the event a cash dividend shall be declared on the shares of Common Stock Series A of the corporation (which the corporation by action of its Board of Directors shall have the full power and authority to do, whenever full dividends have been paid or declared and funds set apart for the payment of dividends on each series of Preferred Stock which may be issued and outstanding, for the current dividend period and for all past dividend periods in respect of which dividends are cumulative and remain unpaid) an equal cash dividend shall be declared on the shares of Common Stock Series B of the corporation.

(d) Unless otherwise expressly required by applicable law, each holder of Common Stock Series A and Common Stock Series B shall at every meeting of the stockholders be entitled to one vote in person or by written proxy signed by him for each share of Common Stock Series A and Common Stock Series B owned by him and shall be entitled and required to vote as part of a single class, i.e., Common Stock (without distinction as to Series A or Series B) upon all such matters as may come before the stockholders including without limitation the election of directors, which shall be decided by majority vote of the Common Stock present or represented by proxy and entitled to vote at the meeting. The stockholders of this corporation shall have no preemptive right to subscribe to any issue of shares of stock of this corporation now or hereafter made.

FIFTH: The minimum amount of capital with which it will commence business is One Thousand Dollars (\$1,000.00).

SIXTH: The name and place of residence of each of the incorporators are as follows:

<u>NAME</u>	<u>RESIDENCE</u>
L.H. HERMAN	Wilmington, Delaware
WALTER LENZ	Wilmington, Delaware
W.T. HOBSON	Wilmington, Delaware

SEVENTH: This corporation is to have perpetual existence.

EIGHTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

NINTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized:

To make, alter, and repeal the by-laws subject to the power of the stockholders to change or repeal such bylaws; provided, however, that prior to the second Tuesday in March, 1937, no by-laws shall be adopted or amended by the directors so as to authorize or provide (a) for the holding of any meeting of stockholders for the election of directors at any place other than Minneapolis, Minnesota or at any time prior to the holding of the first annual meeting of stockholders for election of directors on the second Tuesday in March, 1937; or (b) for the holding of meetings of directors, prior to such first meeting of stockholders for the election of directors, at any place other than as provided in the original by-laws;

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to alter or abolish any such reserve;

To fix, determine, and vary from time to time the amount to be maintained as surplus and the amount or amounts to be set apart for working capital.

All of the powers of this corporation, insofar as the same lawfully may be vested by this Certificate in the Board of Directors, are hereby conferred upon the Board of Directors of this corporation.

Directors need not be elected by ballot, unless voting by ballot shall be requested by the holders of ten percent (10%) or more of the shares of stock represented at the meeting of stockholders at which the directors are to be elected.

TENTH: This corporation may in its by-laws make any other provisions or requirements for the management or conduct of the business of this corporation provided the same be not inconsistent with the provisions of this Certificate or contrary to the laws of the State of Delaware, and subject to the limitations upon amendment of by-laws contained in this Certificate of Incorporation.

ELEVENTH: This corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law and all rights conferred on officers, directors, and stockholders herein are granted subject to this reservation.

TWELFTH: A. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director'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) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article to authorize corporation action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

B. No modification or repeal of the provisions of this Article shall adversely affect any right or protection of any director of the corporation existing at the date of such modification or repeal or create any liability or adversely affect any such right or protection for any acts or omissions of such director occurring prior to such modification or repeal.

IN WITNESS WHEREOF, said CITIZENS UTILITIES COMPANY has caused this Certificate to be signed by L. Russell Mitten, its Vice President, and attested by Charles J. Weiss, its Secretary, on this 17th day of June, 1996.

CITIZENS UTILITIES COMPANY

By: Livingston E. Ross
Livingston E. Ross
Vice President

ATTEST:

By: Charles J. Weiss
Charles J. Weiss
Secretary

State of Minnesota 97886

SECRETARY OF STATE

Certificate of Authority to Transact Business

I, Mary Kiffmeyer, Secretary of State of Minnesota, do certify that: The following corporation has duly complied with the relevant provisions of Minnesota Statutes, Chapter 303, and is authorized to do business in Minnesota on and after this date with all the powers, rights and privileges, and subject to the limitations, duties and restrictions, set forth in that chapter.

Name of Corporation in Minnesota:

Citizens Telecommunications Company of Minnesota, Inc.

Name of Corporation in State of Incorporation:

Citizens Telecommunications Company of Minnesota, Inc.

Corporate Charter Number: 97886

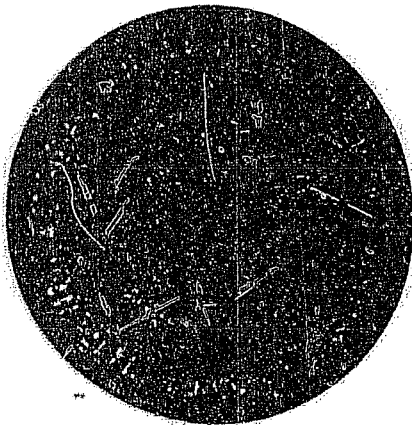
State of Incorporation: DE

Registered Office in Minnesota:

33 S 6th Str - Multifoods Twr
Mpls MN 55402

Name of Registered Agent: Corporation Service Company

This certificate has been issued on 06/24/1999.



Mary Kiffmeyer
Secretary of State

3 Pages

Exhibit

FOREIGN CORPORATION REGISTRATION
TO TRANSACT BUSINESS IN MINNESOTA

097886

PLEASE TYPE OR PRINT IN BLACK INK.

FILING FEE: \$200 (\$50 if Non-Profit)

1. YOU MUST ATTACH A CERTIFICATE OF GOOD STANDING OR STATUS ISSUED BY THE FILING OFFICER IN THE STATE OR JURISDICTION IN WHICH THIS COMPANY IS DOMICILED.

2. The name of this corporation is:

Citizens Telecommunications Company of Minnesota, Inc.
Legal Name of Corporation

m

3. If the exact legal name of this corporation is unavailable in Minnesota, please complete, approve and execute the resolution at the bottom of this form and list the alternate name here:

4. The state or country under the laws of which the corporation is incorporated is: Delaware

✓

5. The name and address of the registered agent and registered office in the State of Minnesota is:

Corporation Service Company

Full Name of Registered Agent

✓

Registered Address: 33 South Sixth Street, Multifoods Tower, Minneapolis, MN 55402

Street address or rural route and rural route box number of the registered agent in Minnesota (cannot be a P. O. Box.)

✓

By registering the corporation irrevocably consents to service of process on it as provided by Minnesota Statutes chapter 303.1 and 5.25.

6. This corporation is a (check one) ☐ non-profit ☒ for-profit entity.

I certify that I am authorized to execute this application and I further certify that I understand that by signing this application, I am subject to the penalties of perjury as set forth in section 609.48 as if I had signed this application under oath.

Ch. J. A.
(President, Vice President, Secretary or Assistant Secretary)

WHEREAS, the name of this corporation is currently on file with the Secretary of State of Minnesota, and
WHEREAS, the corporation has not obtained the use of this name through the consent or affidavit procedures permitted by Minnesota Statutes chapter 302A.115, THEREFORE, BE IT RESOLVED, that this corporation shall use the name

(Alternate name must also include a corporate designation).

which meets all the requirements of Minnesota Statutes chapters 303.05 and 302A.115, as its name in the State of Minnesota for all purposes.

Approved on _____ by the _____
Day Month Year Proportion

STATE OF MINNESOTA
DEPARTMENT OF STATE

FILED

Vote of the

JUN 24 1999

Directors of _____
Corporate Name

Mary Killen
Secretary of State

Authorized Signature

I certify that this is the actual text of the approved resolution.

0930008 Rev. 11/98

019340

2

CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC.

DIRECTORS		
Name	Title	Business Address/Phone
John H. Casey, III	Director	Three High Ridge Road Stamford, CT 06905 203.614.5600
Rudy J. Graf	Director	Three High Ridge Road Stamford, CT 06905 203.614.5600
Leonard Tow	Director	Three High Ridge Road Stamford, CT 06905 203.614.5600

OFFICERS		
Name	Title	Business Address/Phone
Rudy J. Graf	President	Three High Ridge Road Stamford, CT 06905 203.614.5600
Scott N. Schneider	Executive Vice President	Three High Ridge Road Stamford, CT 06905 203.614.5600
Robert J. DeSantis	Vice President, Chief Financial Officer and Assistant Secretary	Three High Ridge Road Stamford, CT 06905 203.614.5600
Merton Bernabi	Vice President	5600 Headquarters Drive Plano, TX 75024 469.365.3000
Robert Braden	Vice President	Three High Ridge Road Stamford, CT 06905 203.614.5600
John H. Casey, III	Vice President and Chief Operating Officer	Three High Ridge Road Stamford, CT 06905 203.614.5600
Kenneth L. Cohen	Vice President and Controller	Three High Ridge Road Stamford, CT 06905 203.614.5600
Michael G. Harris	Vice President	Three High Ridge Road Stamford, CT 06905 203.614.5600
Edward O. Kipperman	Vice President and Treasurer	Three High Ridge Road Stamford, CT 06905 203.614.5600

OFFICERS - Continued		
Name	Title	Business Address/Phone
F. Wayne Lafferty	Vice President	5600 Headquarters Drive Plano, TX 75024 469.365.3000
John J. Lass	Vice President - Central Region	11-15 East Park Place Norwich, NY 13815 612.472.5590
L. Russell Mitten	Vice President, General Counsel and Assistant Secretary	Three High Ridge Road Stamford, CT 06905 203.614.5600
William O'Neill	Vice President	7901 Freeport Boulevard Sacramento, CA 95832 916.665.5393
Livingston E. Ross	Vice President and Chief Accounting Officer	Three High Ridge Road Stamford, CT 06905 203.614.5600
L. Todd Wells	Vice President	5600 Headquarters Drive Plano, TX 75024 469.365.3000
Charles J. Weiss	Secretary and Assistant Vice President	Three High Ridge Road Stamford, CT 06905 203.614.5600
Kenneth C. Dering	Assistant Vice President and Assistant Treasurer	Three High Ridge Road Stamford, CT 06905 203.614.5600
Laura L. DiPrea	Assistant Vice President and Assistant Controller	Three High Ridge Road Stamford, CT 06905 203.614.5600
Lee Ann Conti	Assistant Secretary	1000 Internationale Parkway Woodridge, IL 60517 603.739.8868
Barbara Snider	Assistant Secretary	7901 Freeport Boulevard Sacramento, CA 95832 916.665.5335
Richard Tettelbaum	Assistant Secretary	1400 16 th Street, NW Suite 500 Washington, DC 20036 202.332.5922

State of South Dakota

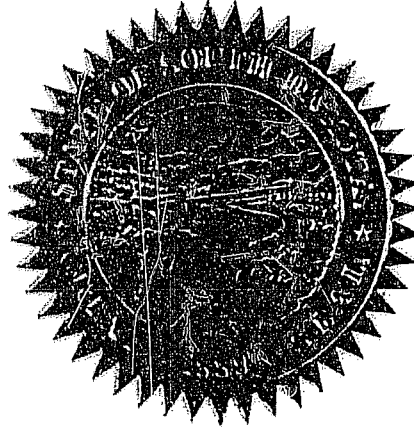


OFFICE OF THE SECRETARY OF STATE

Certificate of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of **CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC. (DE)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this July 3, 2000.

Joyce Hazeltine
Secretary of State



Secretary of State
State Capitol
500 E. Capitol
Pierre SD 57501
Phone 605-773-4845
Fax 605-773-4580

Application for Certificate of Authority

FILE NO. _____

RECEIPT NO. _____

RECEIVED

JUN 23 '00

S.D. SEC. OF STATE

Pursuant to the provisions of SDCL 42-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

RECEIVED

JUL 03 2000

(1) The name of the corporation is CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC
(exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is _____

S.D. SEC. OF STATE

(3) State where incorporated DELAWARE Federal Taxpayer ID# 06-1554080

(4) The date of its incorporation is 6-15-1999 and the period of its duration, which may be perpetual, is PERPETUAL

(5) The address of its principal office in the state or country under the laws of which it is incorporated is 1011 CENTRE ROAD WILMINGTON, DELAWARE ZipCode 19805
mailing address if different from above is: _____ ZipCode _____

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 501 SOUTH PIERRE STREET PIERRE, SD ZipCode 57501
and the name of its proposed registered agent in the State of South Dakota at that address is CORPORATION
SERVICE COMPANY

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)
TO ACQUIRE AND OPERATE LOCAL EXCHANGE ACCESS LINES.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
PLEASE SEE ATTACHED					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000			NO PAR VALUE

\$110
700

110) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
100			NO PAR VALUE

111) The amount of its stated capital is \$1,000
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

112) The application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the Secretary of State or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

113) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

114) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated JUNE 15, 2000

Charles J. Weiss
(Signature) CHARLES J. WEISS
CORPORATE SECRETARY
(Title)

STATE OF CONNECTICUT
COUNTY OF FAIRFIELD

Michael L. Hudson, a notary public, do hereby certify that on this 16th day of JUNE, 2000, personally appeared before me CHARLES J. WEISS, who, being by me first duly sworn, declared that he/she is the CORPORATE SECRETARY of CITIZENS TELECOMMUNICATIONS, that he/she signed the foregoing document as an officer of the corporation, and the statements therein contained are true.

May 31, 2004
My Commission Expires

Michael L. Hudson
(Notary Public)

NOTARIAL SEAL

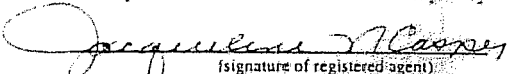
The Consent of Appointment below must be signed by the registered agent listed in number six.

Consent of Appointment by the Registered Agent

I, Corporation Service Company hereby give my consent to serve as the registered agent for ATTEENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC.

Corporation Service Company

Date JUNE 14 19 00


(signature of registered agent)

JACQUELINE N. CASPER, ASST. VICE PR.

The proper filing fee must accompany the application. Make checks payable to the Secretary of State.

FEE SCHEDULE

Authorized capital stock of	25,000	or less	\$ 90
Over \$25,000 and not exceeding	100,000		110
Over \$100,000 and not exceeding	500,000		130
Over \$500,000 and not exceeding	1,000,000		150
Over \$1,000,000 and not exceeding	1,500,000		200
Over \$1,500,000 and not exceeding	2,000,000		250
Over \$2,000,000 and not exceeding	2,500,000		300
Over \$2,500,000 and not exceeding	3,000,000		350
Over \$3,000,000 and not exceeding	3,500,000		400
Over \$3,500,000 and not exceeding	4,000,000		450
Over \$4,000,000 and not exceeding	4,500,000		500
Over \$4,500,000 and not exceeding	5,000,000		550

For each additional \$500,000, \$40 in addition to \$550.

For purposes only of computing fees under this section, the dollar value of each authorized share having a par value shall be equal to par value and the value of each authorized share having no par value shall be equal to one hundred dollars per share. The maximum amount charged under this subdivision may not exceed sixteen thousand dollars.

FILING INSTRUCTIONS:

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or its president, or any other officer. One original and one photocopy of the application must be submitted.

The application must be accompanied by an original, currently dated, **CERTIFICATE OF FACT** or a **CERTIFICATE OF GOOD STANDING** from the Secretary of State in the state where it incorporated. A photocopy of a certificate is not acceptable. It should be dated within ninety (90) days of submitting it to our office.

South Dakota law requires every corporation to continuously maintain a resident of this state as the registered agent (number six on the application). The registered agent's address is considered the registered office address of the corporation in South Dakota. A complete street address must be listed for service of process.

The Consent of Registered Agent portion must be signed by the South Dakota registered agent.

Mail the application, certificate, and filing fee to the Secretary of State, Corporate Division, 500 E. Capitol Avenue, Pierre, SD 57501-3070. The duplicate and a Certificate of Authority will be returned for your records.

CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC.

DIRECTORS		
Name	Title	Business Address/Phone
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Rudy J. Graf	Director	Three High Ridge Road Stamford, CT 06905 203.614.5600
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Lee Ann Conti	Assistant Secretary	1000 Internationale Parkway Woodridge, IL 60517 603.739.8868
Barbara Snider	Assistant Secretary	7901 Freeport Boulevard Sacramento, CA 95832 916.665.5335
Richard Tettelbaum	Assistant Secretary	1400 16 th Street, NW Suite 500 Washington, DC 20036 202.332.5922

State of Delaware
Office of the Secretary of State

PAGE 1

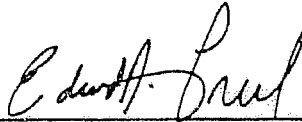
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JUN 23 '00
S.D. SEC. OF STATE
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I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF
DELAWARE, DO HEREBY CERTIFY "CITIZENS TELECOMMUNICATIONS COMPANY
OF MINNESOTA, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE
STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL
CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW,
AS OF THE FOURTEENTH DAY OF JUNE, A.D. 2000.



3086413 8300

001302521


Edward J. Freel, Secretary of State

AUTHENTICATION:

DATE:

0497508

06-14-00

Secretary of State
State of South Dakota
500 E. Capitol
Pierre, SD 57501-5077

RECEIVED
S.D. SEC. OF STATE

LETTER OF CONSENT TO USE SIMILAR NAME

We, the undersigned corporate officers, general partner of a
limited partnership, or holder of a reserved or registered name,
or general manager/member of a limited liability company of

CITIZENS TELECOMMUNICATIONS COMPANY
(company name)

heraby grant consent to the use of the name of _____

CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC.

Dated 6/30 2000
199

CORPORATION:

[Signature]
(Corporate President or Vice-President)

AND L. RUSSELL MITTEN

[Signature]
(Corporate Secretary or
Assist. Secretary)

CHARLES J. WEISS

LIMITED PARTNERSHIP:

(General Partner)

LIMITED LIABILITY COMPANY:

(Manager/Member)

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

citizens communications

connections

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

CITIZENS MAKES CONNECTIONS — WE CONNECT OUR SHAREHOLDERS TO

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

TO FAMILY, FRIENDS AND BUSINESS ASSOCIATES AROUND THE WORLD,

AND OUR EMPLOYEES TO ENRICHING AND REWARDING OPPORTUNITIES.



"We are now in the
right industry at the
with the right strategy — and
with the in place
to execute that strategy."

Fellow Shareholders,

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

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

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

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

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

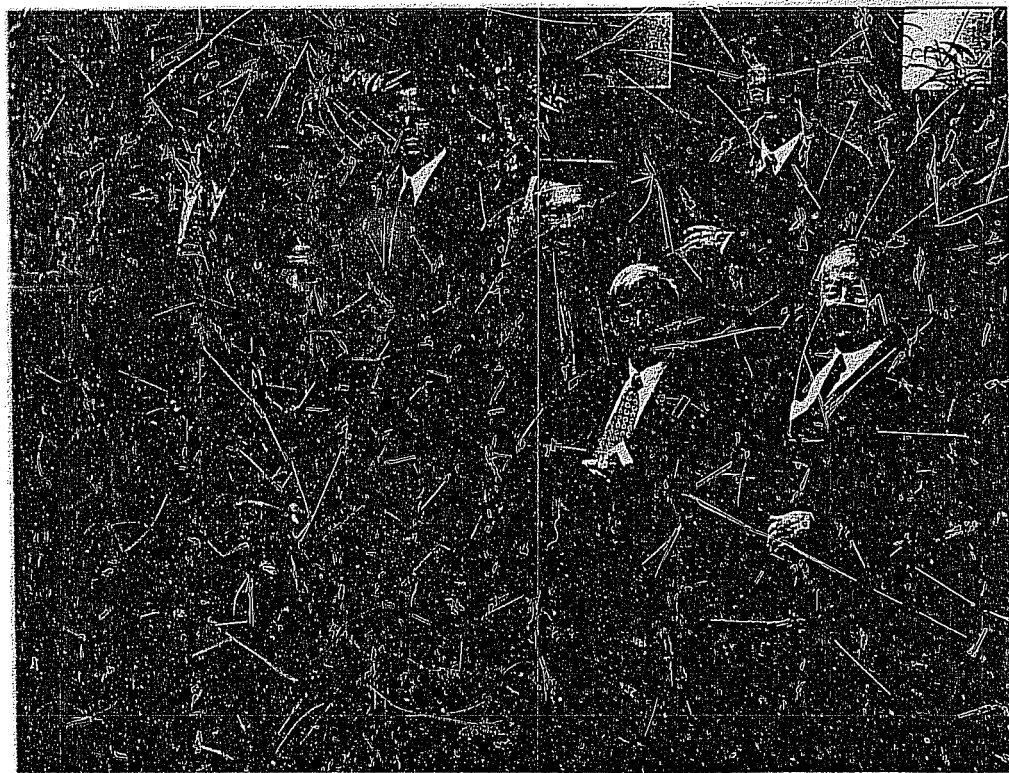
During the second half of 1999, we announced agreements to purchase nearly 1 million access lines from GTE and U S WEST and engaged investment bankers to assist us in the sale of our public services properties.

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

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

CITIZENS' NEW MANAGEMENT TEAM.

~~From left to right:~~ LEONARD TOW, SCOTT SCHNEIDER, STEVE WARD, RUDY GRAF, BOB BRADEN,
~~JACK CANTRELL AND~~ WINE HARRIS.



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

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

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

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

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

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

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

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

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

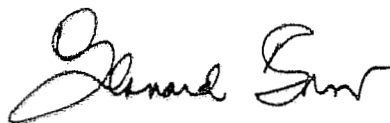
"I have seen few opportunities... that are as exciting as those presented by Citizens and Electric Lightwave today."

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

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

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

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

A handwritten signature in black ink, appearing to read "Leonard Tow". The signature is fluid and cursive, with the first name "Leonard" written in a larger, more prominent script than the last name "Tow".

LEONARD TOW
Chairman and Chief Executive Officer

March 24, 2000



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

Robert A. Chaff President and Chief Operating Officer

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

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

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

Message from the president

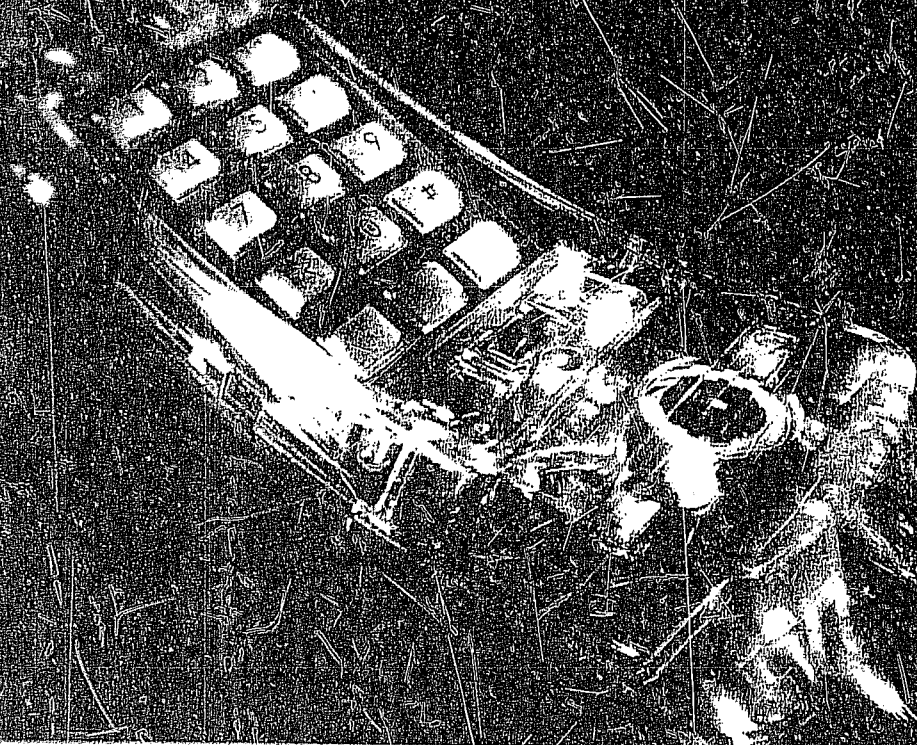
"WE ARE PROVIDING CUSTOMERS WITH SECOND LINE SUPPORT SERVICES
AND A FULL SUITE OF VOICE AND DATA SERVICES"

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

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

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

technology



regions



~~FOR THE PAST FEW YEARS, A STRONG LOCAL PRESENCE AROUND THE COUNTRY HAS GIVEN~~
~~CITIZENS A HOME FIELD ADVANTAGE, A BENEFIT THAT IS NOW OUR CRITICAL~~
~~COMPETITIVE ADVANTAGE.~~

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

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

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

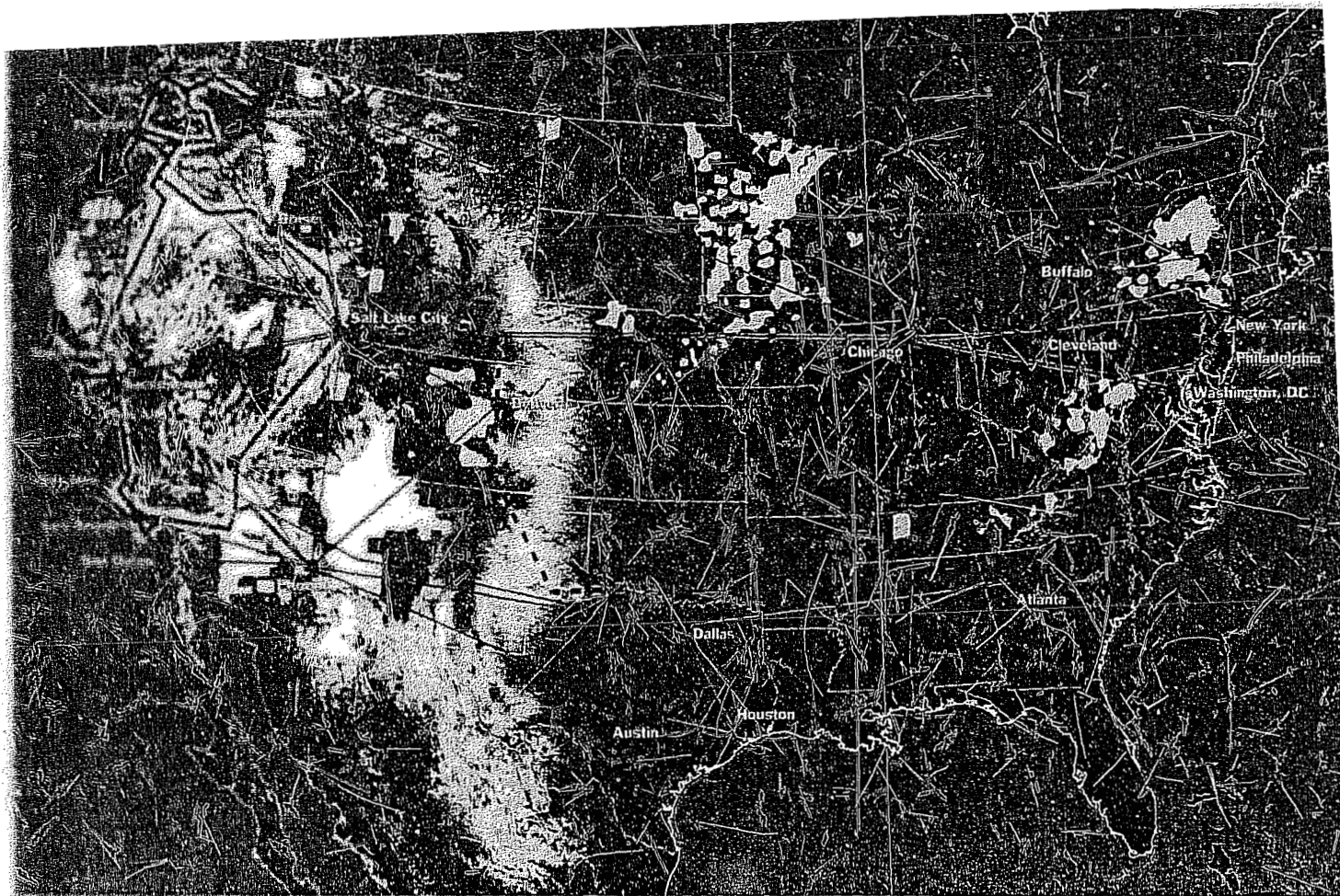
Building a culture of responsibility and accountability is vital to the success of our company. It requires that each employee embrace the company's financial objectives, mission and values. New regional managers are now responsible for ensuring that the resources required to provide the best possible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

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

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

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

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



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

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

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

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

RUDY J. GRAF
President and Chief Operating Officer

March 24, 2000

LEADERSHIP
SELECTED FINANCIAL INFORMATION
PROFILE

BOARD OF DIRECTORS

Norman I. Botwinik ^{3,4,5}
Director Emeritus of the Board of Governors
University of New Haven
New Haven, CT
Director since 1968

Aaron I. Fleischman ^{1,4}
Senior Partner, Fleischman and Walsh, LLP
Washington, DC
Director since 1989

Stanley Harfenist ^{1,3,4,6}
Former President and Chief Executive Officer
Adesso, Inc.
Santa Barbara, CA
Director since 1992

Andrew N. Heine ²
Attorney
Mount Kisco, NY
Director since 1975

John L. Schroeder ^{2,5}
Director, Morgan Stanley Dean Witter Funds
New York, NY
Director since 1980

Robert D. Siff ^{2,6}
Former Executive Vice President
Chittenden Bank
Concord, NH
Director since 1989

Robert A. Stanger ^{1,2,3}
Chairman, Robert A. Stanger & Co., Inc.
Shrewsbury, NJ
Director since 1992

Charles H. Symington, Jr. ^{2,3,5}
Director, NASDAQ Stock Market
Education Foundation
Spring Island, SC
Director since 1995

Edwin Tornberg ^{3,5}
President, Edwin Tornberg & Co., Inc.
Potomac, MD
Director since 1992

Claire Tow ^{1,6}
President, Tow Foundation
Stamford, CT
Director since 1993

Leonard Tow ²
Chairman and Chief Executive Officer
Stamford, CT
Director since 1989

- ¹ Executive Committee
- ² Audit Committee
- ³ Compensation Committee
- ⁴ Nominating Committee
- ⁵ Retirement Committee
- ⁶ Management Oversight Committee

OFFICERS

Leonard Tow
Chairman and Chief Executive Officer

Rudy J. Graf
President and Chief Operating Officer

Scott N. Schneider
Executive Vice President
President, Citizens Capital Ventures

John H. Casey, III
Vice President and
Chief Operating Officer
Citizens Communications

David B. Sharkey
Vice President
President and Chief Operating Officer
Electric Lightwave, Inc.

J. Michael Love
Vice President
President, Citizens Public Services

Michael G. Harris
Vice President, Engineering and
New Technology

Robert A. Turtur
Vice President, Business Development

James B. Ward
Vice President, Information Technology

John B. Ward
Vice President, Information Technology

Robert J. Williams
Chief Financial Officer and Vice President

Edward C. Wynn
Vice President and Treasurer

Lawrence S. Yare
Vice President and Chief Accounting Officer

Kenneth L. Cohen
Vice President and Controller

Lois L. Saffers
Assistant Vice President and
Assistant Controller

Kenneth C. Chang
Assistant Treasurer and
Assistant Vice President

Frank E. Hunsley
Assistant Vice President

L. Kenneth Wilson, Jr.
Vice President and General Counsel

R. Wayne Lafferty
Vice President, Regulatory Affairs

Alan H. Gohlin
Assistant Vice President, Communications

Angela M. Smith
Assistant Vice President, Corporate
Communications

Charles J. White
Secretary and Assistant Vice President

FORM 10-K

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

FORM 10-K

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

For the fiscal year ended December 31, 1999

Commission file number 001-11001

OR

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

CITIZENS UTILITIES COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

06-0619486

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

3 High Ridge Park
P.O. Box 3801

Stamford, Connecticut 06905

(Address, zip code of principal executive offices)

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

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

Common Stock, par value \$.25 per share

Guarantee of Convertible Preferred Securities of Citizens Utilities Trust

Citizens Convertible Debentures

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

(Title of each class)

New York Stock Exchange

New York Stock Exchange

N/A

N/A

(Name of exchange on which registered)

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

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

Yes ☒ No ☐

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the registrant's 2000 Annual Meeting of Stockholders to be held on May 12, 2000 is incorporated by reference into Part III of this Form 10-K.

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Part I

ITEM 1. Description of Business

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

(a) General Development of Business

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

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

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

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

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

(b) Financial Information about Industry Segments

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

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

(c) Narrative Description of Business

COMMUNICATIONS

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

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

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

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

Strategy

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

Regulatory Environment

Local Exchange Competition

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

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

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

Under the 1996 Act and subsequent FCC rules, a CLEC can compete using one or more of three mechanisms. The first is by construction of its own local exchange facilities, in which case the CLEC's sole obligation is interconnection for purposes of traffic interchange. The second allows CLECs to purchase unbundled network elements (UNEs) at cost from the ILEC and assemble them into local exchange services and/or supplement the facilities it already owns. The third is by resale of the ILEC's retail services purchased at wholesale rates from the ILEC. Since passage of the 1996 Act, Citizens has received over 150 requests for interconnection. Over 50 individual competitors are operating in the Company's markets. These competitors are mainly serving internet service providers and a few large business customers. Some competitors have taken advantage of the ILEC's requirement to pay the CLEC reciprocal compensation for traffic delivered to the CLEC. The explosion of the internet has provided CLECs with an immediate mechanism to build traffic and reciprocal compensation revenues. The Company's rural markets have limited the impact of reciprocal compensation, but additional threats are expected as CLECs begin to move into second and third tier markets. In 1999, the Company paid approximately \$100,000 in reciprocal compensation. However, the Company has signed additional reciprocal compensation agreements and has several pending that will increase reciprocal compensation in 2000. While Citizens Communications is a reciprocal compensation payor, ELI is a reciprocal compensation receiver. The Company expects the impact of reciprocal compensation in the future to be somewhat mitigated by lower interconnection rates and the spread of Digital Subscriber Line (DSL) and other network services that allow customers to obtain a direct link to the internet at a lower cost. These types of non-switch arrangements are not expected to be subject to reciprocal compensation.

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

Universal Service Reform

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

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

Price Cap Reform

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

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

Regional Bell Operating Company Long Distance Entry

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

Competition

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

ELECTRIC LIGHTWAVE

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

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

Boise, Idaho	Phoenix, Arizona
Portland, Oregon	Sacramento, California
Salt Lake City, Utah	Seattle, Washington
Spokane, Washington	

The major cities include an extensive network of approximately 1,871 route miles of fiber optic cable installed to create a series of Synchronous Optical Network (SONET) rings, which provide a higher degree of stability and dependability. Switched service, including local dial tone, is provided from 3 Fiber Optic Network (FON) 500 switches in the primary major cities. ELI also has transmission equipment colocated with local service providers at 55 locations.

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

Atlanta, Georgia	Austin, Texas
Chicago, Illinois	Cleveland, Ohio
Dallas, Texas	Denver, Colorado
Houston, Texas	Las Vegas, Nevada
Los Angeles, California	New York, New York
Philadelphia, Pennsylvania	San Diego, California
San Francisco, California	Washington, D.C.

ELI has developed an Internet backbone network with 42 routers providing Internet connectivity to each of its markets, including presence at all major network access points and over 123 "peering arrangements" with other Internet backbone service providers. A peering arrangement is an agreement where Internet backbone service providers agree to allow each other direct access to Internet data contained on their networks. In addition, ELI's broadband network consists of 32 frame relay switches, 21 Asynchronous Transfer Mode (ATM) switches and 77 network-to-network interfaces. National and international coverage is provided through strategic relationships with other communications providers.

ELI owns or leases broadband long-haul fiber optic network connections between its major cities in the west and its strategic markets across the nation. By carrying traffic on ELI's own facilities, ELI is able to maximize the utilization of its network facilities and minimize network access and certain interconnection costs. As of December 31, 1999, ELI operated long-haul networks with a total route mileage of 2,191 miles, including routes between Phoenix and Las Vegas; Portland and Seattle; Portland and Spokane; Portland and Eugene; Portland and Boise and Boise and Salt Lake City. During 1998, ELI began construction of what it believes will be the largest ringed SONET in the western United States. The approximately 2,200 mile self-healing ring is expected to be completed in 2000 and will connect Portland, Sacramento, San Francisco, Los Angeles, Las Vegas, Salt Lake City and Boise and will include Dense Wave Division Multiplexing (DWDM) equipment. DWDM is a technique for transmitting 16 or more different light wave frequencies on a single fiber to increase transmission capacity.

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

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

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

The following table represents certain operating information relating to ELI:

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

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

Strategy

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

Regulatory Environment

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

Telecommunications Act of 1996

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

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

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

State Regulation

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

Competition

ILEC Competition

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

CLEC Competition

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

Competition From Others

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

Network Services

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

High-Speed Data Service

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

Internet Services

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

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

ACQUISITIONS AND INVESTMENTS

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

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

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

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

GENERAL

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

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

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

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

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

convertible preferred stock do not achieve an average market closing price of at least \$7 per share for the twenty trading days ending March 31, 2000, HTCC has agreed to issue additional HTCC convertible preferred shares with a value equal to any such shortfall. As of March 15, 2000, the stock was trading at \$8 3/4 per share.

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

ITEM 2. Description of Property

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

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

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

ITEM 3. Legal Proceedings

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

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

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

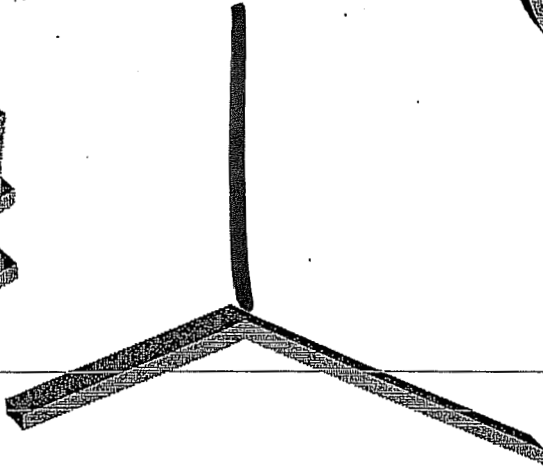
In March 1998, a lawsuit was filed in the United States District Court for the District of Connecticut (Ganino vs. Citizens Utilities Company, et al.), against the Company and three of its officers, one of whom is also a director, on behalf of all purchasers of the Company's Common Stock between May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

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

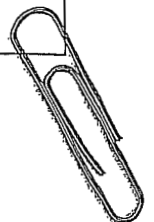
In addition, the Company is party to various other legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters, including those discussed above, after considering insurance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

Confidential

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of pages



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

Executive Officers

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

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

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

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

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

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

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

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

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

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

J. MICHAEL LOVE has been associated with the Registrant since May 1990 and from November 1994 through January 1988. He was Vice President, Corporate Planning from March 1991 through January 1997. He was appointed Vice President, Public Services in January 1997. In January 1999, he was also appointed President, Citizens Public Services Sector.

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

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

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

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

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

Part II

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

Price Range of Common Stock

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

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1999:								
CZN	\$ 8½	\$7¼	\$11½	\$7½	\$12½	\$10¾	\$14½	\$10¾
1998:								
CZN	\$10¾	\$8¾	\$11¾	\$9½	\$10	\$ 6¾	\$ 9¼	\$ 7¼

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

Dividends

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

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

None

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

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Revenues (1)	\$1,087,428	\$ 932,858	\$ 860,332	\$ 786,307	\$ 616,747
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	\$ 117,127	\$ 22,866	\$ (3,913)	\$ 150,300	\$ 117,501
Basic income (loss) per-share of Common Stock before discontinued operations and cumulative effect of change in accounting principle (2)	\$.45	\$.09	\$ (.02)	\$.58	\$.47
Net income	\$ 144,486	\$ 57,060	\$ 10,100	\$ 178,660	\$ 159,516
Basic net income per common share (2)	\$.55	\$.22	\$.04	\$.68	\$.44
Stock dividends declared on Common Stock (3)	—	3.03%	5.30%	6.56%	6.35%

	As of December 31,				
	1999	1998	1997	1996	1995
Total assets	\$5,771,745	\$5,292,932	\$4,872,852	\$4,523,148	\$3,916,187
Long-term debt	\$2,107,460	\$1,775,338	\$1,583,902	\$1,409,512	\$1,095,211
Equity (4)	\$2,121,185	\$1,994,021	\$1,880,461	\$1,879,433	\$1,559,913

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

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

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

(a) Liquidity and Capital Resources

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

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

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

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

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

- (1) Includes approximately \$30,500,000 and \$7,700,000 in 1999 and 1998, respectively, for the construction of an operations support office. Includes \$176,000,000 in 2000 for the properties to be acquired from GTE and US West.
- (2) Includes approximately \$38,000,000 and \$60,000,000 in 2000 and 1999, respectively, of non-cash capital lease additions.
- (3) The 2000 budget assumes full year ownership of discontinued operations and includes approximately \$41,900,000 for a special water pipeline project.

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

Acquisitions

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

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

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

Divestiture

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

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

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

Sale of Investments

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

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

A subsidiary of the Company, in a joint venture with a subsidiary of Century, owned and operated four cable television systems in southern California serving over 90,000 basic subscribers. In July 1999, the Company entered into a separate agreement with Adelphia to sell its interest in the joint venture. Pursuant to this agreement on October 1, 1999, the Company received approximately \$17,700,000 in cash and 1,852,302 shares of Adelphia Class A Common Stock (for a total market value of \$133,300,000 based on Adelphia's October 1, 1999 closing price of \$57.00). The Company realized and reported a pre-tax gain of approximately \$83,900,000 in the fourth quarter of 1999 in Investment income.

Hungarian Telephone and Cable Corp.

In May 1999, in connection with HTCC's debt restructuring, the Company cancelled a note obligation from HTCC to the Company and a seven-year consulting services agreement in exchange for the issuance by HTCC to the Company of 1,300,000 shares of HTCC Common Stock and 30,000 shares of HTCC's 8% convertible preferred stock. Each share of HTCC convertible preferred stock has a liquidation value of \$70.

and is convertible at the option of the Company into 10 shares of HTCC Common Stock. To the extent the 1,300,000 HTCC common shares and the 300,000 HTCC common shares underlying the HTCC convertible preferred stock do not achieve an average market closing price of at least \$7 per share for the twenty trading days ending March 31, 2000, HTCC has agreed to issue additional HTCC convertible preferred shares with a value equal to any such shortfall. As of March 15, 2000, the stock was trading at \$8 1/4 per share.

Regulatory Environment

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

Impact of Year 2000

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

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

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

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

New Accounting Pronouncements

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

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

(b) Results of Operations

REVENUES

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

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

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

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

Long distance and data services revenues decreased \$20.1 million, or 21%, in 1999 primarily due to the elimination of long distance product offerings to out-of-territory customers, partially offset by increased long distance minutes of use by in-territory customers. Long distance and data services revenues increased \$3.8 million, or 6%, in 1998 primarily due to the curtailment of certain communications sector long distance service operations in adjacent markets beginning in 1997.

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

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

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

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
(\$ in thousands)					
ELI revenues					
Network services	\$ 53,249	46%	\$36,589	9%	\$33,522
Local telephone services	77,591	103%	38,169	261%	10,561
Long distance services	26,698	117%	12,309	51%	8,140
Data services	29,470	113%	13,813	56%	8,557
Eliminations	(2,817)	(8%)	(3,061)	(8%)	(3,341)
Total	<u>\$184,191</u>	<u>88%</u>	<u>\$97,819</u>	<u>69%</u>	<u>\$57,741</u>

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

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

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

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

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

NETWORK ACCESS EXPENSE

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

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

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

DEPRECIATION AND AMORTIZATION EXPENSE

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

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

OTHER OPERATING EXPENSES

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

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

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

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

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

INCOME FROM OPERATIONS

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

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

INVESTMENT AND OTHER INCOME

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

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

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

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

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

MINORITY INTEREST

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

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

INTEREST EXPENSE

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

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

INCOME TAXES

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

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

DISCONTINUED OPERATIONS

	1999		1998		1997
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
	(\$ in thousands)				
Revenues	\$613,216	1%	\$609,314	14%	\$533,287
Operating income	\$ 82,179	(15%)	\$ 96,525	45%	\$ 66,623
Net income	\$ 27,359	(25%)	\$ 36,528	160%	\$ 14,023

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

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

NET INCOME AND NET INCOME PER COMMON SHARE

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

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

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

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

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

ITEM 8. Financial Statements and Supplementary Data

The following documents are filed as part of this Report:

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

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

Part III

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

Part IV

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

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

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

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

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

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

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

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

(b) Reports on Form 8-K:

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

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS UTILITIES COMPANY
(Registrant)

By: /s/ Leonard Tow

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

March 22, 2000

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

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Citizens Utilities Company:

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

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

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

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

KPMG LLP

New York, New York
March 14, 2000

Citizens Utilities Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 1999, 1998 and 1997

(\$ in thousands)	1999	1998	1997
Assets			
Current assets:			
Cash	\$ 37,141	\$ 31,922	\$ 35,163
Accounts receivable:			
Customers	213,457	175,074	270,191
Other	56,340	77,009	46,487
Less allowance for doubtful accounts	28,278	18,348	25,254
Net accounts receivable	241,519	233,735	191,424
Materials and supplies	12,624	13,706	11,411
Other current assets	17,340	27,999	43,871
Total current assets	308,624	306,561	281,869
Property, plant and equipment	4,458,654	4,045,752	3,576,434
Less accumulated depreciation	1,569,936	1,340,665	1,181,647
Net property, plant and equipment	2,888,718	2,705,087	2,394,787
Investments	591,386	464,146	447,693
Regulatory assets	184,942	189,866	194,237
Deferred debits and other assets	141,661	113,223	115,038
Assets of discontinued operations	1,636,414	1,514,048	1,439,306
Total assets	\$5,771,745	\$5,292,932	\$4,872,852
Liabilities and Shareholders' Equity			
Current liabilities:			
Long-term debt due within one year	\$ 31,156	\$ 7,672	\$ 5,089
Short-term debt	—	110,000	—
Accounts payable	187,984	175,304	214,713
Income taxes accrued	75,161	53,599	45,064
Other taxes accrued	27,823	22,091	21,243
Interest accrued	30,788	27,459	24,941
Customers' deposits	32,842	30,797	19,401
Other current liabilities	81,258	63,676	74,907
Total current liabilities	467,012	490,598	408,258
Deferred income taxes	460,208	442,908	420,709
Customer advances for construction	172,067	187,502	151,307
Deferred credits and other liabilities	87,668	77,967	105,880
Contributions in aid of construction	7,764	7,407	6,604
Regulatory liabilities	27,000	19,120	20,881
Long-term debt	2,107,460	1,775,338	1,583,902
Liabilities of discontinued operations	310,269	268,286	261,225
Minority interest in subsidiary	11,112	29,785	36,626
Company obligated mandatorily redeemable convertible preferred securities*	201,250	201,250	201,250
Shareholders' equity	1,919,935	1,792,771	1,679,211
Total liabilities and shareholders' equity	\$5,771,745	\$5,292,932	\$4,872,852

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

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

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

(\$ in thousands, except for per-share amounts)	1999	1998	1997*
Revenues	\$1,087,428	\$932,858	\$860,332
Operating expenses:			
Network access	111,419	105,003	110,057
Depreciation and amortization	262,430	198,658	186,530
Other operating expenses	705,511	547,553	614,526
Total operating expenses	<u>1,079,360</u>	<u>851,214</u>	<u>911,113</u>
Income (loss) from operations	8,068	81,644	(50,781)
Non operating gain on sale of subsidiary stock	—	—	78,714
Investment income	243,621	32,038	33,397
Other income (loss), net	(20)	(26,746)	7,999
Minority interest	23,227	14,032	645
Interest expense	<u>86,972</u>	<u>67,944</u>	<u>65,779</u>
Income before income taxes, dividends on convertible preferred securities, discontinued operations and cumulative effect of change in accounting principle	187,924	33,024	4,215
Income taxes	<u>64,587</u>	<u>3,948</u>	<u>1,928</u>
Income before dividends on convertible preferred securities, discontinued operations and cumulative effect of change in accounting principle	123,337	29,076	2,287
Dividends on convertible preferred securities, net of income tax benefit	<u>6,210</u>	<u>6,210</u>	<u>6,210</u>
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	117,127	22,866	(3,923)
Income from discontinued operations, net of tax	<u>27,359</u>	<u>36,528</u>	<u>14,021</u>
Income before cumulative effect of change in accounting principle	144,486	59,394	10,100
Cumulative effect of change in accounting principle, net of income tax benefit and related minority interest	—	2,334	—
Net income	144,486	57,060	10,100
Other comprehensive income (loss), net of tax and reclassification adjustments	<u>(41,769)</u>	<u>52,872</u>	<u>10,832</u>
Total comprehensive income	<u>\$ 102,717</u>	<u>\$109,932</u>	<u>\$ 20,932</u>
Income (loss) before discontinued operations and cumulative effect of change in accounting principle per common share:			
Basic	\$.45	\$.09	\$ (.02)
Diluted	\$.45	\$.09	\$ (.02)
Income from discontinued operations per common share:			
Basic	\$.10	\$.14	\$.01
Diluted	\$.10	\$.14	\$.05
Income before cumulative effect of change in accounting principle per common share:			
Basic	\$.55	\$.23	\$.04
Diluted	\$.55	\$.23	\$.04
Net income per common share:			
Basic	\$.55	\$.22	\$.04
Diluted	\$.55	\$.22	\$.04

* Adjusted for subsequent stock dividends.

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

Citizens Utilities Company and Subsidiaries

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

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

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

Citizens Utilities Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999, 1998 and 1997

(\$ in thousands)	1999	1998	1997
Net cash provided by continuing operating activities . . .	\$ 347,509	\$ 156,098	\$ 139,856
Cash flows used for investing activities:			
Securities matured	7,435	2,000	16,201
Securities sold	1,084,190	992,761	578,322
Securities purchased	(1,068,450)	(952,628)	(434,030)
Construction expenditures	(484,776)	(353,176)	(414,656)
Business acquisitions	—	(89,234)	—
Other	(2,786)	(1,052)	25,686
	<u>(464,387)</u>	<u>(401,329)</u>	<u>(228,471)</u>
Cash flows from financing activities:			
Long-term debt borrowings	341,471	242,647	143,801
Issuance of common stock	21,113	7,101	4,825
Issuance of subsidiary stock	—	—	118,554
Short-term debt borrowings (repayments)	(110,000)	42,000	—
Common stock buybacks to fund stock dividends	(6,625)	(14,823)	(48,552)
Long-term debt principal payments	(45,286)	(4,574)	(3,234)
Other	(2,552)	—	(1,380)
	<u>198,121</u>	<u>272,351</u>	<u>214,014</u>
Cash used for discontinued operations	<u>(76,024)</u>	<u>(30,361)</u>	<u>(114,464)</u>
Increase (decrease) in cash	5,219	(3,241)	10,933
Cash at January 1,	31,922	35,163	24,230
Cash at December 31,	<u>\$ 37,141</u>	<u>\$ 31,922</u>	<u>\$ 35,163</u>

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

(1) Summary of Significant Accounting Policies:

(a) Description of Business:

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

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

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

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

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

(b) Principles of Consolidation and Use of Estimates:

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

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

(c) Revenues:

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

(d) Construction Costs and Maintenance Expense:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

(e) Depreciation Expense:

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

(f) Regulatory Assets and Liabilities:

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

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

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

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

(h) Investments and Short-Term Debt:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

(j) **Employee Stock Plans:**

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(l) Net Income Per Common Share:

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

(m) Changes in Accounting Principles:

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

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

(2) Property, Plant and Equipment:

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

	1999	1998	1997
		(\$ in thousands)	
Telephone outside plant	\$2,244,808	\$2,067,566	\$1,963,187
Telephone central office equipment	1,272,647	1,076,030	979,870
Information systems and other administrative assets	619,865	501,870	273,869
Construction work in progress	286,836	372,248	339,303
Other	34,498	28,038	20,203
	<u>\$4,458,654</u>	<u>\$4,045,752</u>	<u>\$3,576,434</u>

(3) Mergers and Acquisitions:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

(4) Discontinued Operations:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

	1999	1998	1997
		(\$ in thousands)	
Current assets	\$ 109,250	\$ 107,478	\$ 93,410
Net property, plant and equipment	1,459,958	1,343,536	1,273,006
Other assets	87,206	63,034	70,790
Total assets	<u>\$1,656,414</u>	<u>\$1,514,048</u>	<u>\$1,437,206</u>
Current liabilities	\$ 18,040	\$ 17,133	\$ 12,613
Long-term debt	133,817	124,908	122,630
Other liabilities	158,412	126,245	125,982
Total liabilities	<u>\$ 310,269</u>	<u>\$ 268,286</u>	<u>\$ 261,225</u>
Revenues	\$ 613,216	\$ 609,514	\$ 533,287
Operating income	82,179	96,525	66,623
Income taxes	14,230	18,389	5,455
Net income	\$ 27,359	\$ 36,528	\$ 14,021

(5) Investments:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

(6) Fair Value of Financial Instruments:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(7) Long-term Debt:

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

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

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

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

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

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

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

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

(8) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

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

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

(9) Capital Stock:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Dividend Rates	
	1998	1997
First quarter . . . . .	.75%	1.6%
Second quarter . . . . .	.75%	1.6%
Third quarter . . . . .	.75%	1.0%
Fourth quarter . . . . .	.75%	1.0%
Total	<u>3.0%</u>	<u>5.2%</u>
Compounded Total	<u>3.03%</u>	<u>5.30%</u>
Cash Equivalent	<u>28$\frac{5}{16}$¢</u>	<u>51$\frac{1}{4}$¢</u>

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

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

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

	Number of Shares
Balance at January 1, 1997	239,148,000
Acquisitions	2,417,000
Common stock dividends	12,591,000
Common stock buybacks	(4,904,000)
Common stock issued to fund EPPICS dividends	986,000
Stock plans	<u>736,000</u>
Balance at December 31, 1997	250,994,000
Acquisitions	532,000
Common stock dividends	7,657,000
Common stock buybacks	(1,811,000)
Common stock issued to fund EPPICS dividends	1,093,000
Stock plans	<u>684,000</u>
Balance at December 31, 1998	259,149,000
Common stock buybacks	(631,000)
Common stock issued to fund EPPICS dividends	1,005,000
Stock plans	<u>2,553,000</u>
Balance at December 31, 1999	<u>262,076,000</u>

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

(10) Stock Plans:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

		1999	1998	1997
			(\$ in thousands)	
Net Income	As reported	\$144,486	\$57,060	\$10,100
	Pro forma	130,613	46,005	7,217
Net Income per common share	As reported:			
	Basic	\$.55	\$.22	\$.04
	Diluted	.55	.22	.04
	Pro forma:			
	Basic	\$.50	\$.18	\$.03
	Diluted	.50	.18	.03

The full impact of calculating compensation cost for stock options is not reflected in the pro forma amounts above because pro forma compensation cost only includes costs associated with the vested portion of options granted pursuant to the MEIP, EIP, ESPP, ELI ESPP and ELI EIP on or after January 1, 1993.

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

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

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

Management Equity Incentive Plan

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

Equity Incentive Plan

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Employee Stock Purchase Plan

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

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	29%	26%	33%
Risk-free interest rate	5.28%	4.91%	5.45%
Expected life	6 months	6 months	6 months

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

ELI Employee Stock Purchase Plan

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

ELI Equity Incentive Plan

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

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

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1997	—	\$ —
Options granted	2,326,000	16.00
Balance at December 31, 1997	2,326,000	16.00
Options granted	1,634,000	10.77
Options canceled, forfeited or lapsed	(1,649,000)	16.21
Balance at December 31, 1998	2,331,000	12.14
Options granted	1,989,000	9.51
Options exercised	(116,000)	9.73
Options canceled, forfeited or lapsed	(680,000)	10.12
Balance at December 31, 1999	3,524,000	\$10.96

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

	1999	1998	1997
Dividend yield	—	—	—
Expected volatility	66%	71%	11%
Risk-free interest rate	5.34%	5.44%	5.87%
Expected life	6 years	6 years	7 years

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

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

Directors' Deferred Fee Equity Plan

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

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

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

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

(11) 1999 Restructuring Charges:

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

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

(12) 1997 Charges to Earnings:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(13) Income Taxes:

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

	1999	1998	1997
	(\$ in thousands)		
Consolidated tax provision at federal statutory rate	\$65,773	\$11,558	\$ 1,478
State income tax provisions (benefit), net of federal income tax	1,266	(495)	1,352
Allowance for funds used during construction	(1,072)	(1,322)	(1,441)
Nontaxable investment income	(2,609)	(2,932)	(4,726)
Amortization of investment tax credits	(613)	(548)	(657)
Flow through depreciation	5,706	4,870	3,946
Tax reserve adjustment	1,455	(4,760)	564
Company owned life insurance	2,599	561	1,190
Minority interest	(8,290)	(2,433)	—
All other, net	372	(551)	125
	<u>\$64,587</u>	<u>\$ 3,948</u>	<u>\$ 1,928</u>

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	<u>(\$ in thousands)</u>		
Income taxes charged (credited) to the income statement for continuing operations:			
Current:			
Federal	\$39,735	\$(17,866)	\$ 11,081
State	1,594	(2,171)	(353)
Total current	<u>41,129</u>	<u>(20,037)</u>	<u>10,728</u>
Deferred:			
Federal	23,517	23,124	(10,576)
Investment tax credits	(613)	(547)	(657)
State	534	1,408	2,433
Total deferred	<u>23,438</u>	<u>21,985</u>	<u>(8,800)</u>
Subtotal	<u>64,587</u>	<u>3,948</u>	<u>1,928</u>
Income taxes charged (credited) to the income statement for discontinued operations:			
Current:			
Federal	6,170	18,222	2,577
State	937	2,464	191
Total current	<u>7,107</u>	<u>18,686</u>	<u>2,768</u>
Deferred:			
Federal	6,662	676	2,902
Investment tax credits	(1,073)	(1,079)	(1,083)
State	1,534	106	668
Total deferred	<u>7,123</u>	<u>(297)</u>	<u>2,487</u>
Subtotal	<u>14,230</u>	<u>18,389</u>	<u>5,255</u>
Income tax benefit on dividends on convertible preferred securities:			
Current:			
Federal	(3,344)	(3,344)	(3,344)
State	(508)	(508)	(508)
Subtotal	<u>(3,852)</u>	<u>(3,852)</u>	<u>(3,852)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

(14) Net Income Per Common Share:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(15) Comprehensive Income (Loss):

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

	Year Ended December 31, 1999		
	Before-Tax	Tax Expense	Net-of-Tax
	Amount	(Benefit)	Amount
	(\$ in thousands)		
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	\$ 56,746	\$ 21,722	\$ 35,024
Less: Reclassification adjustment for net gains realized in net income	<u>124,421</u>	<u>47,628</u>	<u>76,793</u>
Other comprehensive loss	<u>\$ (67,675)</u>	<u>\$ (25,906)</u>	<u>\$ (41,769)</u>

	Year Ended December 31, 1998		
	Before-Tax	Tax Expense	Net-of-Tax
	Amount	(Benefit)	Amount
	(\$ in thousands)		
Net unrealized gains on securities:			
Net unrealized holding gains arising during period	\$ 56,497	\$ 21,627	\$ 34,870
Add: Reclassification adjustment for net losses realized in net income	<u>29,167</u>	<u>11,165</u>	<u>18,002</u>
Other comprehensive income	<u>\$ 85,664</u>	<u>\$ 32,792</u>	<u>\$ 52,872</u>

(16) Segment Information:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

* Excludes \$14,147,000 of the 1997 charges to earnings.

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

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

	Year Ended December 31,		
	1999	1998	1997
	(\$ in thousands)		
EBITDA			
Total segment EBITDA	\$ 322,767	\$ 281,721	\$ 289,237
Investment and other income	22,513	37,197	41,396
Non operating gain on sale of subsidiary stock	—	—	73,334
Special items	155,819	(53,324)	153,488
Discontinued operations	148,190	158,349	112,310
Consolidated EBITDA	\$ 662,289	\$ 441,943	\$ 548,194
Capital expenditures			
Total segment capital expenditures	\$ 472,871	\$ 401,455	\$ 387,360
General capital expenditures	6,741	25,123	31,334
Discontinued operations capital expenditures	135,104	93,456	103,593
Consolidated reported capital expenditures	\$ 613,416	\$ 522,033	\$ 524,484
Assets			
Total segment assets	\$3,197,806	\$2,971,287	\$2,673,407
General assets	917,315	807,597	780,149
Discontinued operations assets	1,636,414	1,514,048	1,419,106
Consolidated reported assets	\$3,771,745	\$3,292,932	\$4,572,832

	<u>Revenue</u>	<u>Net Income</u>	<u>Basic</u>	<u>Net Income Per Common Share</u>
	(\$ in thousands)			
<u>1999</u>				
First quarter	\$264,750	\$54,623	\$21	\$ 21
Second quarter	273,946	7,733	01	01
Third quarter	271,517	11,905	05	05
Fourth quarter	277,215	70,100	27	26
	<u>Revenue</u>	<u>Net Income</u>	<u>Basic</u>	<u>Net Income Per Common Share</u>
	(\$ in thousands)			
<u>1998</u>				
First quarter	\$224,540	\$26,779	\$ 10	\$ 10
Second quarter	224,511	14,462	06	06
Third quarter	236,324	14,461	06	06
Fourth quarter	247,483	1,358	01	01

NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

(18) Supplemental Cash Flow Information:

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

	1999	1998	1997
	(\$ in thousands)		
Income (Loss) from continuing operations	\$ 117,127	\$ 20,532	\$ (3,923)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	262,430	198,658	186,530
Non cash charges to earnings	36,136	—	122,733
Investment gains	(221,088)	—	—
Non cash HTCC investment write off	—	31,905	—
Cumulative effect of change in accounting principle	—	3,394	—
Gain on sale of subsidiary stock	—	—	(78,734)
Allowance for equity funds used during construction	(2,547)	(2,700)	(4,566)
Deferred income tax and investment tax credit	30,581	23,687	(6,373)
Change in operating accounts receivable	(7,783)	(40,770)	(41,743)
Change in accounts payable and other	91,088	(112,809)	(27,982)
Change in accrued taxes and interest	30,624	17,996	(4,458)
Change in other assets	10,941	16,205	(1,628)
Net cash provided by continuing operating activities	<u>\$ 347,509</u>	<u>\$ 156,098</u>	<u>\$139,856</u>

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

	1999	1998
	(\$ in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$252,914	\$208,520
Service cost	13,234	10,747
Interest cost	17,200	15,703
Amendments	(1,877)	1,487
Actuarial (gain)/loss	(33,039)	27,941
Acquisitions	—	8,344
Benefits paid	(20,830)	(16,854)
Benefit obligation at end of year	<u>\$227,602</u>	<u>\$252,914</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$232,536	\$201,834
Actual return on plan assets	21,760	24,749
Acquisitions	—	10,875
Employer contribution	5,420	11,932
Benefits paid	(20,830)	(16,854)
Fair value of plan assets at end of year	<u>\$238,886</u>	<u>\$232,536</u>
(Accrued)/Prepaid benefit cost		
Funded status	\$ 11,284	\$ (20,378)
Unrecognized net liability	146	189
Unrecognized prior service cost	1,673	3,682
Unrecognized net actuarial (gain)/loss	(13,911)	21,807
(Accrued)/Prepaid benefit cost	<u>\$ (808)</u>	<u>\$ 3,300</u>
Components of net periodic benefit cost		
Service cost	\$ 13,234	\$ 10,747
Interest cost on projected benefit obligation	17,200	15,703
Return on plan assets	(19,081)	(17,241)
Net amortization and deferral	176	400
Net periodic benefit cost	<u>\$ 11,528</u>	<u>\$ 9,609</u>

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

	1999	1998
Discount rate	7.0%/8.0%	7.5%/7.0%
Expected long-term rate of return on plan assets	8.25%/N/A	8.35%/N/A
Rate of increase in compensation levels	4.0%/4.0%	4.0%/4.0%

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Postretirement Benefits Other Than Pensions

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

401(k) Savings Plans

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

(20) Commitments and Contingencies:

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

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

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

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

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

In 1995, ELI entered into a \$110 million construction agency agreement and an operating lease agreement in connection with the construction of certain communications networks and fiber cable links. ELI acted as agent for the construction of these projects and, upon completion of each project, leased the facilities for a three year term, with one year renewals available through April 30, 2001. At December 31, 1999 and 1998,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

Citizens Utilities Company and Subsidiaries

CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Income Statement Data						
Continuing operations (1)						
Revenues	19%	\$1,087,428	\$ 932,858	\$ 860,332	\$ 786,307	\$ 616,747
Network access	78%	111,419	105,003	110,057	64,645	15,626
Depreciation and amortization ..	26%	257,574	198,658	186,530	153,571	120,608
Other operating expenses	24%	653,242	546,134	461,038	361,554	306,317
Operating income	-15%	65,193	83,063	102,707	206,537	174,196
Special items (2)	n/a	(57,125)	(1,419)	(153,488)	---	---
Operating income (loss) including special items	-44%	8,068	81,644	(50,781)	206,537	174,196
Investment and other income ..	-11%	22,513	37,197	41,396	75,539	51,123
Minority interest	n/a	23,227	14,032	645	---	---
Interest expense	14%	86,972	67,944	65,779	56,616	57,143
Special items (3)	n/a	221,088	(34,239)	78,734	---	---
Income taxes	6%	64,587	3,948	1,928	69,311	50,675
Convertible preferred dividends ..	n/a	6,210	6,210	6,210	5,849	---
Income (loss) from continuing operations	4%	117,127	20,532	(3,923)	150,300	117,501
Income from discontinued operations, net of tax	-10%	27,359	36,528	14,023	28,360	42,024
Net income	—	144,486	57,060	10,100	178,660	159,525
EBITDA and Capital Expenditure Data (excludes special items)						
EBITDA from continuing operations (4)						
5%	\$ 345,280	\$ 318,918	\$ 330,633	\$ 435,647	\$ 345,927	
EBITDA from discontinued operations (4)						
4%	153,373	159,053	154,398	120,227	117,106	
Total Company EBITDA (4)	5%	498,653	477,971	485,031	555,874	463,033
Capital expenditures from continuing operations (5)						
17%	419,611	426,576	420,894	244,413	151,267	
Capital expenditures from discontinued operations						
10%	135,804	95,456	163,595	71,330	69,466	
Total Company capital expenditures (5)	15%	555,415	522,032	584,489	315,743	220,733
Balance Sheet Data						
Cash and investments	11%	\$ 528,517	\$ 436,068	\$ 451,858	\$ 600,920	\$ 553,396
Total assets	10%	5,771,745	5,292,532	4,872,652	4,513,149	3,916,057
Net plant (continuing operations) ..	13%	2,939,718	2,703,087	2,394,787	2,037,293	1,654,673
Long-term debt (including operations)						
18%	2,107,460	2,775,338	3,583,901	3,408,510	3,092,311	
Equity (6)	13%	2,121,185	1,994,801	1,690,457	1,579,433	1,559,073
Shares of common stock outstanding						
6%	262,874	259,149	259,794	239,148	227,597	
Weighted average shares outstanding						
2%	260,611	258,879	260,216	241,556	230,484	

CONSOLIDATED FINANCIAL DATA—(Continued)

(Dollars in thousands, except per-share and other financial data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Per-Share Data						
Basic net income per share of common stock	-2%	\$ 0.55	\$.22	\$.04	\$.68	\$.64
EBITDA per share from continuing operations (4)	3%	\$ 1.32	\$ 1.23	\$ 1.27	\$ 1.67	\$ 1.58
EBITDA per share from discontinued operations (4)	2%	\$.59	\$.62	\$.59	\$.46	\$.51
Total Company EBITDA per share (4)	3%	\$ 1.91	\$ 1.85	\$ 1.86	\$ 2.13	\$ 2.09
Book value per share	9%	\$ 7.37	\$ 6.93	\$ 6.45	\$ 6.42	\$ 6.21
Other Financial Data						
Long-term debt to long-term debt and equity	n/a	50%	47%	46%	43%	41%
Common equity market capitalization (in billions)	n/a	\$ 3.7	\$ 2.1	\$ 2.4	\$ 2.6	\$ 2.9
Equity market capitalization (in billions) (6)	n/a	\$ 4.0	\$ 2.3	\$ 2.6	\$ 2.8	\$ 2.9
Market capitalization (in billions) (7)	n/a	\$ 6.0	\$ 4.2	\$ 4.3	\$ 4.2	\$ 4.0

(1) The Company's Communications and CLEC (Competitive Local Exchange Carrier) businesses. The Company is reporting its Public Services businesses as discontinued operations.

(2) For 1999, special items include asset impairment charges, accelerated depreciation related to the change in useful life of an operating system, costs associated with an executive retirement agreement, restructuring charges, pre-acquisition integration costs and separation costs. For 1998, special items include separation costs. For 1997, special items include charges for the curtailment of certain long distance service operations, benefit plan curtailments and related regulatory asset impairments, telecommunications information systems and software impairments, and charges related to certain regulatory commission orders.

(3) For 1999, special items include a gain of \$69.5 million (\$42.9 million net of tax) on the sale of Centennial Cellular stock, a gain of \$67.6 million (\$41.7 million net of tax) on the disposition of Century Communications Corp. stock and a gain of \$53.8 million (\$31.8 million net of tax) on the disposition of an interest in a cable joint venture. For 1998, special items include the write down of the Company's investment in HTCC and the cumulative effect of a change in accounting principle for ELL. For 1997, special items include the non operating gain on the sale of subsidiary stock (ELL).

(4) EBITDA is operating income plus depreciation plus investment and other income.

(5) Excludes non-cash capital lease additions (ELL) of \$60 million in 1999.

(6) Includes convertible preferred securities.

(7) Equity market capitalization plus market value of long-term debt.

SECTOR FINANCIAL AND OPERATING DATA

(Dollars in thousands, except operating data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Citizens Communications						
Select Income Statement Data						
Revenue						
Network access services	14%	\$ 503,365	\$ 432,018	\$ 403,990	\$ 391,151	\$ 334,952
Local network services	16%	287,616	262,239	250,521	232,904	197,092
Long distance and data services	n/a	76,495	96,584	104,914	59,072	14,217
Directory services	13%	33,449	31,691	31,982	30,248	24,866
Other	14%	48,343	44,914	48,922	50,084	29,486
Eliminations (1)	n/a	(46,031)	(32,407)	(23,573)	(11,250)	(1,436)
Total revenues	15%	903,237	835,039	816,756	752,209	599,177
Network access	n/a	80,320	89,514	96,303	61,432	10,372
Depreciation and amortization	23%	221,285	181,656	175,363	148,022	114,218
Other operating expenses	18%	491,300	440,351	431,861	323,501	285,428
Eliminations (1)	n/a	(48,848)	(35,468)	(26,914)	(12,569)	(2,151)
Operating income	1%	159,180	158,986	140,143	231,823	191,310
Special items (2)	n/a	(55,453)	(1,419)	(142,723)	—	—
Operating income (loss) including special items	n/a	103,727	157,567	(2,580)	231,823	191,310
EBITDA and Capital Expenditure Data						
EBITDA (3)	10%	\$ 380,465	\$ 340,642	\$ 315,506	\$ 379,845	\$ 305,528
Capital expenditures	14%	227,176	201,453	263,011	184,041	113,657
Free cash flow (4)	7%	153,289	139,189	52,495	195,804	(91,871)
Select Balance Sheet Data						
Total assets	8%	\$2,422,572	\$2,438,978	\$2,313,535	\$2,204,149	\$1,984,927
Net plant	8%	2,106,299	2,122,858	2,022,176	1,844,050	1,703,740
Operating Data						
Access lines	7%	996,757	951,513	895,880	834,180	776,764
Revenue per access line	7%	\$ 906	\$ 878	\$ 912	\$ 902	\$ 771
Switched access minutes of use (in millions)	n/a	5,224	4,526	4,496	4,251	3,168
Employees	8%	3,634	3,562	3,520	3,290	2,865
Citizens' long distance minutes of use (in millions)						
— in territory	n/a	519	483	435	212	74
— out of territory	n/a	51	221	414	174	11
— total	n/a	570	704	849	386	85
Citizens' long distance customers						
— in territory	n/a	239,037	230,871	236,000	179,133	47,049
— out of territory	n/a	1,722	8,101	22,000	40,003	6,785
— total	n/a	240,759	238,972	258,000	219,136	53,834
Citizens' long distance in territory customer market share	n/a	24%	24%	27%	21%	6%

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

(1) Eliminations represent activities between the Company's local exchange operations and its long-distance and competitive local exchange operations.

(2) For 1995, special items include asset impairment charges, accelerated depreciation related to the change in useful life of an operating system, costs associated with an executive retirement agreement, restructuring charges, pre-acquisition integration costs and separation costs. For 1996, special items include separation costs. For 1997, special items include charges for the curtailment of certain long distance service operations, benefit plan curtailments and related regulatory asset impairments, telecommunications information systems and software impairments, and charges related to certain regulatory commission orders.

(3) Operating income excluding special items plus depreciation.

(4) EBITDA less capital expenditures.

SECTOR FINANCIAL AND OPERATING DATA

(Dollars in thousands, except operating data)	Five-Year Compounded Annual Growth	1999	1998	1997	1996	1995
Electric Lightwave, Inc.						
Selected Income Statement Data						
<i>Revenues</i>						
Dedicated services	50%	\$ 53,249	\$ 36,589	\$ 33,522	\$ 19,947	\$ 14,117
Local dial tone services	n/a	77,591	38,169	10,565	2,533	676
Long distance services	n/a	26,698	12,309	8,140	7,212	1,566
Enhanced services	93%	39,470	13,813	9,857	5,703	1,666
Eliminations (1)	n/a	(2,817)	(3,061)	(3,341)	(1,319)	715
<i>Total revenues</i>	87%	184,191	97,819	57,743	34,598	17,570
Network access	67%	79,947	50,987	29,546	13,781	7,405
<i>Gross margin</i>	121%	104,244	46,862	28,197	18,316	10,165
Depreciation and amortization	82%	36,289	17,001	11,167	5,549	6,590
Other operating expenses	115%	161,942	105,783	54,466	38,053	20,889
<i>Operating loss</i>	95%	(93,987)	(75,923)	(37,416)	(25,286)	(17,114)
Special items (2)	n/a	(1,672)	—	(10,765)	—	—
Operating loss including special items . .	96%	(95,659)	(75,923)	(48,201)	(25,286)	(17,114)
EBITDA and Capital Expenditure Data						
EBITDA (3)	-107%	\$ (57,698)	\$ (58,921)	\$ (26,269)	\$ (19,537)	\$ (10,724)
Capital expenditures (4)	29%	185,695	200,000	124,516	41,607	27,405
Free cash flow (5)	-35%	(243,393)	(258,921)	(150,815)	(61,144)	(38,129)
Select Balance Sheet Data						
Total assets	47%	\$ 775,134	\$ 532,309	\$ 339,962	\$ 206,190	\$ 114,079
Gross plant—owned	49%	771,947	528,382	328,664	196,738	119,275
—leased	57%	108,541	108,541	87,426	62,485	41,446
—total	50%	880,488	637,123	416,090	259,223	160,721
Operating Data						
Route miles	46%	4,032	3,091	2,494	1,428	780
Fiber miles	42%	214,864	181,368	140,812	92,663	52,013
Customers	61%	2,371	1,444	1,165	763	402
Buildings connected	34%	824	786	610	438	281
Employees	56%	1,167	1,090	873	402	215
Revenue per employee	20%	\$ 157,833	\$ 89,742	\$ 100,773	\$ 84,511	\$ 78,049
ELI public enterprise value (6)	n/a	\$ 1,592,387	\$ 716,098	\$ 815,867	n/a	n/a

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

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

Shareholder Information

STOCK MARKET INFORMATION

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

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

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

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

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1999:								
CZN	\$8½	\$7¼	\$11½	\$7½	\$12½	\$10¾	\$14½	\$10½
EPPICS	\$42½	\$38¾	\$48¾	\$40¼	\$52	\$48¾	\$56¾	\$48½
1998:								
CZN	\$10¾	\$8¾	\$11¾	\$9½	\$10	\$6¾	\$9¼	\$7¼
EPPICS	\$49½	\$47	\$50¼	\$47½	\$47½	\$40½	\$44¼	\$39¼

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

COMMON STOCK

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

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

BOOK ENTRY

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

STOCK DIVIDEND SALE PLAN

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

DIRECT STOCK PURCHASE AND SALE PLAN

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

STOCK SAFEKEEPING PROGRAM

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

CITIZENS EPPICS

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

STOCK TRANSFER AGENT

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

WORLD WIDE WEBSITES

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

SHAREHOLDER INQUIRIES

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

CORPORATE HEADQUARTERS

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

www.czn.net

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of July 20, 2000 through July 26, 2000

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing. Phone: 605-773-3705 Fax: 605-773-3809

CONSUMER COMPLAINTS

CT00-089 In the Matter of the Complaint filed by Helen Christensen, Colton, South Dakota, against Sprint Communications Company L.P. and Business Options, Inc., Regarding Unauthorized Switching of Services.

The Complainant alleges that her telecommunication service was switched without her authorization. She began to receive billings from Business Options. She is seeking credit of charges and compensation for her time.

Staff Analyst: Leni Healy
Staff Attorney: Karen Cremer
Date Docketed: 07/25/00
Intervention Deadline: NA

CT00-090 In the Matter of the Complaint filed by Ed and Janice St. Gemme, Dakota Dunes, South Dakota, against AT&T Communications of the Midwest, Inc., Regarding Unauthorized Switching of Services.

The Complainants claim that they did not authorize a switch in service. They received billings from AT&T although AT&T claims that the St. Gemme family is not a customer of AT&T. The Complainants are seeking a final resolution to this issue.

Staff Analyst: Leni Healy
Staff Attorney: Karen Cremer
Date Docketed: 07/25/00
Intervention Deadline: NA

TELECOMMUNICATIONS

TC00-112 In the Matter of the Application of Citizens Telecommunications Company of Minnesota, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

Citizens Telecommunications Company of Minnesota, Inc. has filed for a Certificate of Authority to provide local exchange service to subscribers of the Ortonville-Big Stone and Jasper, Minnesota exchanges located within the state of South Dakota. Citizens Minnesota proposes to offer local exchange service and may expand to include cellular, paging and personal communications services.

Staff Analyst: Michele Farris
Date Docketed: 07/19/00
Intervention Date: 08/11/00

TC00-113 In the Matter of the Application of Citizens Telecommunications Company of Nebraska, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

Citizens Telecommunications Company of Nebraska, Inc. has filed for a Certificate of Authority to provide local exchange service to subscribers of the Valentine exchange located within the state of South Dakota. Citizens Nebraska proposes to offer local exchange service and may expand to include cellular, paging and personal communications services.

Staff Analyst: Michele Farris
Date Docketed: 07/19/00
Intervention Date: 08/11/00

TC00-114 In the Matter of the Application of S&S Communications/Alternacell for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

S&S Communications/Alternacell (S&S) is seeking a Certificate of Authority to provide resold and facilities based interexchange telecommunications services in South Dakota. The applicant intends to offer interstate and intrastate long distance, voice mail services, 800 number services, and calling card services. S&S does not intend to provide operator services, which will be provided by S&S's underlying carriers and/or applicable local exchange carriers.

Staff Analyst: Keith Senger
Date Docketed: 07/21/00
Intervention Deadline: 08/11/00

TC00-115 In the Matter of the Application of Utility.com, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Utility.com, Inc. is seeking a Certificate of Authority as a switch-based reseller in South Dakota. The applicant intends to offer 1+ and 101XXXX direct outbound dialing, 800/888 toll-free inbound dialing, travel card service, and prepaid calling card service.

Staff Analyst: Heather Forney
Date Docketed: 07/24/00
Intervention Deadline: 08/11/00

You may receive this listing and other PUC publications via our website or via internet e-mail. You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc/>

TC00-112

RECEIVED

JAN 30 2001

INDEMNITY BOND

to the

PEOPLE OF THE STATE OF SOUTH DAKOTA

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Bond Number 37S 103319692 BCM

CITIZENS TELECOMMUNICATIONS COMPANY
We, OF MINNESOTA, INC., the principal and applicant
for a CERTIFICATE OF AUTHORITY, LOCAL EXCHANGE CARRIER telecommunications
services within the State of South Dakota and TRAVELERS CASUALTY AND SURETY CO.
OF AMERICA, as an admitted surety insurer, bind ourselves unto the Public
Utilities Commission of the State of South Dakota and the consumers of South
Dakota as Obligee, in the sum of \$25,000.00.

The conditions of the obligation are such that the principal, having been
granted such CERTIFICATE OF AUTHORITY subject to the provision that said
principal purchase this Indemnity Bond, and if said principal shall in all
respects fully and faithfully comply with all applicable provisions of South
Dakota State Law, and reimburse customers of CITIZENS TELECOMMUNICATIONS
COMPANY OF MINNESOTA, INC.
for any prepayment or deposits they have made which may be unable or unwilling
to return to said customers as a result of insolvency or other business failure,
then this obligation shall be void, discharges and forever exonerated, otherwise
to remain in full force and effect.

This bond shall take effect as of the date hereon and shall remain in
force and effect until the surety is released from liability by the written
order of the Public Utilities Commission, provided that the surety may cancel
this Bond and be relieved of further liability hereunder by delivering thirty
(30) days written notice to the Public Utilities Commission. Such cancellation
shall not affect any liability incurred or accrued hereunder prior to the
termination of said thirty (30) day period.

Dated this 8th day of January, 2001

To Be Effective this 1st day of January, 2001

*The original bond
is in Delaine's
bottom desk drawer.*

Countersigned this 8th day of
January, 2001

William M. Van Camp
South Dakota Resident Agent

CITIZENS TELECOMMUNICATIONS COMPANY
OF MINNESOTA, INC.

Principal

By [Signature]

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

By [Signature]

James E. Van Camp

Attorney-in-fact

**TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY
Hartford, Connecticut 06183-9062**

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, (hereinafter the "Companies") hath made, constituted and appointed, and do by these presents make, constitute and appoint: **Deanna D. Hanson, James E. Van Camp, William M. Van Camp, of Pierre, South Dakota,** their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, the following instrument(s): by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any time may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED: That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile (mechanical or printed) under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile or any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.

IN WITNESS WHEREOF, TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY have caused this instrument to be signed by their Senior Vice President and their corporate seals to be hereto affixed this 15th day of December 2000.

STATE OF CONNECTICUT

}SS. Hartford

COUNTY OF HARTFORD

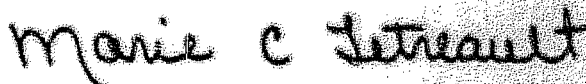
TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY



By 
George W. Thompson
Senior Vice President

On this 15th day of December, 2000 before me personally came GEORGE W. THOMPSON to me known, who, being by me duly sworn, did depose and say: that he/she is Senior Vice President of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, the corporations described in and which executed the above instrument; that he/she knows the seals of said corporations; that the seals affixed to the said instrument are such corporate seals; and that he/she executed the said instrument on behalf of the corporations by authority of his/her office under the Standing Resolutions thereof.





My commission expires June 30, 2001 Notary Public
Marie C. Tetreault

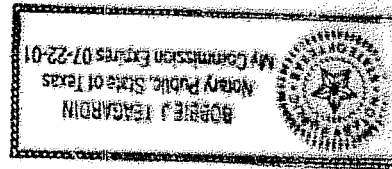
CERTIFICATE

I, the undersigned, Assistant Secretary of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, stock corporations of the State of Connecticut, DO HEREBY CERTIFY that the foregoing and attached Power of Attorney and Certificate of Authority remains in full force and has not been revoked; and furthermore, that the Standing Resolutions of the Board of Directors, as set forth in the Certificate of Authority, are now in force.

Signed and Sealed at the Home Office of the Company, in the City of Hartford, State of Connecticut. Dated this 15th day of January, 2001



By 
Kori M. Johanson
Assistant Secretary, Bond



ACKNOWLEDGMENT OF PRINCIPAL
(Corporate Officer)

STATE OF Texas
County of Dallas

On this 22nd day of January, 2001, before
me, personally appeared _____,
who acknowledged himself to be the _____ of _____

_____, a corporation,
and that he as such officer being authorized so to do, executed the foregoing instrument
for the purposes therein contained by signing the name of the corporation by himself
as such officer.

My commission expires

7-22-01

Robert J. Sacardi
Notary Public

ACKNOWLEDGMENT OF SURETY
(Attorney-in-fact)

STATE OF SOUTH DAKOTA
County of HUGHES



On this 8th day of January, 2001, before
me, the undersigned officer, personally appeared JAMES E. VAN CAMP,

known to me or satisfactorily proven to be the person whose name is subscribed as
Attorney-in-Fact for the TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
and acknowledged that he executed the same as the act of his Principal for the purposes
herein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

My Commission Expires

April 12, 2004

Deanna D. Hanson
Notary Public, South Dakota
DEANNA D. HANSON

RECEIVED

JAN 30 2001

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICE

Docket No. 00112

MOTION TO AMEND APPLICATION
FOR CERTIFICATE OF AUTHORITY

The above-named Applicant, Citizens Telecommunications Company of Minnesota (Citizens Minnesota), by and through its undersigned attorney, hereby moves the South Dakota Public Utilities Commission (Commission) to withdraw the Ortonville-Big Stone Exchange from its Application for Certificate of Authority (Docket No. TC-00112) filed on or about July 19, 2000. This Motion is based on the following:

1. At the time Citizens Minnesota filed the Application for Certificate of Authority, Citizens Minnesota had entered into agreements with GTE and US West to acquire the exchanges of Jasper and Ortonville-Big Stone, respectively. (See Paragraph 5 of Application.)


2. The closing of the purchase of the Ortonville-Big Stone Exchange from US West has been delayed, but the closing of the purchase of the Jasper Exchange from GTE has proceeded as scheduled.

3. Accordingly, Citizens Minnesota is requesting the Commission to take action on the Application for a Certificate of Authority for the Jasper Exchange as expeditiously as possible.

4. To the best of Applicant's knowledge, Applicant has complied with all data requests and other requests submitted by Commission Staff.

WHEREFORE, Applicant requests the Commission to withdraw the Ortonville-Big Stone Exchange from its Application, and to grant the Application for a Certificate of Authority for the Jasper Exchange.

DATED this thirtieth day of January, 2001.



Darla Pollman Rogers

Meyer & Rogers

P. O. Box 1117

Pierre, South Dakota 57501

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF	)	ORDER GRANTING MOTION
CITIZENS TELECOMMUNICATIONS	)	TO WITHDRAW AND
COMPANY OF MINNESOTA, INC. FOR A	)	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE	)	AUTHORITY
LOCAL EXCHANGE SERVICES IN SOUTH)	
DAKOTA	)	TC00-112

On July 19, 2000, the Public Utilities Commission (Commission) received an application for a certificate of authority from Citizens Telecommunications Company of Minnesota, Inc. (Citizens). On January 30, 2001, the Commission received a Motion to Amend Application for Certificate of Authority from Citizens.

Citizens proposes to offer local exchange services in the Jasper, Minnesota exchange.

On July 27, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of August 11, 2000, to interested individuals and entities. No petitions to intervene or comments were filed. At the meeting on February 6, 2001, Citizens explained that the Motion to Amend Application for Certificate of Authority was a request to withdraw the Ortonville-Big Stone exchange from its original application. At its regularly scheduled February 6, 2001, meeting, the Commission considered Citizens' request to withdraw the Ortonville-Big Stone exchange from its original application and its request for a certificate of authority. Commission Staff recommended granting the motion to withdraw and granting a certificate of authority, subject to a continuous \$25,000 surety bond.

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission finds that Citizens has met the legal requirements established for the granting of a certificate of authority. Citizens has, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Citizens' motion to withdraw and its application for a certificate of authority, subject to a continuous \$25,000 surety bond. As the Commission's final decision in this matter, it is therefore

ORDERED, that Citizens' motion to withdraw is granted; and it is

FURTHER ORDERED, that Citizens' application for a certificate of authority to provide local exchange services in the Jasper, Minnesota exchange is granted, subject to a continuous \$25,000 surety bond; and it is

FURTHER ORDERED, that Citizens shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 13th day of February, 2001.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By:

Delaine Kels

Date:

2/15/01

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schøenfelder
LASKA SCHØENFELDER, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted as of the date of the
Order Granting Certificate of Authority
Docket No. TC00-112

This is to certify that

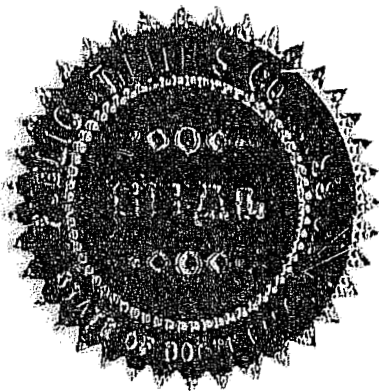
**CITIZENS TELECOMMUNICATIONS COMPANY OF
MINNESOTA, INC.**

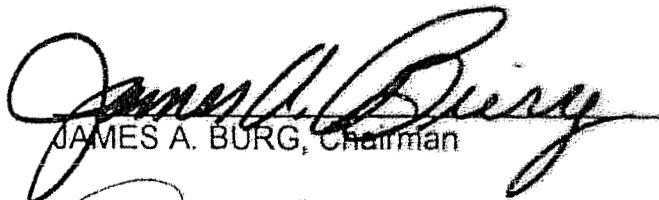
is authorized to provide local exchange services in the Jasper,
Minnesota exchange.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD
20:10:32:03, and is subject to all of the conditions and limitations contained in
the rules and statutes governing its conduct of offering telecommunications
services.

Dated at Pierre, South Dakota, this 13th day of February, 2001.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner