CITIZENS COMMUNICATIONS CO
Form 8-K
September 17, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): September 17, 2001

CITIZENS COMMUNICATIONS COMPANY
(Exact name of Registrant as specified in its charter)

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

3 High Ridge Park, P.O. Box 3801
Stamford, Connecticut 06905
(Address of Principal Executive Offices) (Zip Code)

(203) 614-5600
(Registrant's Telephone Number, Including Area Code)

No Change Since Last Report

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

Item 5. Other Events.

From May 27, 1999 through July 12, 2000, we entered into several agreements to acquire telephone access lines. These agreements and the status of each transaction are described as follows:

Verizon Acquisition

On May 27, September 21, and December 16, 1999, we announced definitive agreements to purchase from Verizon Communications Inc., formerly GTE Corp. (Verizon), approximately 381,200 telephone access lines (as of December 31, 2000) in Arizona, California, Illinois/Wisconsin, Minnesota and Nebraska for approximately $1,171,000,000 in cash. On June 30, 2000, we closed on the Nebraska purchase of approximately 62,200 access lines for approximately $205,400,000 in cash. On August 31, 2000, we closed on the Minnesota purchase of approximately 142,400 access lines for approximately $438,900,000 in cash. On November 30, 2000, we closed on the Illinois/Wisconsin purchase of approximately 112,900 access lines for approximately $303,900,000 in cash. We expect that the Arizona and California transactions, which are subject to various state and federal regulatory approvals, will close during 2001. Our expected cash requirement to complete the Verizon acquisitions is $222,800,000.

Qwest Acquisition

On June 16, 1999, we announced a series of definitive agreements to purchase from Qwest Communications, formerly U S WEST (Qwest), approximately 556,800 telephone access lines (as of December 31, 2000) in Arizona, Colorado, Idaho/Washington, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately $1,650,000,000 in cash and the assumption of certain liabilities. On October 31, 2000, we closed on the North Dakota purchase of approximately 17,000 access lines for approximately $38,000,000 in cash. On July 20, 2001, we delivered a notice of termination for the remaining acquisition agreements with Qwest.

Frontier Acquisition

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

We intend to sell all of our public utility services segments. On July 2, 2001, we sold our Louisiana gas operations for $363.4 million in cash plus the assumption of certain liabilities and have entered into agreements to sell a substantial portion of the public utility services segments for $1,026,000,000 in cash and $90,000,000 in debt. These agreements and the status of each transaction are described as follows:

Water and Wastewater

On October 18, 1999, we announced the agreement to sell all of our water and wastewater operations to American Water Works, Inc. for $745,000,000 in cash and $90,000,000 of assumed debt. These transactions are currently expected to close in the second half of 2001 following regulatory approval. The contract may be terminated if the required approvals are not received by September 30, 2001.

Electric

Our electric utility division in Hawaii is under contract to be sold to Kauai Island Electric Co-op for $270,000,000 in cash including the assumption of certain liabilities by the purchaser. In August 2000, the Hawaii Public Utilities Commission denied the application requesting approval of the purchase by Kauai Island Electric Co-op. We are considering a variety of options, including filing a request for reconsideration of the decision, which may include filing a new application. Our agreement for the sale of this division may be terminated if regulatory approval is not received before February 2002.

Gas

On July 2, 2001, we sold our gas operations in Louisiana to Atmos Energy Corporation for $363,400,000 in cash plus the assumption of certain liabilities, subject to purchase price adjustment. In July 2001, an agreement was signed to sell our Colorado Gas division to Kinder Morgan for $11,000,000. This transaction is expected to close in the fourth quarter of 2001 following regulatory approval.

The GTE Acquisitions, the U S WEST North Dakota Acquisition and the Frontier Acquisition are collectively referred to as the Acquisitions. All of the public utilities services dispositions (including those not yet under contract) are collectively referred to as the Dispositions. We are filing the Frontier financial statements and pro forma financial information related to probable and completed aquisitions for purposes of incorporation by reference.

This Current Report on Form 8-K contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the Safe Harbor Provisions of the Litigation Reform Act of 1995. In addition, words such as "believes", "anticipates", "expects" and similar expressions are intended to identify "forward-looking statements". Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. All forward-looking statements may differ from actual results because of, but not limited to, changes in the local and overall economy, changes in market conditions for debt and equity securities, the nature and pace of technological changes, the number and effectiveness of competitors in our markets, success in overall strategy, changes in legal or regulatory policy, changes in legislation, our ability to identify future markets and successfully expand existing ones, the mix of products and services offered in our target markets, the effects of acquisitions and dispositions and the ability to effectively integrate businesses acquired. These important factors should be considered in evaluating any statement contained herein and/or made by us or on our behalf. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

Item 7. Financial Statements, Exhibits

(a) Financial Statements of Business Acquired.

Financial Statements of the Frontier Incumbent Local Exchange Carrier Business for the quarter and year to date period ended June 30, 2001.

(b) Pro forma Financial Information

Pro forma Balance Sheet as of June 30, 2001 and Pro forma Income Statements for the six months ended June 30, 2001 and the year ended December 31, 2000.

SIGNATURE

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

CITIZENS COMMUNICATIONS COMPANY

(Registrant)

By: /s/ Robert J. Larson

Robert J. Larson
Vice President and Chief Accounting Officer

Date: September 17, 2001

Proforma Financial Information

From May 27, 1999 through July 12, 2000, we entered into several agreements to acquire telephone access lines. These transactions have been and will be accounted for using the purchase method of accounting. The results of operations of the acquired properties have been and will be included in our financial statements from the dates of acquisition of each property. These agreements and the status of each transaction are described as follows:

Verizon Acquisition

On May 27, September 21, and December 16, 1999, we announced definitive agreements to purchase from Verizon Communications Inc., formerly GTE Corp. (Verizon), approximately 381,200 telephone access lines (as of December 31, 2000) in Arizona, California, Illinois/Wisconsin, Minnesota and Nebraska for approximately $1,171,000,000 in cash. On June 30, 2000, we closed on the Nebraska purchase of approximately 62,200 access lines for approximately $205,400,000 in cash. On August 31, 2000, we closed on the Minnesota purchase of approximately 142,400 access lines for approximately $438,900,000 in cash. On November 30, 2000, we closed on the Illinois/Wisconsin purchase of approximately 112,900 access lines for approximately $303,900,000 in cash. We expect that the Arizona and California transactions, which are subject to various state and federal regulatory approvals, will close during 2001. Our expected cash requirement to complete the Verizon acquisitions is $222,800,000.

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delivered a notice of termination for the remaining acquisition agreements with Qwest.

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

We intend to sell all of our public utility services segments. On July 2, 2001, we sold our Louisiana gas operations for $363.4 million in cash plus the assumption of certain liabilities and have entered into agreements to sell a substantial portion of the public utility services segments for $1,026,000,000 in cash and $90,000,000 in debt. These agreements and the status of each transaction are described as follows:

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On July 2, 2001, we sold our gas operations in Louisiana to Atmos Energy Corporation for $363,400,000 in cash plus the assumption of certain liabilities, subject to purchase price adjustment. In July 2001, an agreement was signed to sell our Colorado Gas division to Kinder Morgan for $11,000,000. This transaction is expected to close in the fourth quarter of 2001 following regulatory approval.

The GTE Acquisitions, the U S WEST North Dakota Acquisition and the Frontier Acquisition are collectively referred to as the Acquisitions. All of the public utilities services dispositions (including those not yet under contract) are collectively referred to as the Dispositions. The following unaudited pro forma condensed combined statements of income information has been prepared to illustrate the effects of the Acquisitions and related financings and the Dispositions had these transactions been completed at the beginning of the periods presented. Cash proceeds from the Dispositions that have not yet been sold have been estimated using the actual contract price for properties where we have signed a definitive contract to sell and using net book value for properties not yet under contract. The following unaudited pro forma condensed balance sheet information as of June 30, 2001 has been prepared assuming the Acquisitions and Dispositions not consummated by June 30, 2001 had been completed at that date.

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

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

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

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

Citizens Communications Company and Subsidiaries
Pro Forma Balance Sheet Data
As of June 30, 2001
(unaudited)

(Amounts in thousands)	Citizens Communications 6/30/2001	Proforma Adjustments		Adj
Cash	$ 31,115	$ 2,118,411	(1)	$
		(222,800)	(2)	

Accounts receivable, net	336,490	-		
Short-term investments	18,463	-		
Other current assets	40,424	-		
Assets held for sale	1,240,998	(1,240,998)	(1)	
Assets of discontinued operations	687,275	(687,275)	(1)	
Total current assets	2,354,765	(32,662)		
Net property, plant & equipment	4,662,361	53,393	(2)	
Excess cost over net assets acquired	3,014,751	169,407	(2)	
Investments	173,318	-		
Regulatory assets	173,611	(109,102)	(1)	
Deferred debits and other assets	466,882	(16,126)	(1)	
Total assets	$ 10,845,688	$ 64,910		$ 1
Long-term debt due within one year	$ 222,522	$ -		$
Accounts payable and other current liabilities	416,207	237,199	(1)	
Liabilities related to assets held for sale	255,774	(255,774)	(1)	
Liabilities of discontinued operations	189,856	(189,856)	(1)	
Total current liabilities	1,084,359	(208,431)		
Deferred income taxes	688,562	(38,228)	(1)	
Customer advances for construction and contributions in aid of construction	200,688	-		
Deferred credits and other liabilities	245,888	-		
Regulatory liabilities	23,415	(12,425)	(1)	
Equity units	460,000	-		
Long-term debt	5,818,312			
Total liabilities	8,521,224	(259,084)		
Equity forward contracts	107,018			
Company Obligated Mandatorily Redeemable Convertible Preferred Securities *	201,250	-		
Shareholders' equity	2,016,196	323,994	(1)	
Total liabilities and shareholders' equity	$ 10,845,688	$ 64,910		$ 1

*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.

See Notes to Pro Forma Condensed Financial Statements.

Citizens Communications Company and Subsidiaries
Proforma Income Statement Data
For the six months period ended June 30, 2001
(unaudited)

(Amounts in thousands, except per-share amounts)	Citizens Communications	Frontier Acquisition	GTE Acquisitions
Revenue	$ 1,130,023	$ 387,796	$ 21,100
Operating expenses	761,519	203,920	7,834
Depreciation and amortization	220,072	103,686	3,862
Income from operations	148,432	80,190	9,404
Investment and other income, net	13,425	(4,990)	-
Interest expense	134,581	37,482	673
Convertible preferred dividends	3,105	-	-
Pre-tax income	24,171	37,718	8,731
Income tax expense (benefit)	9,573	27,985	3,513
Income (loss) from continuing operations	$ 14,598	$ 9,733	$ 5,218
Carrying cost of equity forward contracts	12,647		
Income (loss) from continuing operations available to common shareholders	$ 1,951		
Weighted average shares outstanding -Basic	266,898		
Weighted average shares outstanding -Diluted	270,237		
Income (loss) from continuing operations available to common shareholders per basic share	$ 0.01		
Income (loss) from continuing operations available to common shareholders per diluted share	$ 0.01		

	Elimination of Gas and Electric Operations	Total Proforma
Revenue	$ 432,831	1,106,088
Operating expenses	371,271	602,002
Depreciation and amortization	6,105	377,777
Income from operations	$ 55,455	$ 126,309
Investment and other income, net	1,065	25,688
Interest expense	18,654	246,084
Convertible preferred dividends	-	3,105
Pre-tax income	37,866	(97,192)
Income tax expense (benefit)	12,458	(15,463)
Income (loss) from continuing operations	$ 25,408	$ (81,729)
Carrying cost of equity forward contracts		12,647

Income (loss) from continuing operations available to common shareholders	$ (94,376)
Weighted average shares outstanding -Basic	292,054
Weighted average shares outstanding -Diluted	295,393
Income (loss) from continuing operations available to common shareholders per basic share	$ (0.32)
Income (loss) from continuing operations available to common shareholders per diluted share	$ (0.32)

See Notes to Pro Forma Condensed Financial Statements.

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

		Acquisitions		
(Amounts in thousands, except per-share amounts)	Citizens Communications	Frontier Acquisition	GTE Minnesota	GTE Combined Entities
Revenue	$ 1,802,358	$ 746,302	$ 56,962	$ 121,334
Operating expenses	1,292,950	370,893	23,323	44,188
Depreciation and amortization	387,607	200,669	545	28,712
Income from operations	121,801	174,740	33,094	48,434
Investment and other income, net	3,350	64,583	-	-
Minority interest	12,222	-	-	-
Interest expense	187,366	24,067	1,686	2,933
Convertible preferred dividends	6,210	-	-	-
Pre-tax income	(56,203)	215,256	31,408	45,501
Income tax expense (benefit)	(16,132)	103,417	12,687	18,105
Income (loss) from continuing operations	$ (40,071)	$ 111,839	$ 18,721	$ 27,396
Weighted average shares outstanding -Basic	261,744			
Weighted average shares outstanding -Diluted	266,931			
Loss from continuing operations per basic share	$ (0.15)			
Loss from continuing operations per diluted share	$ (0.15)			

	Proforma for Acquisitions			Elimination of Gas and Electric	
	Adjustments		Adjusted	Operations	P
Revenue	$ -		$ 2,737,588	$ 597,823	$
Operating expenses	9,000	(3)	1,743,412	526,472	
Depreciation and amortization	137,874	(4)	770,203	47,857	
	12,526	(5)			
Income from operations	(159,400)		223,973	23,494	
Investment and other income, net	(26,323)	(6)	28,856	5,073	
	(12,754)	(7)			
Minority interest	-		12,222	-	
Interest expense	301,055	(8)	502,467	36,056	
	(14,640)	(7)			
Convertible preferred dividends	-		6,210	-	
Pre-tax income	(484,892)		(243,626)	(7,489)	
Income tax expense (benefit)	(165,272)	(9)	(45,188)	(2,417)	
Income (loss) from continuing operations	$ (319,620)		$ (198,438)	$ (5,072)	$
Weighted average shares outstanding -Basic	25,156	(10)			
Weighted average shares outstanding -Diluted	25,156	(10)			
Loss from continuing operations per basic share					
Loss from continuing operations per diluted share					

See Notes to Pro Forma Condensed Financial Statements.

Notes to Pro Forma Condensed Financial Statements

(1) Reflects the effect of the sale of our public utilities services properties, including adjustments for the estimated income taxes due on the gain. The estimated cash proceeds from the sale of our public utilities service properties are $2,118,411,000. The adjustment to shareholders' equity represents an increase to retained earnings representing the after tax gain on the sale.

(2) Represents the purchase of the remaining GTE Acquisitions for approximately $222,800,000 in cash. For purposes of the accompanying pro forma combined financial statements, we have reflected the assets to be acquired at their historical carrying values and have reflected the excess of cost over such amounts as excess of cost over net assets acquired. The final allocation of purchase price to assets and liabilities acquired will depend upon the final purchase price and the final estimate of fair values of the assets and liabilities acquired. We undertake studies to determine the fair values of assets acquired and allocate the purchase prices accordingly. We believe that the excess of cost over historical net assets acquired will be allocated to property, plant and equipment, customer base, other identifiable intangibles and goodwill. However, there can be no assurance that the actual allocation will not differ significantly from the pro forma allocation.

(3) Represents an increase in selling, general and administrative expenses of the GTE Combined Entities to reverse a pension credit recorded during the year ended December 31, 2000 that will not continue.

(4) Reflects amortization expense of the excess of cost over net assets acquired for the Acquisitions using the straight-line method over a 15 year period. Should the allocation of such excess of cost over historical net assets acquired differ significantly from that described in Note 2 as well as our initial allocation for properties recently purchased, amortization expense could be impacted since the depreciable lives of assets other than goodwill may be shorter or longer than 15 years.

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

(5) Represents an adjustment for depreciation expense related to GTE Minnesota since the GTE historical financial statements did not include depreciation related to these assets held for sale.

(6) Represents the reversal of a foreign exchange gain of $21,900,000 for the year ended December 31, 2000 and the reversal of a foreign exchange loss of $50,064,000 for the six months ended June 30, 2001 recorded by Frontier Corp. related to a note receivable due from an affiliate of Frontier. Such note is not part of the assets acquired by Citizens.

The pro forma income statement for the year ended December 31, 2000 also includes an adjustment to eliminate $4,423,000 of our investment income related to our bond portfolio sold during 2000 to partially fund the Acquisitions.

(7) Represents the elimination of intercompany interest income recorded by Frontier Corp. related to a note receivable due from an affiliate of Frontier and interest expense recorded by Frontier Corp. related to a loan facility used to fund this note receivable. Such note and loan facility are not part of the assets and liabilities acquired by Citizens.

(8) Represents the increase in interest expense assuming the permanent financings as described below were utilized at the beginning of the periods presented to partially fund the Acquisitions. On May 18, 2001, we issued an aggregate of $1.75 billion of notes consisting of $700 million principal amount of 8.50% notes, due May 15, 2006 and $1.05 billion principal amount of 9.25% notes due May 15, 2011. On June 13, 2001, we issued 18,400,000 equity units at $25 per unit for gross proceeds of $460,000,000. Each equity unit consists of a 6 3/4 % senior note due 2006 and a purchase contract for our common stock. On August 13, 2001, we issued an aggregate of $1.75 billion of notes consisting of $300 million principal amount of 6.375% notes due August 15, 2004, $750 million principal amount of 7.625% notes due August 15, 2008 and $700 million principal amount of 9.0 % notes due August 15, 2031.

(9) Represents adjustments to income taxes based on income before income taxes using the applicable incremental income tax rate.

(10) On June 13, 2001, we issued 25,156,250 shares of our common stock at $12.10, for net proceeds of $289,787,000 (after underwriting discounts and commissions).

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED FINANCIAL STATEMENTS
AS OF JUNE 30, 2000 AND 2001
UNAUDITED

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

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

	December 31, 2000
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 41,550
Telecommunications accounts receivable, net	112,955
Accounts receivable, affiliates	68,880
Advances to affiliates	311,752
Materials and supplies	1,389
Deferred income taxes	7,618
Notes receivable, affiliate	1,031,095
Prepayments and other	32,759
Total current assets	1,607,998
Property, plant, and equipment, net	1,052,745
Goodwill and customer base, net	1,521,250
Due from affiliate	46,932
Other assets	18,709
Total assets	$ 4,247,634
LIABILITIES AND SHAREHOLDER'S EQUITY:	
Current liabilities:	
Accounts payable	$ 102,637
Accounts payable, affiliates	113,606
Advances from affiliates	26,225
Deferred credits	2,997
Current portion of long-term debt	3,142
Accrued income taxes	20,508
Advanced billings	11,852
Notes payable	1,000,000
Other current liabilities	16,478
Total current liabilities	1,297,445
Long-term debt, net of current maturities	116,057
Notes payable to affiliates	4,700

Deferred income taxes	120,124
Post-retirement benefit obligation	109,617
Due to affiliate	24,852
Other long-term liabilities	9,063
Total liabilities	1,681,858
Shareholder's equity:	
Contributed capital	2,609,961
Accumulated deficit	(44,185)
Total shareholder's equity	2,565,776
Total liabilities and shareholder's equity	$ 4,247,634

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

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED STATEMENTS OF INCOME
FOR THE THREE MONTH PERIODS ENDED
JUNE 30, 2000 AND 2001
(in thousands of dollars)
(Unaudited)

	March 31, 2000 through June 30, 2000	March 31, 2001 through June 30, 2001
Revenues	$ 189,925	$ 195,528
Costs and expenses:		
Operating expenses	85,841	101,372
Depreciation and amortization	48,226	52,061
Taxes other than income taxes	8,026	7,013
Total costs and expenses	142,093	160,446
Operating income	47,832	35,082
Interest expense	(1,572)	(15,802)
Interest income	7,719	21,928
Equity in earnings on investments in affiliates	(256)	381
Other income (expense), net	(123)	(12,741)
Income before taxes	53,600	28,848
Income tax expense	23,025	24,614
Net income	$ 30,575	$ 4,234

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

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED STATEMENTS OF INCOME
FOR THE SIX MONTH PERIODS ENDED
JUNE 30, 2000 AND 2001
(in thousands of dollars)
(Unaudited)

	January 1, 2000 through June 30, 2000	January 1, 2001 through June 30, 2001
Revenues	$ 378,047	$ 387,796
Costs and expenses:		
Operating expenses	173,250	192,533
Depreciation and amortization	100,611	103,686
Taxes other than income taxes	17,590	11,387
Total costs and expenses	291,451	307,606
Operating income	86,596	80,190
Interest expense	(3,255)	(37,482)
Interest income	15,467	46,150
Equity in earnings on investments in affiliates	233	762
Other income (expense), net	(677)	(51,902)
Income before taxes	98,364	37,718
Income tax expense	46,050	27,985
Net income	$ 52,314	$ 9,733

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

FRONTIER INCUMBENT LOCAL EXCHANGE CARRIER BUSINESSES

COMBINED STATEMENTS OF CASH FLOWS
COMBINED STATEMENTS OF INCOME
FOR THE SIX MONTH PERIODS ENDED
JUNE 30, 2000 AND 2001
(in thousands of dollars)
(Unaudited)

January 1
2000

	Through June 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 52,
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	100,
Foreign Exchange Loss	
Changes in operating assets and liabilities, exclusive of impacts of dispositions and acquisitions:	
Accounts receivable	5,
Accounts receivable, affiliates	
Material and supplies	(
Prepayments and other current assets	8,
Deferred and other assets	(7,
Accounts payable	(17,
Accounts payable, affiliates	
Long-term liabilities	
Accrued taxes, advanced billings and other liabilities	51,
Post-retirement benefit obligation	(
Deferred income taxes	(19,
Total adjustments	120,
Net cash provided by operating activities	172,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property, plant, and equipment	(98,
Advances to affiliates	
Transactions with affiliates	79,
Net cash used in investing activities	(19,
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments of debt	(1,
Advances from affiliates	
Dividends paid	(129,
Cash flows used in financing activities	(131,
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,
CASH AND CASH EQUIVALENTS, beginning of period	83,
CASH AND CASH EQUIVALENTS, end of period	$ 105,
NON-CASH TRANSACTIONS:	
Affiliate transactions	
Sale of UCN cellular	
OPEB adjustments	
Equity earnnig adjustments	
Transfer of fixed assets for sale of ILEC	

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Organization

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

Frontier Telephone of Rochester, Inc. ("FTR")	Frontier Communications of Seneca-Gorha
Frontier Communications of Rochester, Inc.	Frontier Communications of New York, In
Frontier Subsidiary Telco Inc. and Subsidiaries	Frontier Communications of Ausable Vall
Frontier Communications of Sylvan Lake, Inc.	

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

Citizens Transaction

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

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

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

The transaction closed on June 29, 2001.

Principles of Combination

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

Basis of Presentation

These combined financial statements include all adjustments, which consist of normal recurring accruals necessary to present fairly the results for the interim period shown and should be read in conjunction with our combined audited financial statements for the year ended December 31, 2000. Certain information and footnote disclosures have been condensed pursuant to Securities and Exchange Commission rules and regulations. The results of the interim periods are not necessarily indicative of the results for the full year. Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. It is the Company's policy to reclassify prior year balances to conform to current year presentation.

These unaudited combined interim financial statements for the three and six month periods ended June 30, 2001 reflect certain adjustments recorded in connection with the Citizen's transaction and in accordance with the Agreement discussed above. Balances resulting from transactions with GCNA and GCL have been canceled and extinguished, except for amounts included in "Advances to affiliates", which may not be canceled under certain laws.

Adjustments have also been recorded to reflect certain tax assets and liabilities to be maintained by GCNA and GCL. Additionally, assets, liabilities, benefits & expenses related to pension and other post-retirement benefits for ILEC employees and retirees transfered to Citizens have been recorded.

However, adjustments related to purchase accounting in accordance with Accounting Principles Board Opinion No. 16 ("Business Combinations") and Statement of the Financial Accounting Standards No. 141, "Business Combinations", have not been recorded.

Revenue Recognition

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

Allocation of Corporate Overhead

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

Other Comprehensive Income

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