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CITIZENS COMMUNICATIONS CO

Form 8-K/A

January 15, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): December 13, 2001

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

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

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(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 transactions have been accounted for using the purchase method of accounting. The results of operations of the acquired properties have been included in our financial statements from the dates of acquisition of each property. These agreements are described as follows:

Verizon Acquisition  
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Between May and December 1999, we announced 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 \$1,171.0 million in cash. During 2000, we closed on approximately 317,500 telephone access lines. On December 17, 2001, we terminated pending agreements with Verizon to acquire approximately 63,000 telephone access lines in Arizona and California.

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### Qwest Acquisition - termination

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In June 1999, we announced agreements to purchase from 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 \$1,650.0 million in cash and the assumption of certain liabilities. On October 31, 2000, we closed on the purchase of approximately 17,000 telephone access lines in North Dakota for approximately \$38.0 million in cash. On July 20, 2001, we notified Qwest that we were terminating eight acquisition agreements with Qwest relating to telephone exchanges in Arizona, Colorado, Idaho/Washington, Iowa, Minnesota, Montana, Nebraska and Wyoming. Qwest subsequently filed a notice of claim for arbitration in Denver, Colorado under the rules of the American Arbitration Association with respect to the terminated acquisition agreements. Qwest asserts that we wrongfully terminated these agreements and is seeking approximately \$64.0 million, which is the aggregate of liquidation damages under letters of credit established in the terminated acquisition agreements. We have filed a notice of claim in the same arbitration proceeding, contesting Qwest's asserted claims and asserting substantial claims against Qwest for material breaches of representations, warranties and covenants in the terminated acquisition agreements and in the acquisition agreement relating to North Dakota assets that we purchased from Qwest.

### Frontier Acquisition

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On June 29, 2001, we purchased from Global Crossing Ltd. (Global) 100% of the stock of Frontier Corp.'s (Frontier) local exchange carrier subsidiaries, which owned approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately \$3,370.0 million in cash, subject to final purchase price adjustment.

### Divestitures

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On August 24, 1999, our Board of Directors approved a plan of divestiture for our public utilities services businesses, which include gas, electric and water and wastewater businesses. Currently, we have agreements to sell all our water and wastewater operations and one of our electric operations. We have sold two of our natural gas operations. These agreements and the status of each transaction are described as follows:

#### Water and Wastewater

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On October 18, 1999, we announced the agreement to sell our water and wastewater operations to American Water Works, Inc. for \$745.0 million in cash and \$90.0 million of assumed debt. This transaction is expected to close in the first quarter of 2002.

#### Electric

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On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. (Cap Rock). The agreement with Cap Rock was terminated on March 7, 2001. We intend to pursue the disposition of the Vermont and Arizona electric divisions with alternative buyers. In August 2000, the Hawaii Public Utilities Commission denied the initial application requesting approval of the purchase of our Kauai electric division by the Kauai Island Electric Co-op for \$270.0 million in

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cash including the assumption of certain liabilities. We are discussing a reduction of the purchase price and other options. Our agreement for the sale of this division may be terminated if regulatory approval is not received before February 2002.

Gas  
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On July 2, 2001, we completed the sale of our Louisiana Gas operations to Atmos Energy Corporation for \$363.4 million in cash.

In July 2001, an agreement was signed to sell the Colorado Gas division to Kinder Morgan. This transaction closed on November 30, 2001. We received approximately \$8,899,000, after purchase price adjustment.

Item 7. Financial Statements, Exhibits

(a) Financial Statements of Business Acquired.

Previously filed.

(b) Pro forma Financial Information

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

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

CITIZENS COMMUNICATIONS COMPANY  
-----  
(Registrant)

By: /s/ Robert J. Larson  
-----  
Robert J. Larson  
Vice President and Chief Accounting Officer

Date: January 14, 2002

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 accounted for using

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the purchase method of accounting. The results of operations of the acquired properties have been included in our financial statements from the dates of acquisition of each property. These agreements are described as follows:

### Verizon Acquisition

-----

Between May and December 1999, we announced 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 \$1,171.0 million in cash. During 2000, we closed on approximately 317,500 telephone access lines. On December 17, 2001, we terminated pending agreements with Verizon to acquire approximately 63,000 telephone access lines in Arizona and California.

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### Frontier Acquisition

-----

On June 29, 2001, we purchased from Global Crossing Ltd. (Global) 100% of the stock of Frontier Corp.'s (Frontier) local exchange carrier subsidiaries, which owned approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately \$3,370.0 million in cash, subject to final purchase price adjustment.

### Divestitures

-----

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public utilities services businesses, which include gas, electric and water and wastewater businesses. Currently, we have agreements to sell all our water and wastewater operations and one of our electric operations. We have sold two of our natural gas operations. These agreements and the status of each transaction are described as follows:

### Water and Wastewater

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On October 18, 1999, we announced the agreement to sell our water and

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wastewater operations to American Water Works, Inc. for \$745.0 million in cash and \$90.0 million of assumed debt. This transaction is expected to close in the first quarter of 2002.

### Electric

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On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. (Cap Rock). The agreement with Cap Rock was terminated on March 7, 2001. We intend to pursue the disposition of the Vermont and Arizona electric divisions with alternative buyers. In August 2000, the Hawaii Public Utilities Commission denied the initial application requesting approval of the purchase of our Kauai electric division by the Kauai Island Electric Co-op for \$270.0 million in cash including the assumption of certain liabilities. We are discussing a reduction of the purchase price and other options. 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 completed the sale of our Louisiana Gas operations to Atmos Energy Corporation for \$363.4 million in cash. The pre-tax gain on the sale recognized in the third quarter was approximately \$139.3 million.

In July 2001, an agreement was signed to sell the Colorado Gas division to Kinder Morgan. This transaction closed on November 30, 2001. We received approximately \$8,899,000, after purchase price adjustment.

The GTE businesses acquired, the U S WEST North Dakota Acquisition and the Frontier ILEC Acquisition are collectively referred to as the Acquisitions. All of the public utilities services dispositions (including those not yet sold) 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 September 30, 2001 has been prepared assuming the Dispositions not consummated by September 30, 2001 had been completed at that date.

The purchase prices for each of our acquisitions is final with the exception of Frontier which is subject to reduction based upon routine purchase price adjustments. There are no other contingencies on any of our acquisitions. We have accounted for our acquisitions 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 telecommunications services and make those services incrementally more profitable but can provide no assurance that such economies of scale 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.

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The following table presents, as of the dates of acquisitions, the total purchase price by each type of consideration paid and the allocation of purchase price to the assets and liabilities acquired, including the status of appraisals for the allocation of purchase price to assets and liabilities acquired.

Citizens Communications Summary of Acquisition Transactions For the years ended December 31, 2000 and 2001					
(Dollars in thousands)	GTE Nebraska	GTE Minnesota	Qwest North Dakota	GTE Illinois/ Wisconsin	Total 2000 Acquisition
	-----	-----	-----	-----	-----
Acquisition date	6/30/2000	8/31/2000	10/31/2000	11/30/2000	
Assets acquired:					
Net plant	\$ 51,903	\$ 137,391	\$ 13,910	\$ 105,446	\$ 308,65
Current assets	-	4,960	-	-	4,96
Excess of purchase price over net assets acquired	-	-	-	-	
Goodwill	107,883	173,597	16,619	163,460	461,55
Customer base	46,060	120,742	7,466	34,565	208,83
Assembled workforce	292	650	-	446	1,38
Other assets	-	1,557	-	-	1,55
Total assets acquired	----- 206,138	----- 438,897	----- 37,995	----- 303,917	----- 986,94
Liabilities assumed:					
Debt	-	-	-	-	
Other liabilities	734	-	-	-	73
Total liabilities assumed	----- 734	----- -	----- -	----- -	----- 73
Cash paid	----- \$ 205,404	----- \$ 438,897	----- \$ 37,995	----- \$ 303,917	----- \$ 986,21
Acquisition costs included above	----- \$ 1,636	----- \$ 3,602	----- \$ 0	----- \$ 2,749	----- \$ 7,98
Status of appraisal valuation	Final	Final	Final	Final	

The following table represents the sources of our primary permanent funding of the above Acquisit

### Funding of Acquisitions

-----  
 Senior Notes issued May 18, 2001  
 6-3/4% Equity Units issued June 13, 2001  
 Common Stock Offering June 13, 2001  
 Senior Notes issued August 13, 2001

Total net proceeds after underwriting discounts and commissions and before offering expenses

Our acquisitions were made in order for us to execute upon our business strategy. Our strategy is to focus exclusively on providing telecommunications services, primarily in rural, small and medium-sized towns where we believe we have a competitive advantage because of our relatively larger size, greater resources, local focus and lower levels of competition. For both our existing ILEC operations and those we have recently acquired, we are the dominant provider of independent local exchange carrier services in each of the markets in which we operate. We believe that our operations in these areas will provide

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us with steady revenue growth and margin enhancement opportunities. To reach our objectives, we intend to (among other strategies) continue to achieve economies of scale through clustering and increasing operational efficiencies. In following our strategy, we selectively pursue acquisitions that we believe will enhance shareholder value through increased revenue growth and operational efficiencies consistent with our corporate strategy and objectives.

We have paid more than the net book values (of the seller) of each of the businesses acquired in 2000 and 2001. We based our purchase prices on estimates of future earnings and future cash flows of the businesses acquired. The "premium" to book value paid, including the allocation to goodwill for each respective properties, reflects the value created by all of the tangible and intangible operating assets (existing and acquired) of our businesses coming together to produce earnings, including, without limitation, the fact that, in each acquisition, we were able to immediately commence operations as the dominant local exchange carrier in the applicable operating area. Additionally, the premiums paid were impacted by the fact that our purchase price was accepted by the sellers after a competitive bidding and negotiation process.

The Company was willing to pay a premium (i.e., goodwill) over the fair value of the tangible and identifiable intangible assets acquired less liabilities assumed in order to obtain product cross-selling opportunities, economies of scale (e.g., cost savings opportunities), entree into markets from which the Company could expand into new markets, and the potential benefit resident in expected population/demographic trends.

Through the second quarter 2001, we had historically applied SFAS 71 in the preparation of our financial statements because our incumbent local exchange telephone properties (properties we owned prior to the 2000 and 2001 acquisitions of the Verizon, Qwest and Frontier properties) were predominantly regulated in the past following a cost of service/rate of return approach. Beginning in the third quarter of 2001, these properties no longer met the criteria for application of SFAS 71 due to the continuing process of deregulation and the introduction of competition to our existing rural local exchange telephone properties, and our expectation that these trends will continue for all our properties.

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.

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(unaudited)

(Amounts in thousands)	Citizens Communications 9/30/2001	Pro Forma for Ac Adjustments	
Cash	\$ 38,922	\$ 1,789,336	(1)
Accounts receivable, net	339,382	-	
Short-term investments	141,496	-	
Other current assets	42,844	-	
Assets held for sale	1,093,939	(1,093,939)	(1)
Assets of discontinued operations	743,238	(743,238)	(1)
<b>Total current assets</b>	<b>2,399,821</b>	<b>(47,841)</b>	
Net property, plant & equipment	4,537,291	-	
Goodwill	490,012	-	
Customer Lists and other	195,243	-	
Excess cost over net assets acquired	2,179,199	(4)	-
<b>Intangibles</b>	<b>2,864,454</b>	<b>-</b>	
Investments	117,124	-	
Deferred debits and other assets	466,441	-	
<b>Total assets</b>	<b>\$ 10,385,131</b>	<b>\$ (47,841)</b>	
Long-term debt due within one year	\$ 155,967	\$ -	
Accounts payable and other current liabilities	516,520	147,691	(1)
Liabilities related to assets held for sale	214,090	(214,090)	(1)
Liabilities of discontinued operations	219,568	(219,568)	(1)
<b>Total current liabilities</b>	<b>1,106,145</b>	<b>(285,967)</b>	
Deferred income taxes	408,975	-	
Customer advances for construction and contributions in aid of construction	206,332	-	
Deferred credits and other liabilities	232,702	-	
Equity units	460,000	-	
Long-term debt	5,783,591	-	
<b>Total liabilities</b>	<b>8,197,745</b>	<b>(285,967)</b>	
Company Obligated Mandatorily Redeemable Convertible Preferred Securities *	201,250	-	
Common stock, \$.25 par value (600,000,000 authorized shares, 280,036,000 issued shares and 292,344,000 outstanding shares)	73,086	-	
Additional paid-in capital	1,936,607	-	
Retained earnings	238,179	238,126	(1)
Accumulated other comprehensive income (loss)	(59,147)	-	
Treasury stock	(202,589)	-	
<b>Total shareholders' equity</b>	<b>1,986,136</b>	<b>238,126</b>	



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Total liabilities and shareholders' equity \$ 10,385,131      \$ (47,841)  
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\*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  
 Pro Forma Income Statement Data  
 For the nine months ended September 30, 2001  
 (unaudited)

(Amounts in thousands - except per-share amounts)	Citizens Communications	Frontier(2) Acquisition	Pro Forma for Acqui Adjustments	A
Revenue	\$ 1,791,144	\$ 387,796	\$ -	\$ 2,
Operating expenses	1,140,079	203,920	-	1,
Depreciation and amortization	413,734	103,686	50,615	(4)
Restructuring charge	13,002	-	-	
Acquisition assimilation expenses	17,665	-	-	
Income from operations	206,664	80,190	(50,615)	
Investment and other income, net	16,495	(4,990)	50,064	(6)
			(31,746)	(7)
Gain on sale of Louisiana gas operations	139,304	-	-	
Interest expense	258,033	37,482	145,341	(8)
			(30,725)	(7)
Income tax expense (benefit)	49,183	27,985	(56,238)	(9)
Convertible preferred dividends	4,658			
Income (loss) from continuing operations	\$ 50,589	\$ 9,733	\$ (90,675)	\$
Carrying cost of equity forward contracts	13,650			
Income (loss) from continuing operations available to common shareholders	\$ 36,939			
Weighted average shares outstanding -Basic	271,346		15,094	
Weighted average shares outstanding -Diluted	278,287		15,094	
Income (loss) from continuing operations per basic share	\$ 0.14			
Income (loss) from continuing operations per diluted share	\$ 0.13			

See Notes to Pro Forma Condensed Financial Statements.

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

	Acquisitions (2)				
	Citizens Communications	Frontier Acquisition	GTE Minnesota	GTE Nebraska and Illinois/ Wisconsin	QW North
(Amounts in thousands, except per-share amounts)					
Revenue	\$ 1,802,358	\$ 746,302	\$ 56,962	\$ 77,570	\$ 10,000
Operating expenses	1,292,950	370,893	23,323	27,494	3,000
Depreciation and amortization	387,607	200,669	545	17,087	2,000
Income from operations	121,801	174,740	33,094	32,989	5,000
Investment and other income, net	3,350	64,583	-	-	-
Minority interest	12,222	-	-	-	-
Interest expense	187,366	24,067	1,686	1,716	-
Convertible preferred dividends	6,210	-	-	-	-
Pre-tax income	(56,203)	215,256	31,408	31,273	5,000
Income tax expense (benefit)	(16,132)	103,417	12,687	12,393	2,000
Income (loss) from continuing operations	\$ (40,071)	\$ 111,839	\$ 18,721	\$ 18,880	\$ 3,000
Weighted average shares outstanding:					
Basic	261,744				
Diluted	266,931				
Loss from continuing operations per share:					
Basic	\$ (0.15)				
Diluted	\$ (0.15)				

Elimination of Gas and Electric Operations	Total Proforma
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(Amounts in thousands, except per-share amounts)

Revenue	\$ 597,823	\$ 2,096,001
Operating expenses	526,472	1,200,246
Depreciation and amortization	47,857	699,428

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Income from operations	23,494	196,327
Investment and other income, net	5,073	23,783
Minority interest	-	12,222
Interest expense	36,056	465,194
Convertible preferred dividends	-	6,210
	-----	
Pre-tax income	(7,489)	(239,072)
Income tax expense (benefit)	(2,417)	(82,645)
	-----	
Income (loss) from continuing operations	\$ (5,072)	\$ (156,427)
	=====	
Weighted average shares outstanding:		
Basic		286,900
Diluted		292,087
Loss from continuing operations per share:		
Basic	\$	(0.55)
Diluted	\$	(0.55)

See Notes to Pro Forma Condensed Financial Statements.

Notes to Pro Forma Condensed Financial Statements

- (1) Reflects the effect of the probable sale of our public utilities services properties, including adjustments for the estimated income taxes due on the estimated gain. The adjustment to shareholders' equity represents an increase to retained earnings representing the estimated after tax gain on the sale.
- (2) The columns reflecting the historical results of operations for Frontier, GTE Minnesota, GTE Nebraska and Illinois and Qwest North Dakota represent historical results prior to their acquisition by Citizens. The results after the acquisitions by Citizens are included in Citizens' historical results.
- (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) The purchase prices for each of our acquisitions is final with the exception of Frontier, which is subject to reduction based upon normal purchase price adjustments. There are no other contingencies for any of the acquisitions. The purchase price allocations for GTE and Qwest was completed by September 30, 2001. The purchase price allocation for our acquisition of Frontier, which closed on June 29, 2001, is still preliminary as our appraiser has not completed its work. Through the appraisal process, the total consideration paid will be allocated to the 35 legal entities acquired and will be compliant with the recently issued Statements of Financial Accounting Standards No. 141 and 142 (see below).

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Due to the magnitude of the Frontier acquisition and the number of properties acquired, we have not completed all of our work with our appraiser. We expect that the appraisal will be completed in February 2002. We paid \$3.37 billion for the Frontier properties and, since our acquisition occurred less than two years after Global acquired Frontier, we do not expect a material difference in the appraisal between the book value of plant (approximately \$1.1 billion) and the new appraised value. We also are not anticipating a material valuation difference in the other assets and liabilities. It is for that reason that we have included the excess of purchase price over book value of net assets acquired (\$2.4 billion at June 30, 2001) as a one-line item to be reallocated primarily to other intangibles and goodwill once the appraisal is completed. However, there can be no assurance that the actual allocation will not differ significantly from the pro forma allocation. For purposes of pro forma amortization expense, we have assumed a weighted average life of 15 years for this item.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, "Business Combinations." This statement requires that all business combinations be accounted for under the purchase method of accounting for business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method of accounting. All acquisitions presented in these pro forma financial statements have been accounted for using the purchase method.

In July 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. Impairment tests are required to be performed at least annually. The amortization of goodwill ceases upon adoption of the statement. The statement is effective for fiscal years beginning after December 15, 2001 for companies whose annual reporting period ends on December 31, 2001 and applies to all goodwill and other intangible assets recognized in the statement of financial position at that date, regardless of when the assets were initially recognized. We will cease to recognize amortization of the goodwill portion of intangibles starting January 1, 2002. Pro forma amortization of intangibles for the nine months ended September 30, 2001 and the year ended December 31, 2000 was \$128.9 million and \$144.3 million, respectively. We will be required to test for impairment of goodwill annually starting January 1, 2002.

The following table details the amortization adjustment for the year ended December 31, 2000 and the nine months ended September 30, 2001:

(\$ in thousands)	For the year ended December 31, 2000	For the nine months ended September 30, 2001
	-----	-----
Frontier	\$ 61,230	\$ 30,615
Frontier adjustments	40,000	20,000
Acquired GTE Businesses	25,351	-
	-----	-----
Businesses acquired prior to June 30, 2001	\$ 126,581	\$ 50,615
	=====	=====

Goodwill and excess of cost over net assets acquired for the Acquisitions are being amortized using the straight-line method over a 15 year period. The adjustments for the Frontier ILEC and the Acquired GTE businesses in the table above reflect this amortization. Should the allocation of Frontier's excess of cost over historical net assets acquired differ

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significantly from that described above, 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. These amounts were "pushed down" and recorded on the books of Frontier. Frontier was amortizing the associated goodwill over a 25-year period. We included this amortization over a 15-year period for the full year 2000 and the nine months ended September 30, 2001 to conform with our policy. The "Frontier adjustments" of \$40,000,000 and \$20,000,000 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively, are reflected in the table above.

- (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 classified as 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 nine months ended September 30, 2001 recorded by Frontier related to a note receivable due from an affiliate. 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 temporarily fund a portion of the Acquisitions.

- (7) Represents the elimination of intercompany interest income recorded by Frontier related to a note receivable due from an affiliate of Frontier and interest expense recorded by Frontier 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. The proceeds from these shares were used to partially and permanently fund the acquisitions.

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In total, we expended \$4.356 billion for our acquisitions. The following summarizes the primary permanent financing for such acquisitions after underwriting discounts and commissions:

Senior notes issued May 18, 2001	\$1,726,000,000
Equity Unites (6 3/4%) issued June 13, 2001	446,200,000
Common stock issued June 13, 2001	289,561,000
Senior Notes issued August 13, 2001	1,728,900,000
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Net proceeds	\$4,190,661,000
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The balance of proceeds for the purchases were provided by short term borrowings or free cash.