

CITIZENS COMMUNICATIONS COMPANY

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 001-11001

CITIZENS COMMUNICATIONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware

06-0619596

(State or other jurisdiction of incorporation or organization)

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

3 High Ridge Park
Stamford, Connecticut

06905

(Address of principal executive offices) (Zip Code)

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

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

Table with 2 columns: Title of each class, Name of each exchange on which registered. Rows include Common Stock, par value \$.25 per share; Guarantee of Convertible Preferred Securities of Citizens Utilities Trust; Series A Participating Preferred Stock Purchase Rights.

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

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

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

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 X 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an

accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 29, 2007 was approximately \$5,195,611,000 based on the closing price of \$15.27 per share on such date.

The number of shares outstanding of the registrant's Common Stock as of January 31, 2008 was 327,762,000.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2008 Annual Meeting of Stockholders to be held on May 15, 2008 are incorporated by reference into Part III of this Form 10-K.

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES

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Item 1. Business

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

We are a communications company providing services to rural areas and small and medium-sized towns and cities. We offer our services under the "Frontier" name. Revenue from our Frontier operations was \$2.3 billion in 2007. Among the highlights for 2007:

* Acquisitions

On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (Commonwealth or CTE) in a cash and stock taxable transaction, for a total consideration of approximately \$1.1 billion.

On October 31, 2007, we completed the acquisition of Global Valley Networks, Inc. and GVN Services (together GVN) for a total consideration of \$62.0 million in cash.

* Cash Generation

We continued to generate significant free cash flow through further growth of broadband and value added services, productivity improvements, and a disciplined capital expenditure program that emphasizes return on investment. The first quarter of 2007 included the \$37.5 million favorable impact of a cash settlement of a switched access dispute.

* Stockholder Value

During 2007, we repurchased \$250.0 million of our common stock and we continued to pay an annual dividend of \$1.00 per common share.

* Growth

During 2007, we added approximately 130,700 new high-speed internet customers and almost 116,100 customers began buying a bundle or package of our services. At December 31, 2007, we had approximately 523,800 high-speed data customers and almost 633,800 customers buying a bundle or package of services. During 2005, we also began offering a television product in partnership with Echostar's DISH Network (DISH), and at the end of 2007 we had approximately 93,600 DISH customers.

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

Telecommunications Services

As of December 31, 2007, we operated as an incumbent local exchange carrier (ILEC) in 24 states.

The telecommunications industry is undergoing significant changes and difficulties and our financial results reflect the impact of this challenging environment. As discussed in more detail in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we operate in an increasingly challenging environment and, accordingly, our Frontier revenues have decreased slightly in 2007 after excluding the impact of the CTE and GVN acquisitions.

Our business, under the Frontier name, is primarily with residential customers and, to a lesser extent, non-residential customers. Our Frontier services include:

- * access services;

- * local services;

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- * long distance services;
- * data and internet services;
- * directory services;
- * television services; and
- * wireless services.

Frontier is typically the leading incumbent carrier in the markets we serve and provides the "last mile" of telecommunications services to residential and business customers in these markets.

Access services. Switched access services allow other carriers the use of our facilities to originate and terminate their long distance voice and data traffic. These services are generally offered on a month-to-month basis and the service is billed on a minutes-of-use basis. Access charges are based on access rates filed with the Federal Communications Commission (FCC) for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and federal universal service funds based on the high cost of providing telephone service to certain rural areas are a part of our access services revenue.

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

Local services. We provide basic telephone wireline services to residential and non-residential customers in our service areas. Our service areas are largely residential and are generally less densely populated than the primary service areas of the largest incumbent local exchange carriers. We also provide enhanced services to our customers by offering a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. All of these local services are billed monthly in advance. The unearned portion of this revenue is initially deferred on our balance sheet and recognized in revenue over the period that the services are provided. We also offer packages of communications services. These packages permit customers to bundle their basic telephone line with their choice of enhanced, long distance, television and internet services for a monthly fee and/or usage fee depending on the plan.

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

Long distance services. We offer long distance services in our territories to our customers. We believe that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside of our operating territories is provided by interconnection with the facilities of interexchange carriers (IXCs). Our long distance services are billed either as unlimited/fixed number of minutes in advance or on a per minute of use basis, in which case it is billed in arrears. The earned but unbilled portion of this revenue is recognized in revenue and accrued in accounts receivable over the period that the services are provided.

Data and internet services. We offer data services including internet access (via high-speed or dial up internet access), frame relay, Metro ethernet and asynchronous transfer mode (ATM) switching services. We offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits like DS-1's and DS-3's. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and internet services are typically billed monthly in advance. The unearned portion of this revenue is initially deferred

on our balance sheet and recognized in revenue over the period that the services are provided.

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

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Television services. We offer a television product in partnership with Echostar's DISH Network. We provide access to all-digital television channels featuring movies, sports, news, music, and high-definition TV programming. We offer packages of 100, 200 or 250 channels and include high-definition channels, family channels and ethnic channels. We also provide access to local channels. We are in an "agency" relationship with DISH. We bill the customer for the monthly services and remit those billings to DISH without recognizing any revenue. We in-turn receive from DISH and recognize as revenue activation fees and a nominal billing and collection fee.

Wireless services. During 2006, we began offering wireless data services in certain markets. Our wireless data services utilize technologies that are relatively new, and we depend to some degree on the representations of equipment vendors, lab testing and the experiences of others who have been successful at deploying these new technologies. As of December 31, 2007, we operate wireless data WIFI networks in 13 municipalities, four colleges and universities and over 50 business establishments with wireless coverage known as hot spots. We earn revenue from this service from end-user subscribers on a monthly recurring charge, from colleges, universities and businesses on a monthly recurring charge for a fixed number of users, and from hourly, daily and weekly casual end-users. All revenues are billed in advance or by credit card.

The following table sets forth the number of our access lines and high-speed internet subscribers as of December 31, 2007 and 2006.

State	Access Lines and High-Speed	
	Internet Subscribers at December 31,	
-----	2007	2006
-----	-----	-----
New York.....	897,300	952,500
Pennsylvania	523,500	45,300
Minnesota.....	287,400	296,900
California.....	205,400	190,200
Arizona.....	199,600	198,700
West Virginia.....	183,700	178,100
Illinois.....	129,000	129,100
Tennessee.....	108,600	111,000
Wisconsin.....	78,800	77,600
Iowa.....	57,100	57,600
Nebraska.....	53,300	54,100
All other states (13)...	231,800	228,700
	-----	-----
Total	2,955,500	2,519,800
	=====	=====

Change in the number of our access lines is important to our revenue and profitability. We have lost access lines primarily because of competition, changing consumer behavior, economic conditions, changing technology and by some customers disconnecting second lines when they add high-speed internet or cable modem service. Our CTE acquisition in Pennsylvania added 434,600 access lines and 50,500 high-speed customers at date of closing, March 8, 2007. Excluding the impact of the CTE and GVN acquisitions, we lost approximately 130,300 access lines during the year ended December 31, 2007, but added over 66,700 high-speed internet subscribers during this same period. With respect to the access lines we lost in 2007, 112,900 were residential customer lines and 17,400 were non-residential customer lines. The non-residential line losses were principally in our central and eastern regions and Rochester, New York, while the residential losses were throughout our markets. Our GVN acquisition in

California added approximately 15,300 access lines and 4,200 high-speed internet subscribers as of December 31, 2007. We expect to continue to lose access lines but to increase high-speed internet subscribers during 2008. A continued loss of access lines, combined with increased competition and the other factors discussed in MD&A, may cause our revenues, profitability and cash flows to decrease during 2008.

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Regulatory Environment

General

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

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

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

At the federal level and in a number of the states in which we operate, we are subject to price cap or incentive regulation plans under which prices for regulated services are capped in return for the elimination or relaxation of earnings oversight. The goal of these plans is to provide incentives to improve efficiencies and increased pricing flexibility for competitive services while ensuring that customers receive reasonable rates for basic services. Some of these plans have limited terms and, as they expire, we may need to renegotiate with various states. These negotiations could impact rates, service quality and/or infrastructure requirements which could impact our earnings and capital expenditures. In other states in which we operate, we are subject to rate of return regulation that limits levels of earnings and returns on investments. In some of our states, we have been successful in reducing or eliminating price regulation on end-user services under state commission jurisdiction. In order to receive relief from earnings regulation, we have agreed to certain broadband availability commitments in Pennsylvania. We have been compliant with all of those regulatory requirements to date and we continue to work toward our requirement to have 100% broadband availability by the end of 2008. We will be able to meet customer requests for broadband using various types of technology, including DSL, T1 and wireless, where appropriate. We continue to advocate our position of less regulation with various regulatory agencies.

For interstate services regulated by the FCC, we have elected a form of incentive regulation known as "price caps" for most of our operations. In May 2000, the FCC adopted a methodology for regulating the interstate access rates of price cap companies through May 2005. The program, known as the Coalition for Affordable Local and Long Distance Services, or CALLS plan, reduced prices for interstate-switched access services and phased out many of the implicit subsidies in interstate access rates. The CALLS program expired in 2005. The FCC may address future changes in interstate access charges during 2008 and such changes may adversely affect our revenues and profitability.

Another goal of the 1996 Act was to remove implicit subsidies from the rates

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

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

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Recent and Potential Regulatory Developments

Wireline and wireless carriers are required to provide local number portability (LNP). LNP is the ability of customers to switch from a wireline or wireless carrier to another wireline or wireless carrier without changing telephone numbers. We are 100% LNP capable in our largest markets and over 99% of our exchanges are LNP capable. We will upgrade the remaining exchanges in response to bona fide requests as required by FCC regulations.

In 1994, Congress passed the Communications Assistance for Law Enforcement Act (CALEA) to ensure that telecommunication networks can meet law enforcement wiretapping needs. Our company was fully compliant, for all Time Division Multiplexing (TDM) voice services, by June 2006. In June 2006, the FCC issued an order addressing the assistance capabilities required, pursuant to Section 103 of the CALEA law, for facilities-based broadband Internet access providers and providers of interconnected voice over internet protocol (VOIP). We invested significant capital in 2007 to take the necessary steps to comply with this order.

The FCC and Congress may address issues involving inter-carrier compensation, the universal service fund net neutrality and internet telephony in 2008. The FCC adopted a Further Notice of Proposed Rulemaking (FNPRM) addressing inter-carrier compensation on February 10, 2005. Some of the proposals being discussed with respect to inter-carrier compensation could reduce our access revenues and our profitability. The universal service fund is under pressure as local exchange companies lose access lines and more entities, such as wireless companies, seek to receive monies from the fund. The FCC released 3 Notices of Proposed Rulemakings on January 29, 2008 considering comprehensive reform to how the high-cost portion of the fund is calculated and distributed to both incumbent and competitive recipients. Changes in the funding or payout rules of the universal service fund could further reduce our subsidy revenues and our profitability. As discussed in MD&A, our access and subsidy revenues are important to our cash flows and our access and subsidy revenues declined in 2007 compared to 2006. Our access and subsidy revenues are both likely to decline in 2008.

Regulators at both the federal and state levels continue to address whether internet telephony services (VOIP) are subject to the same or different regulatory and financial models as traditional telephony. The FCC has concluded that certain VOIP services are jurisdictionally interstate in nature and are thereby exempt from state telecommunications regulations. The FCC has not addressed other related issues, such as: whether or under what terms VOIP originated traffic may be subject to intercarrier compensation; and whether VOIP services are subject to general state requirements relating to taxation and general commercial business requirements. The FCC has stated its intent to address these open questions in subsequent orders in its ongoing "IP-Enabled Services Proceeding," which opened in February 2004. Internet telephony may have an advantage over our traditional services if it remains less regulated.

The FCC has issued rules that became effective on October 11, 2007 requiring the amount of emergency backup power that we, along with all ILEC's and wireless carriers, are required to have at its central offices, remote offices, and digital loop carrier systems (DLCs). We will be required to invest capital in 2008 to meet these requirements in certain of our offices and DLCs. Under the rules, we must be compliant by October 11, 2008. These FCC rules are currently being challenged in the courts and a favorable ruling could reduce or eliminate

the capital expenditures needed to comply with the rules.

In January 2008, the FCC released public notices requesting comments on two petitions that have been filed regarding net neutrality and the application of the FCC's Internet Policy Statement. It is uncertain whether these petitions will result in any formal FCC action.

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

Competition

Competition in the telecommunications industry is intense and increasing, while the industry continues to undergo significant changes. We experience competition from many communication service providers including cable operators, wireless carriers, VOIP providers, long distance providers, competitive local exchange carriers, internet providers and other wireline carriers. In addition, consumers are changing behavior by using wireless in place of wireline services and maybe using email as a substitute for telephone calls. We believe that competition will continue to intensify in 2008 across all products and in all of our markets, and that trends in changing consumer behavior will continue. Our business experienced erosion in access lines and switched access minutes of use in 2007 as a result of competition and these trends. Competition in our markets and these trends may result in reduced revenues in 2008.

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

In addition, the factors, that could affect our revenues and profitability, could also result in more bankruptcies in the sector and therefore affect our ability to collect money owed to us by bankrupt carriers.

Divestiture of Electric Lightwave, LLC

In 2006, we sold our CLEC business, Electric Lightwave, LLC (ELI) for \$255.3 million (including the sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. We recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Our after-tax gain on the sale was \$71.6 million. Our cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the federal and state level.

Segment Information

With the 2006 sale of our CLEC (ELI), we currently operate in only one reportable segment.

Financial Information about Foreign and Domestic Operations and Export Sales

We have no foreign operations.

General

Order backlog is not a significant consideration in our business. We have no material contracts or subcontracts that may be subject to renegotiation of profits or termination at the election of the Federal government. We hold no patents, licenses or concessions that are material. We have applied for a patent for certain technology used in our "Frontier 1" product.

Employees

As of December 31, 2007, we had approximately 5,900 employees. Approximately 3,100 of our employees are affiliated with a union. The number of union

employees covered by agreements set to expire during 2008 is 650. We consider our relations with our employees to be good.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding the Company and other issuers that file electronically. Material filed by us can also be inspected at the offices of the New York Stock Exchange, Inc. (NYSE), 20 Broad Street, New York, NY 10005, on which our common stock is listed. On June 8, 2007, our Chief Executive Officer submitted the annual certification required by Section 303A.12(a) of the NYSE Listed Company Manual. In addition, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 are included as exhibits to this Form 10-K.

We make available, free of charge on our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as practicable after we electronically file these documents with, or furnish them to, the SEC. These documents may be accessed through our website at www.czn.net under "Investor Relations."

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We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for the Audit, Compensation, and Nominating and Corporate Governance committees of the Board of Directors. Stockholders may request printed copies of these materials by writing to: 3 High Ridge Park, Stamford, Connecticut 06905 Attention: Corporate Secretary. Our website address is www.czn.net.

Item 1A. Risk Factors

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

Risks Related to Competition and Our Industry

We face intense competition, which could adversely affect us.

The telecommunications industry is extremely competitive and competition is increasing. The traditional dividing lines between long distance, local, wireless, cable and internet services are becoming increasingly blurred. Through mergers and various service expansion strategies, services providers are striving to provide integrated solutions both within and across geographic markets. Our competitors include CLECs and other providers (or potential providers) of services, such as internet service providers, or ISPs, wireless companies, neighboring incumbents, VOIP providers and cable companies that may provide services competitive with ours or services that we intend to introduce. Competition is intense and increasing and we cannot assure you that we will be able to compete effectively. For example, excluding the impact of the CTE and GVN acquisitions, at December 31, 2007, we had 130,300 fewer access lines than we had at December 31, 2006, and we believe wireless and cable telephony providers have increased their market share in our markets. We expect to continue to lose access lines and that competition with respect to all our products and services will increase.

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

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

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

Risks Related to Our Business

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

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

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

We must produce adequate cash flow that, when combined with funds available under our revolving credit facility, will be sufficient to service our debt, fund our capital expenditures, pay our taxes and maintain our current dividend policy. We expect that our cash taxes, which increased significantly in 2007, will continue to increase in 2008 and 2009 due to our expectations of continued profitability and the effects of fully utilizing our federal net operating loss carryforwards and Alternative Minimum Tax (AMT) tax credit carryforwards that were generated in prior years. We have implemented several growth initiatives, including increasing our marketing promotion/expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand such as wireline and wireless high-speed internet, the DISH satellite television product and our Peace of Mind computer technical support. There is no assurance that these initiatives will result in an improvement in our financial position or our results of operations.

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

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

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

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

Risks Related to Liquidity, Financial Resources, and Capitalization

Substantial debt and debt service obligations may adversely affect us.

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

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

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

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

Replacing or upgrading our infrastructure will result in significant capital expenditures. If this capital is not available when needed, our business will be adversely affected. Increasing competition, offering new services, improving the capabilities or reducing the maintenance costs of our plant may cause our capital expenditures to increase in the future. In addition, our ongoing annual dividend of \$1.00 per share under our current policy utilizes a

significant portion of our cash generated by operations and therefore limits our operating and financial flexibility and our ability to significantly increase capital expenditures. While we believe that the amount of our dividend will allow for adequate amounts of cash flow for capital spending and other purposes, any material reduction in cash generated by operations and any increases in capital expenditures, interest expense or cash taxes would reduce the amount of cash generated by operations and available for payment of dividends. Losses of access lines, the effects of increased competition, lower subsidy and access revenues and the other factors described above may reduce our cash generated by operations and may require us to increase capital expenditures. In addition, we expect our cash paid for taxes to increase significantly in 2008 and 2009.

Risks Related to Regulation

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

A significant portion of our revenues (\$349.4 million, or 15% in 2007) is derived from access charges paid by IXCs for services we provide in originating and terminating intrastate and interstate traffic. The amount of access charge revenues we receive for these services is regulated by the FCC and state regulatory agencies. Recent rulings regarding access charges have lowered the amount of revenue we receive from this source. The FCC has an open proceeding to address reform to access charges and other intercarrier compensation. Additionally, some of the state commissions in the states where we operate have proceedings to address intrastate access charges. We have also been experiencing an increasing number of challenges from CLECs and other ILECs with respect to our intrastate access charges in a number of states. Certain of those challenges have led to formal complaints to the state PUCs. A material reduction in the access revenues we receive would adversely affect our financial results.

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

We receive a portion of our revenue (\$130.0 million, or 6% in 2007) from federal and state subsidies, including the federal high cost fund, federal local switching support fund, federal universal service fund surcharge and various state funds. FCC and state regulators are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. The FCC is also reviewing the mechanism by which subsidies are funded. We cannot predict when or how these matters will be decided nor the effect on our subsidy revenue.

The federal high cost fund is our largest source of subsidy revenue (approximately \$33.1 million in 2007). We currently expect that as a result of both an increase in the national average cost per loop and a decrease in our cost structure, there is likely to be a decrease in the subsidy revenue earned in 2008 through the federal high cost support fund.

In addition, approximately \$35.9 million, or 1% of our revenue represents a surcharge to customers (local, long distance and IXC) which is remitted to the FCC and recorded as an expense in "other operating expenses".

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

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

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

Risks Related to Technology

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal corporate offices are located in leased premises at 3 High Ridge Park, Stamford, Connecticut 06905.

Operations support offices are currently located in leased premises at 180 South Clinton Avenue, Rochester, New York 14646 and at 100 CTE Drive, Dallas, Pennsylvania 18612. Call center support offices are currently located in leased premises at 14450 Burnhaven Drive, Burnsville, Minnesota 55306 and 1398 South Woodland Blvd., DeLand, Florida 32720. In addition, we lease and own space in our operating markets throughout the United States.

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

Item 3. Legal Proceedings

Ronald A. Katz Technology Licensing LP, filed suit against us for patent infringement on June 8, 2007 in the U.S. District Court for the District of Delaware. Katz Technology alleges that, by operating automated telephone systems, including customer service systems, that allow our customers to utilize telephone calling cards, order internet, DSL, and dial-up services, and perform a variety of account related tasks such as billing and payments, we have infringed thirteen of Katz Technology's patents and continue to infringe three of Katz Technology's patents. Katz Technology seeks unspecified damages resulting from our alleged infringement, as well as a permanent injunction enjoining us from continuing the alleged infringement. Katz Technology subsequently filed a tag-along notice with the Judicial Panel on Multi-District Litigation, notifying them of this action and its relatedness to In re Katz

Interactive Dial Processing Patent Litigation (MDL No. 1816), pending in the Central District of California before Judge R. Gary Klausner. The Judicial Panel on Multi-District Litigation has transferred the case to the Central District of California. Discovery in the case has commenced. In January 2008, we received notice of the accused services and 40 asserted claims from Katz Technology. We intend to vigorously defend against this lawsuit.

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

position, results of operations, or our cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None in fourth quarter 2007.

Executive Officers of the Registrant

Our Executive Officers as of February 1, 2008 were:

Name	Age	Current Position and Officer
Mary Agnes Wilderotter	53	Chairman of the Board, President and Chief Executive Officer
Donald R. Shassian	52	Chief Financial Officer
Hilary E. Glassman	45	Senior Vice President, General Counsel and Secretary
Peter B. Hayes	50	Executive Vice President Sales, Marketing and Business Development
Robert J. Larson	48	Senior Vice President and Chief Accounting Officer
Daniel J. McCarthy	43	Executive Vice President and Chief Operating Officer
Cecilia K. McKenney	45	Senior Vice President, Human Resources
Melinda White	48	Senior Vice President and General Manager, New Business Operations

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

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

DONALD R. SHASSIAN has been with Citizens since April 2006. Prior to joining Citizens, Mr. Shassian had been an independent consultant since 2001 primarily providing M&A advisory services to several organizations in the communications industry. In his role as independent consultant, Mr. Shassian also served as Interim Chief Financial Officer of the Northeast region of Health Net, Inc. for a short period of time, and assisted in the evaluation of acquisition, disposition and capital raising opportunities for several companies in the communications industry including AT&T, Consolidated Communications and smaller companies in the rural local exchange business. Mr. Shassian is a certified public accountant, and served for 5 years as the Senior Vice President and Chief Financial Officer of Southern New England Telecommunications Corporation and for more than 16 years at Arthur Andersen.

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

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

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

of Century Communications Corp.

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

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

MELINDA WHITE has been with Citizens since January 2005. She is currently Senior Vice President and General Manager of New Business Operations. Previously, she was Senior Vice President, Commercial Sales and Marketing from January 2006 to October 2007. Ms. White was Vice President and General Manager of Electric Lightwave from January 2005 to July 2006. Prior to joining Citizens, she was Executive Vice President, National Accounts/Business Development for Wink Communications from 1996 to 2002. From 2002 to 2005, Ms. White pursued a career in music.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and

Issuer Purchases of Equity Securities

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the symbol CZN. The following table indicates the high and low prices per share during the periods indicated.

	2007		2006	
	High	Low	High	Low
First Quarter	\$15.58	\$13.92	\$13.72	\$11.97
Second Quarter	\$16.05	\$14.80	\$13.76	\$12.25
Third Quarter	\$15.62	\$12.50	\$14.31	\$12.38
Fourth Quarter	\$14.54	\$12.03	\$14.95	\$13.68

As of January 31, 2008, the approximate number of security holders of record of our common stock was 24,984. This information was obtained from our transfer agent, Illinois Stock Transfer Company.

DIVIDENDS

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors. Commencing with the third quarter of 2004, we instituted a regular annual cash dividend of \$1.00 per share of common stock to be paid quarterly. Cash dividends paid to shareholders were approximately \$336.0 million, \$323.7 million and \$338.4 million in 2007, 2006 and 2005, respectively. There are no material restrictions on our ability to pay dividends. The table below sets forth dividends paid during the periods indicated.

	2007	2006	2005
First Quarter	\$0.25	\$0.25	\$0.25
Second Quarter	\$0.25	\$0.25	\$0.25
Third Quarter	\$0.25	\$0.25	\$0.25

STOCKHOLDER RETURN PERFORMANCE GRAPH

The following performance graph compares the cumulative total return of our common stock to the S&P 500 Stock Index and to the S&P Telecommunication Services Index for the five-year period commencing December 31, 2002.

[GRAPH]

The graph assumes that \$100 was invested on December 31, 2002 in each of our common stock, the S&P 500 Stock Index and the S&P Telecommunications Services Index and that all dividends were reinvested.

Company / Index	Base Period 12/02	INDEXED RETURNS Years Ending				
		12/03	12/04	12/05	12/06	12/07
Citizens Communications Company	100	117.73	156.79	150.04	189.56	180.03
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
S&P Telecommunications Services	100	107.08	128.34	121.12	165.69	185.48

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

Since March 9, 2007, the Company's employees who participate in the Commonwealth Builder 401(k) Plan (CTE 401(k) Plan), which was taken over by the Company upon the acquisition of CTE, were inadvertently permitted to purchase in the open market approximately 149,000 shares of the Company's common stock that were not registered for purchase by the CTE 401(k) Plan utilizing a Registration Statement on Form S-8 under the Securities Act of 1933. All such shares were purchased by the trustee of the CTE 401(k) Plan on behalf of participants through open market purchases, and the Company received no proceeds from these transactions. Effective December 31, 2007, the CTE 401(k) Plan was merged into the Citizens 401(k) Savings Plan and the shares purchased thereunder are registered under a Form S-8.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1, 2007 to October 31, 2007				
Share Repurchase Program (1)	2,174,901	\$ 14.20	2,174,901	\$ -
Employee Transactions (2)	447	\$ 13.23	N/A	N/A
November 1, 2007 to November 30, 2007				
Share Repurchase Program (1)	-	\$ -	-	\$ -
Employee Transactions (2)	46,286	\$ 12.67	N/A	N/A

December 1, 2007 to December 31, 2007

Share Repurchase Program (1)	-	\$ -	-	\$ -
Employee Transactions (2)	-	\$ -	N/A	N/A

Totals October 1, 2007 to December 31, 2007

Share Repurchase Program (1)	2,174,901	\$ 14.20	2,174,901	\$ -
Employee Transactions (2)	46,733	\$ 12.67	N/A	N/A

- (1) In February 2007, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock in public or private transactions over the following twelve month period. This share repurchase program commenced on March 19, 2007, and was completed on October 15, 2007.
- (2) Includes restricted shares withheld (under the terms of grants under employee stock compensation plans) to offset minimum tax withholding obligations that occur upon the vesting of restricted shares. The Company's stock compensation plans provide that the value of shares withheld shall be the average of the high and low price of the Company's common stock on the date the relevant transaction occurs.

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Item 6. Selected Financial Data

The following tables present selected historical consolidated financial information of Citizens for the periods indicated. The selected historical consolidated financial information of Citizens as of and for each of the five fiscal years in the period ended December 31, 2007 has been derived from Citizens' historical consolidated financial statements. The selected historical consolidated financial information as of December 31, 2007 and 2006 and for the three years ended December 31, 2007 is derived from the audited historical consolidated financial statements of Citizens included elsewhere in this Form 10-K. The selected historical consolidated financial information as of December 31, 2004 and for the years ended December 31, 2004 and 2003 is derived from the audited historical consolidated financial statements of Citizens not included in this Form 10-K. The selected historical consolidated financial information as of December 31, 2003 is derived from the unaudited historical consolidated financial statements of Citizens not included in this Form 10-K and has been recast to be comparable to the audited historical consolidated financial statements.

(\$ in thousands, except per share amounts)

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Revenue (1)	\$2,288,015	\$2,025,367	\$2,017,041	\$2,022,378	\$2,268,561
Income from continuing operations before cumulative effect of change in accounting principle (2)	\$ 214,654	\$ 254,008	\$ 187,942	\$ 57,064	\$ 71,879
Net income	\$ 214,654	\$ 344,555	\$ 202,375	\$ 72,150	\$ 187,852
Basic income per share of common stock from continuing operations before cumulative effect of change in accounting principle (2)	\$ 0.65	\$ 0.79	\$ 0.56	\$ 0.19	\$ 0.26
Earnings available for common shareholders per basic share	\$ 0.65	\$ 1.07	\$ 0.60	\$ 0.24	\$ 0.67
Earnings available for common shareholders per diluted share	\$ 0.65	\$ 1.06	\$ 0.60	\$ 0.23	\$ 0.64
Cash dividends declared (and paid) per common share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 2.50	\$ -
	As of December 31,				
	2007	2006	2005	2004	2003
Total assets	\$7,256,069	\$6,797,536	\$6,427,567	\$6,679,899	\$7,457,939
Long-term debt	\$4,736,897	\$4,467,086	\$3,995,130	\$4,262,658	\$4,179,590
Equity units (3)	\$ -	\$ -	\$ -	\$ -	\$ 460,000
Company Obligated Mandatorily Redeemable Convertible Preferred Securities (4)	\$ -	\$ -	\$ -	\$ -	\$ 201,250
Shareholders' equity	\$ 997,899	\$1,058,032	\$1,041,809	\$1,362,240	\$1,415,183

- (1) Operating results include activities from our Vermont Electric segment for three months of 2004 and the year ended 2003, and for Commonwealth from the date of its acquisition on March 8, 2007 and for GVN from the date of its acquisition on October 31, 2007.

- (2) The cumulative effect of change in accounting principles represents the \$65.8 million after tax non-cash gain resulting from the adoption of Statement of Financial Accounting Standards No. 143 in 2003.
- (3) On August 17, 2004, we issued common stock to equity unit holders in settlement of the equity purchase contract.
- (4) The consolidation of this item changed effective January 1, 2004, as a result of the adoption of FIN No. 46R, "Consolidation of Variable Interest Entities."

Item 7. Management's Discussion and Analysis of Financial Condition and

 Results of Operations

Forward-Looking Statements

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

- * Reductions in the number of our access lines and high-speed internet subscribers;
- * The effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VOIP) or otherwise);
- * The effects of greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis;
- * The effects of general and local economic, business, industry and employment conditions on our revenues;
- * Our ability to effectively manage service quality;
- * Our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to our customers;
- * Our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, switched access services and subsidies;
- * Changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators;
- * The effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, including potential changes in state rate of return limitations on our earnings, access charges and subsidy payments, and regulatory network upgrade and reliability requirements;
- * Our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to reduce or refinance our debt;
- * Adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability and/or increase the cost of financing;
- * The effects of bankruptcies in the telecommunications industry, which could result in potential bad debts;

- * The effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;
- * The effects of increased medical, retiree and pension expenses and related funding requirements;
- * Changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments;
- * The effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company;

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- * Our ability to successfully renegotiate union contracts expiring in 2008 and thereafter;
- * Our ability to pay a \$1.00 per common share dividend annually, which may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in the future) and our liquidity;
- * The effects of fully utilizing our federal net operating loss carryforwards and AMT tax credit carryforwards that were generated in prior years, which have significantly increased our cash taxes in 2007 and will continue to do so in 2008 and 2009;
- * The effects of any future liabilities or compliance costs in connection with worker health and safety matters; and
- * The effects of any unfavorable outcome with respect to any of our current or future legal, governmental or regulatory proceedings, audits or disputes.

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

Overview

We are a full-service communications provider and one of the largest exchange telephone carriers in the country. We offer our incumbent local exchange carrier (ILEC) services under the "Frontier" name. On July 31, 2006, we sold our competitive local exchange carrier (CLEC), Electric Lightwave, LLC (ELI). We accounted for ELI as a discontinued operation in our consolidated statements of operations. On March 8, 2007, we completed the acquisition of Commonwealth Telephone Enterprises, Inc., which includes a small CLEC component. This acquisition expands our presence in Pennsylvania and strengthens our position as a leading full-service communications provider to rural markets. On October 31, 2007, we completed the acquisition of Global Valley Networks, Inc. and GVN Services which expands our presence in California and also strengthens our rural position. As of December 31, 2007, we operated in 24 states with approximately 5,900 employees.

Competition in the telecommunications industry is intense and increasing. We experience competition from many telecommunications service providers, including cable operators, wireless carriers, voice over internet protocol (VOIP) providers, long distance providers, competitive local exchange carriers, internet providers and other wireline carriers. We believe that as of December 31, 2007, approximately 58% of the households in our territories are able to be served by alternate phone providers. We also believe that competition will continue to intensify in 2008 across all of our products and in all of our markets. Our Frontier business experienced erosion in access lines and switched access minutes in 2006 and 2007, primarily as a result of competition. Competition in our markets may result in reduced revenues in 2008.

The communications industry is undergoing significant changes. The market is extremely competitive, resulting in lower prices. These trends are likely to continue and result in a challenging revenue environment. These factors could also result in more bankruptcies in the sector and, therefore, affect our ability to collect money owed to us by carriers.

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

On October 24, 2007, the Federal Communications Commission (FCC) released an order granting us relief from certain tariff and pricing regulations on our existing packet-switched and optical transmission services. While this is a positive regulatory step by the FCC, these services are a small, but growing, portion of our current total revenues. The impact of this ruling will not have an immediate material impact on our revenues.

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(a) Liquidity and Capital Resources

Cash Flow from Operating Activities

As of December 31, 2007, we had cash and cash equivalents aggregating \$226.5 million. Our primary source of funds continued to be cash generated from operations. For the year ended December 31, 2007, we used cash flow from continuing operations, incremental borrowings, and cash and cash equivalents to fund a significant portion of the acquisition of Commonwealth, the entire acquisition of GVN, capital expenditures, dividends, interest payments, debt repayments and stock repurchases.

We believe our operating cash flows, existing cash balances, and credit facility will be adequate to finance our working capital requirements, fund capital expenditures, make required debt payments through 2008, pay taxes, pay dividends to our stockholders in accordance with our dividend policy and support our short-term and long-term operating strategies. However, a number of factors, including but not limited to, increased cash taxes, losses of access lines, increases in competition and lower subsidy and access revenues are expected to reduce our cash generated by operations. Our below investment grade credit ratings may make it more difficult and expensive to refinance our maturing debt, although we do not have any significant maturities until 2011. We have approximately \$2.4 million and \$2.5 million of debt maturing in 2008 and 2009, respectively.

We have in recent years paid relatively low amounts of cash taxes. We expect that in 2008 and beyond our cash taxes will increase substantially, as our federal net operating loss carryforwards and AMT tax credit carryforwards are estimated to be fully utilized during 2007 and 2008. We paid \$54.4 million in cash taxes during 2007, and expect to pay approximately \$130.0 million to \$140.0 million in 2008. Our 2008 cash tax estimate does not reflect the impact of the "Economic Stimulus Act of 2008," which we are currently evaluating.

Cash Flow used by Investing Activities

Acquisitions

On March 8, 2007, we acquired Commonwealth in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. We paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued common stock with a value of approximately \$247.4 million.

In connection with the acquisition of Commonwealth, we assumed \$35.0 million of debt under a revolving credit facility and \$191.8 million face amount of Commonwealth convertible notes (fair value of \$209.6 million). During March 2007, we paid down the \$35.0 million credit facility. We have retired all but \$8.5 million of the \$191.8 million face amount of Commonwealth notes as of December 31, 2007. The notes were retired by the payment of \$165.4 million in cash and the issuance of our common stock valued at approximately \$36.7 million.

The premium paid of \$18.9 million was recorded as \$17.8 million to goodwill and \$1.1 million to other income (loss), net.

On October 31, 2007, we completed the acquisition of Global Valley Networks, Inc. and GVN Services for a total cash consideration of \$62.0 million.

Rural Telephone Bank

We received approximately \$64.6 million in cash from the dissolution of the Rural Telephone Bank (RTB) in April 2006, which resulted in the recognition of a pre-tax gain of approximately \$61.4 million during the second quarter of 2006, as reflected in investment income in the consolidated statements of operations for the year ended December 31, 2006. Our tax net operating losses were used to absorb the cash liability for taxes.

Sale of Non-Core Operations and Investments

During 2006, we sold ELI, our CLEC business (including its associated real estate), for \$255.3 million in cash plus the assumption of approximately \$4.0 million in capital lease obligations.

During 2005, we executed a strategy of divesting non-core assets, which resulted in the following transactions:

On February 1, 2005, we sold 20,672 shares of Prudential Financial, Inc. for approximately \$1.1 million.

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On March 15, 2005, we completed the sale of Conference Call USA, LLC for \$43.6 million.

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

During 2005, we sold 79,828 shares of Global Crossing Limited for \$1.1 million.

Capital Expenditures

For the year ended December 31, 2007, our capital expenditures were \$315.8 million, including \$34.3 million related to the Commonwealth and GVN properties since date of acquisition. We continue to closely scrutinize all of our capital projects, emphasize return on investment and focus our capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. We anticipate capital expenditures of approximately \$300.0 million to \$310.0 million for 2008.

Cash Flow used by Financing Activities

Debt Reduction and Debt Exchanges

For the year ended December 31, 2007, we retired an aggregate principal amount of \$967.2 million of debt, including \$3.3 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (EPPICS), and \$17.8 million of 3.25% Commonwealth convertible notes that were converted into our common stock. On April 26, 2007, we redeemed \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. During the first quarter of 2007, we temporarily borrowed and repaid \$200.0 million utilized to temporarily fund the acquisition of Commonwealth, and we paid down the \$35.0 million Commonwealth credit facility. Through December 31, 2007, we retired \$183.3 million face amount of Commonwealth convertible notes for which we paid \$165.4 million in cash and \$36.7 million in common stock (premium paid of \$18.9 million was recorded as \$17.8 million to goodwill and \$1.1 million to other income (loss), net), resulting in a remaining outstanding balance of \$8.5 million as of December 31, 2007. We also paid down \$44.6 million of industrial development revenue bonds and \$4.3 million of rural utilities service loan contracts.

For the year ended December 31, 2006, we retired an aggregate principal amount

of \$251.0 million of debt, including \$15.9 million of EPPICS that were converted into our common stock. During the first quarter of 2006, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$47.5 million of our 7.625% notes due 2008 were exchanged for approximately \$47.4 million of our 9.00% notes due 2031. During the fourth quarter of 2006, we entered into four debt-for-debt exchanges and exchanged \$157.3 million of our 7.625% notes due 2008 for \$149.9 million of our 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions. However, with respect to the first quarter debt exchanges, a non-cash pre-tax loss of approximately \$2.4 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net.

On June 1, 2006, we retired at par our entire \$175.0 million principal amount of 7.60% Debentures due June 1, 2006. On June 14, 2006, we repurchased \$22.7 million of our 6.75% Senior Notes due August 17, 2006 at a price of 100.181% of par. On August 17, 2006, we retired at par the \$29.1 million remaining balance of the 6.75% Senior Notes.

For the year ended December 31, 2005, we retired an aggregate principal amount of \$36.4 million of debt, including \$30.0 million of EPPICS that were converted into our common stock. During the second quarter of 2005, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$50.0 million of our 7.625% notes due 2008 were exchanged for approximately \$52.2 million of our 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions, however a non-cash pre-tax loss of approximately \$3.2 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net.

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

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Issuance of Debt Securities

On March 23, 2007, we issued in a private placement an aggregate \$300.0 million principal amount of 6.625% Senior Notes due 2015 and \$450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down \$200.0 million principal amount of indebtedness incurred on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth and redeem, on April 26, 2007, \$495.2 million principal amount of our 7.625% Senior Notes due 2008. In the second quarter of 2007, we completed an exchange offer (to publicly register the debt) on the \$750.0 million in total of private placement notes described above, in addition to the \$400.0 million principal amount of 7.875% Senior Notes issued in a private placement on December 22, 2006, for registered notes.

On December 22, 2006, we issued in a private placement, \$400.0 million principal amount of 7.875% Senior Notes due January 15, 2027. Proceeds from the sale were used to partially finance our acquisition of Commonwealth.

In December 2006, we borrowed \$150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on an average prime rate or London Interbank Offered Rate, or LIBOR, at our election plus a margin which varies depending on our debt leverage ratio. We used the proceeds to partially finance our acquisition of Commonwealth.

EPPICS

As of December 31, 2007, we have only \$4.0 million of EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issuance.

In 1996, our consolidated wholly owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (Trust Convertible Preferred Securities or EPPICS), representing preferred undivided interests in the assets of the Trust, with a liquidation preference of \$50 per security (for a total liquidation amount of \$201.3 million). These

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

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2007, 2006 and 2005. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2007, EPPICS representing a total principal amount of \$197.3 million had been converted into 15,918,182 shares of our common stock, and a total of \$4.0 million remains outstanding to third parties. Our long-term debt footnote indicates \$14.5 million of EPPICS outstanding at December 31, 2007, of which \$10.5 million is debt of related parties for which we have an offsetting receivable.

Interest Rate Management

In order to manage our interest expense, we had entered into interest rate swap agreements. Under the terms of these agreements, we made semi-annual, floating rate interest payments based on six month LIBOR and received a fixed rate on the notional amount. The underlying variable rate on these swaps was set either in advance or in arrears.

The notional amounts of fixed-rate indebtedness hedged as of December 31, 2007 and 2006 were \$400.0 million and \$550.0 million, respectively. Such contracts required us to pay variable rates of interest (estimated average pay rates of approximately 8.54% as of December 31, 2007, and approximately 9.02% as of December 31, 2006) and receive fixed rates of interest (average receive rate of 8.50% as of December 31, 2007, and 8.26% as of December 31, 2006). All swaps are accounted for under SFAS No. 133 (as amended) as fair value hedges. For the years ended December 31, 2007 and 2006, the interest expense resulting from these interest rate swaps totaled approximately \$2.4 million and \$4.2 million, respectively. For the year ended December 31, 2005, our interest expense was reduced by \$2.5 million, as a result of our swaps.

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On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain will be deferred on the balance sheet, and amortized into income over the term of the associated debt.

Credit Facility

As of December 31, 2007, we had available lines of credit with financial institutions in the aggregate amount of \$250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of December 31, 2007. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

Covenants

The terms and conditions contained in our indentures and credit facility agreements include the timely payment of principal and interest when due, the maintenance of our corporate existence, keeping proper books and records in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP), restrictions on the allowance of liens on our assets, and restrictions on asset sales and transfers, mergers and other changes in corporate control. We currently have no restrictions on the payment of dividends either by contract, rule or regulation, other than those imposed by the Delaware General Corporate laws.

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

Our \$250.0 million credit facility and our \$150.0 million senior unsecured term loan contain a maximum leverage ratio covenant. Under the leverage ratio covenant, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters no greater than 4.50 to 1. Although both facilities are unsecured, they will be equally and ratably secured by certain liens and equally and ratably guaranteed by certain of our subsidiaries if we issue debt that is secured or guaranteed.

Certain indentures for our senior unsecured debt obligations limit our ability to create liens or merge or consolidate with other companies and our subsidiaries' ability to borrow funds, subject to important exceptions and qualifications.

We are in compliance with all of our debt and credit facility covenants.

Proceeds from the Sale of Equity Securities

We receive proceeds from the issuance of our common stock upon the exercise of options pursuant to our stock-based compensation plans. For the years ended December 31, 2007 and 2006, we received approximately \$13.8 million and \$27.2 million, respectively, upon the exercise of outstanding stock options.

Share Repurchase Programs

In February 2008, our Board of Directors authorized us to repurchase up to \$200.0 million of our common stock in public or private transactions over the following twelve month period.

In February 2007, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock in public or private transactions over the following twelve month period. This share repurchase program commenced on March 19, 2007, and was completed on October 15, 2007. During 2007, we repurchased 17,279,600 shares of our common stock at an aggregate cost of \$250.0 million.

In February 2006, our Board of Directors authorized us to repurchase up to \$300.0 million of our common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 6, 2006. During 2006, we repurchased 10,199,900 shares of our common stock at an aggregate cost of approximately \$135.2 million. No further purchases were made prior to expiration of this authorization.

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On May 25, 2005, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock. This share repurchase program commenced on June 13, 2005. During 2005, we completed the repurchase program and had repurchased a total of 18,775,200 shares of our common stock at an aggregate cost of \$250.0 million.

Dividends

We expect to pay regular quarterly dividends. Our ability to fund a regular quarterly dividend will be impacted by our ability to generate cash from operations. The declarations and payment of future dividends will be at the

discretion of our Board of Directors, and will depend upon many factors, including our financial condition, results of operations, growth prospects, funding requirements, applicable law and other factors our Board of Directors deems relevant.

Off-Balance Sheet Arrangements

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

Future Commitments

A summary of our future contractual obligations and commercial commitments as of December 31, 2007 is as follows:

Contractual Obligations:	Payment due by period				
	Total	2008	2009-2010	2011-2012	Thereafter
(\$ in thousands)					
Long-term debt obligations,					
excluding interest (see Note 11) (1)	\$4,760,639	\$ 2,448	\$ 8,393	\$1,431,534	\$3,318,264
Interest on long-term debt	4,887,086	370,721	740,879	579,081	3,196,405
Operating lease obligations (see Note 24)	79,052	24,094	23,399	16,025	15,534
Purchase obligations (see Note 24)	55,904	27,813	27,236	360	495
FIN No. 48 liability (see Note 2)	65,959	15,500	26,170	18,175	6,114
Total	\$9,848,640	\$440,576	\$826,077	\$2,045,175	\$6,536,812

(1) Includes interest rate swaps for \$7.9 million.

At December 31, 2007, we have outstanding performance letters of credit totaling \$22.9 million.

Divestitures

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

Discontinued Operations

On July 31, 2006, we sold our CLEC business Electric Lightwave, LLC (ELI) for \$255.3 million (including a later sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. We recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Our after-tax gain on the sale was \$71.6 million. Our cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the Federal and state level.

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

Critical Accounting Policies and Estimates

We review all significant estimates affecting our consolidated financial statements on a recurring basis and record the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from

those estimates and changes to estimates could occur in the near term. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, pension and other postretirement benefits, income taxes, contingencies and purchase price allocations among others.

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

Telecommunications Bankruptcies

Our estimate of anticipated losses related to telecommunications bankruptcies is a "critical accounting estimate." We have significant ongoing normal course business relationships with many telecom providers, some of which (in prior years) have filed for bankruptcy. We generally reserve approximately 95% of the net outstanding pre-bankruptcy balances owed to us and believe that our estimate of the net realizable value of the amounts owed to us by bankrupt entities is appropriate. In 2007 and 2006, we had no "critical estimates" related to telecommunications bankruptcies.

Asset Impairment

In 2007 and 2006, we had no "critical estimates" related to asset impairments.

Depreciation and Amortization

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and identifiable intangible assets. An independent study updating the estimated remaining useful lives of our plant assets is performed annually. We adopted the lives proposed in the study effective October 1, 2007. Our "composite depreciation rate" increased from 5.25% to 5.45% as a result of the study. We anticipate depreciation expense of approximately \$350.0 million to \$370.0 million for 2008.

Intangibles

Our indefinite lived intangibles consist of goodwill and trade name, which resulted from the purchase of ILEC properties. We test for impairment of these assets annually, or more frequently, as circumstances warrant. All of our ILEC properties share similar economic characteristics and as a result, we aggregate our reporting units into one ILEC segment. In determining fair value of goodwill during 2007 we compared the net book value of the reporting units to current trading multiples of ILEC properties as well as trading values of our publicly traded common stock. Additionally, we utilized a range of prices to gauge sensitivity. Our test determined that fair value exceeded book value of goodwill.

Pension and Other Postretirement Benefits

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

The discount rate is used to value, on a present basis, our pension and post retirement benefit obligation as of the balance sheet date. The same rate is also used in the interest cost component of the pension and post retirement benefit cost determination for the following year. The measurement date used in the selection of our discount rate is the balance sheet date. Our discount rate

assumption is determined annually with assistance from our actuaries based on the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination we consider, among other things, the yields on the Citigroup Pension Discount Curve and Bloomberg Finance and the changes in those rates from one period to the next. This rate can change from year-to-year based on market conditions that impact corporate bond yields. Our discount rate increased from 6.00% at year-end 2006 to 6.50% at year-end 2007.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and post retirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, we considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and our own historical 5-year and 10-year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 35% to 55% in fixed income securities, 35% to 55% in equity securities and 5% to 15% in alternative investments. We review our asset allocation at least annually and make changes when considered appropriate. In 2007, we did not change our expected long-term rate of return from the 8.25% used in 2006. Our pension plan assets are valued at actual market value as of the measurement date.

Accounting standards in effect prior to December 31, 2006 required that we record an additional minimum pension liability when the plan's "accumulated benefit obligation" exceeded the fair market value of plan assets at the pension plan measurement (balance sheet) date. In the fourth quarter of 2005, primarily due to a decrease in the year-end discount rate, we recorded an additional minimum pension liability in the amount of \$36.4 million with a corresponding charge to shareholders' equity of \$22.5 million, net of taxes of \$13.9 million. These adjustments did not impact our net income or cash flows.

We expect that our pension and other postretirement benefit expenses for 2008 will be \$5.0 million to \$10.0 million (they were \$8.8 million in 2007, excluding a pension curtailment gain of \$14.4 million) and that no contribution will be made by us to our pension plan in 2008. No contribution was made to our pension plans (which were merged into one plan at year end) during 2007.

Income Taxes

Our effective tax rates in 2006 and 2007 were approximately at the statutory rates, while in 2005 our effective tax rate was below the statutory rate level as a result of the completion of audits with federal and state taxing authorities and changes in the structure of certain of our subsidiaries.

Contingencies

At December 31, 2006, we had a reserve of \$8.0 million in connection with a potential environmental claim in Bangor, Maine. This claim was settled with a payment of \$7.625 million plus additional expenses during the third quarter of 2007.

We currently do not have any contingencies in excess of \$5.0 million recorded on our books.

Purchase Price Allocation - Commonwealth

The allocation of the approximate \$1.1 billion paid to the "fair market value" of the assets and liabilities of Commonwealth is a critical estimate. We have adjusted our preliminary estimate for the fair values assigned to plant, customer list, and goodwill to the final values. Additionally, the estimated expected life of a customer (used to amortize the customer list) is a critical estimate.

New Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." Among other things, FIN No. 48 requires applying a "more likely than not" threshold to the recognition and derecognition of uncertain tax positions either taken or expected to be taken in the Company's income tax returns. We adopted the provisions of FIN No. 48 in the first quarter of 2007. The total amount of our gross FIN No. 48 tax liability for tax positions that may not be sustained under a "more likely than not" threshold as of the date of adoption was \$44.7 million (including \$10.4 million acquired from CTE) and amounts to \$66.0 million as of December 31, 2007. This amount includes

an accrual for interest from the date the tax positions were taken in the amount of \$6.2 million as of December 31, 2007. These balances include amounts of \$9.0 million and \$1.4 million for total FIN No. 48 tax liabilities and accrued interest, respectively, resulting from positions taken by Commonwealth which we

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acquired in March 2007. An increase of \$14.8 million in the balance since the date of adoption is attributable to a change made to the estimated useful life of an intangible asset for income tax purposes. This tax position is temporary in nature and, therefore, will not impact the Company's results of operations when ultimately settled in the future. The amount of our total FIN No. 48 tax liabilities reflected above that would positively impact the calculation of our effective income tax rate, if our tax positions are sustained, is \$21.1 million as of December 31, 2007.

The Company's policy regarding the classification of interest and penalties is to include these amounts as a component of income tax expense. This treatment of interest and penalties is consistent with prior periods. We have recognized in our consolidated statement of operations for the year ended December 31, 2007, additional interest in the amount of \$1.2 million. We are subject to income tax examinations generally for the years 2003 forward for both our Federal and state filing jurisdictions. We maintain uncertain tax positions in various state jurisdictions. It is reasonably possible that amounts related to previous asset dispositions and tax credits will change within the next 12 months, due to the expiration of the relevant statutes of limitations. This could favorably impact our results of operations by up to \$7.0 million and reduce acquired goodwill balances by up to \$3.0 million. Amounts related to all other positions that may change within the next twelve months are not material.

The following new accounting standards were adopted by the Company without any financial statement impact. All of these standards are more fully described in Note 2 to the consolidated financial statements.

* How Taxes Collected from Customers and Remitted to Governmental

Authorities Should be Presented in the Income Statement (EITF No.

06-3)

* Accounting for Purchases of Life Insurance (EITF No. 06-5)

The following new accounting standards that will be adopted by the Company in 2008 and 2009 are currently being evaluated by the Company, but we do not expect the adoption to have a material impact on our financial position, results of operations or cash flows.

* Accounting for Endorsement Split-Dollar Life Insurance Arrangements

(EITF No. 06-4)

* Fair Value Measurements (SFAS No. 157), as amended

* Fair Value Option for Financial Assets and Financial Liabilities (SFAS

No. 159)

* Accounting for Collateral Assignment Split-Dollar Life Insurance

Arrangements (EITF No. 06-10)

* Business Combinations (SFAS No. 141R)

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(b) Results of Operations

In the paragraphs below, the Company has shown adjustments to its financial presentations to exclude the effects of the acquisitions of CTE and GVN because of the aggregate magnitude of the acquisitions and their impact on the Company's financial results in 2007. The Company's variance explanations below are based upon an analysis of 2007 for Citizens (excluding CTE and GVN), except that the first sentence in each section of revenue or expense shows the revenue, expenses and/or variances based upon an analysis of Citizens including the acquired properties.

REVENUE

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

Consolidated revenue for the year ended December 31, 2007 increased \$262.6 million, or 13%, to \$2,288.0 million as compared with the prior year. Excluding the additional revenue due to the CTE and GVN acquisitions, revenue decreased \$4.0 million during 2007, as compared with the prior year. During the first quarter of 2007, we had a significant favorable settlement of a dispute with a carrier that resulted in a favorable one-time impact to our revenues of \$38.7 million. Excluding the impact of our acquisitions and the one-time favorable settlement, our revenues for the year ended December 31, 2007 would have been \$1,982.7 million, a decrease of \$42.7 million, or 2%, as compared to the prior year, primarily from a reduction of \$39.9 million in subsidies received from federal and state funds.

Consolidated revenue increased \$8.3 million to \$2.025 billion in 2006 from \$2.017 billion in 2005. The increase in 2006 was primarily due to a 24% increase in high-speed internet subscribers partially offset by a loss of access lines, a decline in the average rate per minute for long distance customers and an increase in bad debt expense.

Change in the number of our access lines is important to our revenue and profitability. We have lost access lines primarily because of competition, changing consumer behavior, economic conditions, changing technology and by some customers disconnecting second lines when they add high-speed internet or cable modem service. Excluding the impact of our acquisitions, we lost approximately 130,300 access lines during 2007, but added approximately 66,700 high-speed internet subscribers during this same period. Our GVN acquisition represented approximately 15,300 access lines and 4,200 high-speed internet subscribers as of December 31, 2007. The loss of access lines during 2007 was primarily among residential customers. The non-residential line losses were principally in our central and eastern regions and Rochester, New York, while the residential losses were throughout our markets. We expect to continue to lose access lines but to increase high-speed internet subscribers during 2008. A continued loss of access lines, combined with increased competition and the other factors discussed herein may cause our revenues, profitability and cash flows to decrease in 2008.

Our historical results include the results of operations of Commonwealth from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. The financial tables below include a comparative analysis of our results of operations on a historical basis for 2007, 2006 and 2005. We have also presented an analysis of each category for 2007 for the results of Citizens (excluding CTE and GVN) and the results of our acquisitions: CTE for the last 23 days of March and the nine months ended December 31, 2007, and the results of GVN for the last two months of 2007, as included in the consolidated results of operations.

TELECOMMUNICATIONS REVENUE

(\$ in thousands)	2007					2006			2005	
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	\$ Change	% Change	Amount	\$ Change	% Change	Amount	
Local services	\$ 875,762	\$ 95,197	\$ 780,565	\$ (29,019)	-4%	\$ 809,584	\$(20,101)	-2%	\$ 829,685	
Data and internet services	543,764	58,934	484,830	60,621	14%	424,209	58,596	16%	365,613	
Access services	479,462	70,235	409,227	(18,732)	-4%	427,959	(3,380)	-1%	431,339	

Long distance services	180,525	27,070	153,455	183	0%	153,272	(16,224)	-10%	169,496
Directory services	114,586	1,264	113,322	(816)	-1%	114,138	1,046	1%	113,092
Other	93,916	13,908	80,008	(16,197)	-17%	96,205	(11,611)	-11%	107,816
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$2,288,015	\$ 266,608	\$2,021,407	\$ (3,960)	0%	\$2,025,367	\$ 8,326	0%	\$2,017,041
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Local Services

Local services revenue for the year ended December 31, 2007 increased \$66.2 million, or 8%, to \$875.8 million as compared with the prior year. Excluding the additional local services revenue due to the CTE and GVN acquisitions of \$95.2 million, local services revenue for the year ended December 31, 2007 decreased \$29.0 million, or 4%, to \$780.6 million as compared with the prior year. The loss of access lines accounted for \$28.7 million of the decline in local revenue, partially offset by rate increases in Rochester, New York on residential lines that became effective August of 2006 and 2007.

Local services revenue for the year ended December 31, 2006 decreased \$20.1 million, or 2%, as compared with the prior year. Local revenue decreased \$25.9 million, primarily due to continued losses of access lines partially offset by a local rate increase on some of our Rochester residential access lines effective August 2006. 2005 reflected a reserve of \$4.0 million associated with a state rate of return limitation on earnings. Enhanced services revenue increased \$5.8 million, primarily due to sales of additional feature packages.

Economic conditions and/or increasing competition could make it more difficult to sell our packages and bundles and cause us to lower our prices for those products and services, which would adversely affect our revenues, profitability and cash flow.

Data and Internet Services

Data and internet services revenue for the year ended December 31, 2007 increased \$119.6 million, or 28%, to \$543.8 million as compared to the prior year. Excluding the additional data and internet services revenue due to the CTE and GVN acquisitions of \$58.9 million, data and internet services revenue for the years ended December 31, 2007 and 2006 increased \$60.6 million, or 14%, and \$58.6 million, or 16%, respectively, as compared with the prior year, primarily due to growth in data and high-speed internet services. As of December 31, 2007, the number of the Company's high-speed internet subscribers increased by 66,700, or 17%, since December 31, 2006. Data and internet services also includes revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits like DS-1's and DS-3's. Revenue from these dedicated high-capacity circuits increased \$19.8 million in 2007 and \$9.1 million in 2006, primarily due to growth in the number of those circuits.

Access Services

Access services revenue for the year ended December 31, 2007 increased \$51.5 million, or 12%, to \$479.5 million as compared to the prior year. Excluding the additional access services revenue due to the CTE and GVN acquisitions of \$70.2 million, access services revenue for the year ended December 31, 2007 decreased \$18.7 million, or 5%, as compared with the prior year. Switched access revenue of \$284.6 million increased \$21.2 million, or 8%, as compared with the prior year, primarily due to the settlement in the first quarter of a dispute with a carrier resulting in a favorable impact on our revenue of \$38.7 million (a one-time event), partially offset by the impact of a decline in minutes of use related to access line losses. Access service revenue includes subsidy payments we receive from federal and state agencies. Subsidy revenue of \$124.7 million decreased \$39.9 million, primarily due to lower receipts under the Federal High Cost Fund program resulting from our reduced cost structure and an increase in the program's National Average Cost Per Local Loop (NACPL), along with reductions in Universal Service Fund (USF) surcharges due to the elimination of high-speed internet units from the USF calculation.

Access services revenue for the year ended December 31, 2006 decreased \$3.4 million, or 1%, as compared with the prior year. Switched access revenue decreased \$13.9 million to \$263.4 million. Approximately \$24.0 million of the switched access decline was attributable to a decline in minutes of use related to access line losses. This decline was offset by approximately \$9.3 million of disputed carrier activity resolved in the Company's favor during the fourth quarter of 2006. Subsidy revenue increased \$10.5 million to \$164.6 million in 2006, primarily due to increased receipts from the Federal High Cost Fund due to

higher costs in the base year, as well as increased receipts from state high cost funds.

Increases in the number of Competitive Eligible Telecommunications Companies (including wireless companies) receiving federal subsidies, among other factors, may lead to further increases in the NACPL, thereby resulting in decreases in our federal subsidy revenue in the future. The FCC and state regulators are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. The FCC is also reviewing the mechanism by which subsidies are funded. Additionally, the FCC has an open proceeding to address reform to access charges and other intercarrier compensation. We cannot predict when or how these matters will be decided nor the effect on our subsidy or access revenues. Future reductions in our subsidy and access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have associated variable expenses.

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Long Distance Services

Long distance services revenue for the year ended December 31, 2007 increased \$27.3 million, or 18%, to \$180.5 million as compared to the prior year. Excluding the additional long distance services revenue due to the CTE and GVN acquisitions of \$27.1 million, long distance services revenue for the year ended December 31, 2007 was relatively unchanged as compared with the prior year, despite an increase of 13% in our long distance minutes of use. Long distance services revenue for the year ended December 31, 2006 decreased \$16.2 million, or 10% from 2005, primarily due to a decline in the average rate per minute. Our long distance minutes of use increased during 2006. During 2007, we actively marketed a package of unlimited long distance minutes with our digital phone and state unlimited bundled service offerings. The sale of our digital phone and state unlimited products, and its associated unlimited minutes, has resulted in an increase in long distance customers, and the minutes used by those customers. This has lowered our overall average rate per minute billed. Our long distance minutes of use increased during 2007 and 2006, as compared to the prior years and, as noted below in network access expenses, has increased our cost of services provided.

Our long distance services revenues have remained relatively unchanged, but may decrease in the future due to lower rates and/or minutes of use. Competing services such as wireless, VOIP and cable telephony are resulting in a loss of customers, minutes of use and further declines in the rates we charge our customers.

Directory Services

Directory services revenue for the year ended December 31, 2007 increased \$0.4 million to \$114.6 million as compared to the prior year. Excluding the additional directory services revenue due to the CTE and GVN acquisitions of \$1.3 million, directory services revenue for the year ended December 31, 2007 decreased \$0.8 million, or 1%, as compared with the prior year with slightly lower revenues from yellow pages advertising, mainly in Rochester, New York.

Directory services revenue for the year ended December 31, 2006 increased \$1.0 million, or 1%, as compared with the prior year due to growth in yellow pages advertising.

Other

Other revenue for the year ended December 31, 2007 decreased \$2.3 million, or 2%, to \$93.9 million as compared to the prior year. Excluding the additional other revenue due to the CTE and GVN acquisitions of \$13.9 million, other revenue for the year ended December 31, 2007 decreased \$16.2 million, or 17%, as compared with the prior year, primarily due to a \$9.9 million increase in bad debt expense, the impact of a \$3.4 million reduction in revenue for our free video promotions with a multi-year customer commitment in some of our markets, a decrease in service activation billing of \$2.5 million and a decrease of \$1.8 million in wireless revenue from the Mohave Cellular Limited Partnership.

Other revenue for the year ended December 31, 2006 decreased \$11.6 million, or 11%, as compared with the prior year, primarily due to an increase in bad debt expense of \$7.5 million and decreases of \$2.3 million for promotional credits, \$1.8 million in sales of customer premise equipment (CPE) and \$1.6 million in "bill and collect" fee revenue. The decreases were partially offset by an increase of \$2.5 million in cellular roaming revenue from the Mohave Cellular Limited Partnership.

OTHER FINANCIAL AND OPERATING DATA

As of December 31, 2007

	As of December 31, 2007				As of		
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	% Change	December 31, 2006	% Change	2005
Access lines	2,431,676	435,438	1,996,238	-6%	2,126,574	-5%	2,237,539
High-speed internet (HSI) subscribers	523,845	63,971	459,874	17%	393,184	24%	318,096
Video subscribers	93,596	9,080	84,516	34%	62,851	94%	32,326
Long distance subscribers	1,569,620	197,632	1,371,988	-1%	1,382,411	0%	1,381,238

For the year ended December 31, 2007

	For the year ended December 31, 2007				For the year ended		
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	% Change	December 31, 2006	% Change	2005
Switched access minutes of use (in millions)	10,592	1,186	9,406	-8%	10,227	-9%	11,226
Average monthly revenue per average access line	N/A	N/A	\$ 81.50 *	6%	\$ 77.25	5%	\$ 73.39

* For the year ended December 31, 2007, the calculation includes the \$38.7 million favorable impact from the first quarter 2007 settlement of a switched access dispute. The amount is \$79.94 without the \$38.7 million favorable impact from the settlement.

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NETWORK ACCESS EXPENSES

(\$ in thousands)	2007					2006			2005
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Network access	\$ 228,242	\$ 35,781	\$ 192,461	\$ 21,214	12%	\$ 171,247	\$ 14,425	9%	\$ 156,822

Network access

Consolidated network access expenses for the year ended December 31, 2007 increased \$57.0 million, or 33%, to \$228.2 million as compared to the prior year (\$35.8 million of which was attributable to our 2007 acquisitions). Excluding the additional network access expenses due to the 2007 acquisitions of CTE and GVN, network access expenses for the years ended December 31, 2007 and 2006 increased \$21.2 million and \$14.4 million, or 12% and 9%, respectively, as compared with the prior year. The increases in network costs for 2007 and 2006, are primarily due to increasing rates and usage related to our long distance product and our data backbone. Additionally, in the fourth quarters of 2007 and 2006, we expensed \$11.4 million and \$9.7 million, respectively, of promotional costs associated with fourth quarter high-speed internet promotions that subsidized the cost of a new personal computer or a new digital camera in 2007, and a new personal computer in 2006, provided to customers that entered into a multi-year commitment for certain bundled services. As we continue to increase our sales of data products such as high-speed internet and expand the availability of our unlimited long distance calling plans, our network access expense is likely to continue to increase. A decline in expenses associated with access line losses, has offset some of the increase.

OTHER OPERATING EXPENSES

(\$ in thousands)	2007					2006			2005
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Wage and benefit expenses	\$381,326	\$ 28,907	\$ 352,419	\$ (6,408)	-2%	\$ 358,827	\$ (23,841)	-6%	\$ 382,668
Severance and early retirement costs	13,874	-	13,874	6,681	93%	7,193	212	3%	6,981
Stock based compensation	9,022	-	9,022	(1,318)	-13%	10,340	1,913	23%	8,427
All other operating expenses	404,279	72,086 *	332,193	(24,590)	-7%	356,783	3,812	1%	352,971
	\$808,501	\$100,993	\$ 707,508	\$ (25,635)	-3%	\$ 733,143	\$ (17,904)	-2%	\$ 751,047

* Includes \$33.0 million of common corporate costs allocated to the CTE operations during 2007.

Consolidated other operating expenses for the year ended December 31, 2007

increased \$75.4 million, or 10%, to \$808.5 million as compared to the prior year, primarily the result of our 2007 acquisitions of CTE and GVN. Other operating expenses were impacted as follows:

Wage and benefit expenses

Wage and benefit expenses for the year ended December 31, 2007 increased \$22.5 million, or 6%, to \$381.3 million as compared to the prior year. Excluding the additional wage and benefit expenses due to the CTE and GVN acquisitions of \$28.9 million, wage and benefit expenses for the year ended December 31, 2007 decreased \$6.4 million, or 2%, as compared with the prior year, primarily due to headcount reductions and associated decreases in compensation and benefit costs.

Wage and benefit expenses for the year ended December 31, 2006 decreased \$23.8 million, or 6%, as compared with the prior year, primarily due to headcount reductions, and associated decreases in compensation and benefits, and improved expense control in benefit costs.

Included in our "As Reported" wage and benefit expenses is pension and other postretirement benefit expenses. The amounts for 2007 include the costs for our recently acquired Commonwealth plans and reflect the positive impact of a pension curtailment gain of \$14.4 million, resulting from the freeze placed on certain pension benefits of the former Commonwealth non-union employees. Based on current assumptions and plan asset values, we estimate that our pension and other postretirement benefit expenses (which were \$8.8 million in 2007, including the costs associated with the Commonwealth plans, except for the pension curtailment gain of \$14.4 million), will be approximately \$5.0 million to \$10.0 million in 2008, and that no contribution will be required to be made by us to the pension plan in 2008. No contribution was made to our pension plans during 2007. In future periods, if the value of our pension assets decline and/or projected benefit costs increase, we may have increased pension and/or postretirement expenses. Also, effective December 31, 2007, the CTE Employees' Pension Plan was merged into the Citizens Pension Plan.

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Severance and early retirement costs

Severance and early retirement costs for the year ended December 31, 2007 increased \$6.7 million, or 93%, as compared with the prior year, primarily due to a third quarter charge of approximately \$12.1 million related to ongoing initiatives to enhance customer service, streamline operations and reduce costs. Approximately 120 positions have been eliminated as part of that initiative, most of which have been filled by new employees at our remaining call centers. In addition, approximately 50 field operations employees agreed to participate in an early retirement program and another 30 employees from a variety of functions have left the Company.

Severance and early retirement costs for the year ending December 31, 2006 increased slightly from the prior year.

Stock based compensation

Stock based compensation for the year ended December 31, 2007 decreased \$1.3 million, or 13%, as compared with the prior year due to reduced costs associated with stock options, since we have fewer stock option grants that remain unvested compared to 2006.

Stock based compensation for the year ended December 31, 2006 increased \$1.9 million, or 23%, as compared with the prior year due to expensing the cost, which began in 2006, of the unvested portion of outstanding stock options pursuant to SFAS No. 123R.

All other operating expenses

All other operating expenses for the year ended December 31, 2007 increased \$47.5 million, or 13%, to \$404.3 million as compared to the prior year. Excluding the additional expenses due to the CTE and GVN acquisitions of \$72.1 million, all other operating expenses for the year ended December 31, 2007 decreased \$24.6 million, or 7%, as compared with the prior year, primarily due to the allocation of common corporate costs over a larger base of operations, which now includes Commonwealth. Our purchase of Commonwealth has enabled us to realize cost savings by leveraging our centralized back office, customer service and administrative support functions over a larger customer base. Additionally, our USF contribution rate and PUC fees decreased from the prior year period, resulting in a reduction in costs of \$13.1 million in 2007. An increase in consulting and other outside services of \$11.7 million for the year ended December 31, 2007 offset some of the decrease in expenses noted above.

All other operating expenses for the year ended December 31, 2006 increased \$3.8 million, or 1%, as compared with the prior year, primarily due to sales and marketing expenses that increased due to a competitive environment and the launch of new products.

DEPRECIATION AND AMORTIZATION EXPENSE

(\$ in thousands)	2007					2006			2005
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Depreciation expense	\$ 374,435	\$ 45,289	\$ 329,146	\$ (20,961)	-6%	\$ 350,107	\$ (43,719)	-11%	\$ 393,826
Amortization expense	171,421	45,042 *	126,379	(1)	0%	126,380	2	0%	126,378
	<u>\$ 545,856</u>	<u>\$ 90,331</u>	<u>\$ 455,525</u>	<u>\$ (20,962)</u>	<u>-4%</u>	<u>\$ 476,487</u>	<u>\$ (43,717)</u>	<u>-8%</u>	<u>\$ 520,204</u>

* Represents amortization expense related to the customer base acquired in the CTE and GVN acquisitions, and the Commonwealth trade name. Our assessment of the value of the customer base and trade name, and associated expected useful life, are based upon independent appraisal.

Consolidated depreciation and amortization expense for the year ended December 31, 2007 increased \$69.4 million, or 15%, to \$545.9 million as compared to the prior year as a result of our 2007 acquisitions of CTE and GVN. Excluding the impact of our 2007 acquisitions, depreciation expense for the years ended December 31, 2007 and 2006 decreased \$21.0 million, or 6%, and \$43.7 million, or 11%, respectively, as compared with the prior years due to a declining net asset base partially offset by changes in the remaining useful lives of certain assets. An independent study updating the estimated remaining useful lives of our plant assets is performed annually. We adopted the lives proposed in the study effective October 1, 2007. Our "composite depreciation rate" increased from 5.25% to 5.45% as a result of the study. We anticipate depreciation expense of approximately \$350.0 million to \$370.0 million for 2008.

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

(\$ in thousands)	2007					2006			2005
	As Reported	Acquisitions	Citizens (excluding CTE and GVN)	\$ Change	% Change	Amount	\$ Change	% Change	Amount
Investment income	\$ 35,781	\$ 402	\$ 35,379	\$ (44,057)	-55%	\$ 79,436	\$ 67,213	550%	\$ 12,223
Other income (loss), net	\$ (17,833)	\$ 4,978	\$ (22,811)	\$ (25,818)	-859%	\$ 3,007	\$ 2,251	298%	\$ 756
Interest expense	\$ 380,696	\$ (260)	\$ 380,956	\$ 44,510	13%	\$ 336,446	\$ (2,289)	-1%	\$ 338,735
Income tax expense	\$ 128,014	\$ 27,013	\$ 101,001	\$ (35,478)	-26%	\$ 136,479	\$ 61,209	81%	\$ 75,270

Investment Income

Investment income for the year ended December 31, 2007 decreased \$43.7 million, or 55%, to \$35.8 million as compared to the prior year. Excluding the investment income due to the CTE and GVN acquisitions of \$0.4 million, investment income for the year ended December 31, 2007 decreased \$44.1 million, as compared with the prior year, primarily due to the \$64.6 million in proceeds received in 2006 from the RTB liquidation and dissolution, partially offset by an increase of \$10.8 million in income from short-term investments of cash and lower minority interest in joint ventures of \$2.3 million.

We borrowed \$550.0 million in December 2006 in anticipation of the Commonwealth acquisition in 2007. Our average cash balance was \$594.2 million and \$429.5 million for the years ended December 31, 2007 and 2006, respectively.

Investment income for the year ended December 31, 2006 increased \$67.2 million, as compared with the prior year, primarily due to an increase of \$6.4 million in income from higher cash balances during the year arising from the \$64.6 million of cash received from the liquidation and dissolution of the RTB (and gain recognized of \$61.4 million), the \$255.3 million in cash received from the sale of ELI and the postponement of our stock repurchase and debt repurchase programs during the second half of 2006 in connection with our acquisition of Commonwealth.

Other Income (Loss), net

Other income (loss), net for the year ended December 31, 2007 decreased \$20.8 million to (\$17.8) million as compared to the prior year. Excluding the other income due to the CTE and GVN acquisitions of \$5.0 million, other income (loss), net for the year ended December 31, 2007 decreased \$25.8 million to (\$22.8) million as compared to prior year, primarily due to the premium paid of \$18.2 million on the early retirement of debt during 2007 and a bridge loan fee of \$4.1 million.

Other income (loss), net for the year ended December 31, 2006 increased \$2.3 million, as compared to the prior year. Other income (loss), net for 2006 consists primarily of insurance proceeds of \$4.2 million, a loss of \$2.4 million on the exchange of debt, an expense of \$1.0 million for legal matters and gains recognized on the extinguishment of approximately \$3.5 million of retained liabilities of our disposed water properties.

Interest Expense

Interest expense for the year ended December 31, 2007 increased \$44.5 million, or 13%, to \$381.0 million as compared with the prior year, primarily due to \$637.6 million of higher average debt resulting from financing the Commonwealth acquisition. Our composite average borrowing rate for the year ended December 31, 2007, as compared with the prior year was 18 basis points lower, decreasing from 8.12% to 7.94%.

Interest expense for the year ended December 31, 2006 decreased \$2.3 million, or 1%, as compared with the prior year, primarily due to slightly lower average debt levels, partially offset by higher short term interest rates that we paid on our swap agreements (\$550.0 million in principal amount was swapped to floating rate at December 31, 2006). Our composite average borrowing rate for the year ended December 31, 2006, as compared with the prior year was 18 basis points higher, increasing from 7.94% to 8.12%.

Our average debt outstanding was \$4,834.5 million, \$4,196.9 million and \$4,260.8 million for the years ended December 31, 2007, 2006 and 2005.

Income Tax Expense

Income tax expense for the year ended December 31, 2007 decreased \$35.5 million, or 26%, as compared with the prior year, primarily due to changes in taxable income. The overall effective tax rate for 2007 was 37.4% as compared with an effective tax rate of 34.9% for 2006. The Company's overall effective tax rate increased in 2007 mainly due to changes in permanent difference items and tax contingencies.

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We paid \$54.4 million in cash taxes during 2007, an increase of \$49.0 million over 2006, reflecting the utilization of our tax loss carryforwards in prior years. We expect to pay approximately \$130.0 million to \$140.0 million in 2008. Our 2008 cash tax estimate does not reflect the impact of the "Economic Stimulus Act of 2008," which we are currently evaluating.

Income taxes for the year ended December 31, 2006 increased \$61.2 million, as compared with the prior year, primarily due to changes in taxable income. The effective tax rate for 2006 was 34.9%, as compared with an effective tax rate of 28.6% for 2005. We utilized a substantial amount of tax loss carryforwards as a result of the sale of ELI and receipt of RTB proceeds in 2006.

DISCONTINUED OPERATIONS

(\$ in thousands)	2007	2006	2005
-----	-----	-----	-----
	Amount	Amount	Amount
-----	-----	-----	-----
Revenue	\$ -	\$ 100,612	\$ 163,768
Operating income	\$ -	\$ 27,882	\$ 22,969
Income taxes	\$ -	\$ 11,583	\$ 9,519
Net income	\$ -	\$ 18,912	\$ 13,266
Gain on disposal of ELI and CCUSA, net of tax	\$ -	\$ 71,635	\$ 1,167

On July 31, 2006, we sold our CLEC business, Electric Lightwave, LLC (ELI) for \$255.3 million (including the sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. We

recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Our after-tax gain on the sale was \$71.6 million. Our cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the Federal and state level.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Disclosure of primary market risks and how they are managed

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

Interest Rate Exposure

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

Our objectives in managing our interest rate risk are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, all but \$148.5 million of our borrowings have fixed interest rates. Consequently, we have limited material future earnings or cash flow exposures from changes in interest rates on our long-term debt. A hypothetical 10% adverse change in interest rates would increase the amount that we pay on our variable obligations and could result in fluctuations in the fair value of our fixed rate obligations. Based upon our overall interest rate exposure at December 31, 2007, a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

In order to manage our interest expense, we entered into interest rate swap agreements. Under the terms of the agreements, which qualify for hedge accounting, we made semi-annual, floating interest rate payments based on six month LIBOR and received a fixed rate on the notional amount. The underlying variable rate for these interest rate swaps is set in arrears. For the years ended December 31, 2007 and 2006, the net cash interest payment resulting from these interest rate swaps totaled approximately \$2.4 million and \$4.2 million, respectively.

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On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. We received cash proceeds on the swap terminations of approximately \$15.5 million in January 2008.

Sensitivity analysis of interest rate exposure

At December 31, 2007, the fair value of our long-term debt was estimated to be approximately \$4.8 billion, based on our overall weighted average borrowing rate of 7.94% and our overall weighted average maturity of approximately 13 years. There has been no material change in the weighted average maturity applicable to our obligations since December 31, 2006.

Our long-term debt as of December 31, 2007 was approximately 97% fixed rate debt with minimal exposure to interest rate changes after the termination of our remaining interest rate swap agreements on January 15, 2008.

Equity Price Exposure

Our exposure to market risks for changes in security prices as of December 31,

2007 is limited to our pension assets of \$822.2 million. We have no other security investments of any material amount.

Item 8. Financial Statements and Supplementary Data

The following documents are filed as part of this Report:

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

Item 9. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure

None.

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Item 9A. Controls and Procedures

(i) Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, and taking into account a failure to file one interim report on Form 8-K (for execution of a credit agreement that was described in the immediately succeeding Form 10-Q) as well as to report in our periodic reports on Form 10-Q the unregistered sales of shares to participants in the Commonwealth Builder 401(k) Plan as described in Item 5(a) of this Report, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, December 31, 2007, that our disclosure controls and procedures were not effective. We have taken steps to improve these controls and believe that as of the date of this report, our disclosure controls and procedures are effective.

(ii) Internal Control Over Financial Reporting

(a) Management's annual report on internal control over financial reporting
Our management report on internal control over financial reporting appears on page F-2.

(b) Report of registered public accounting firm

The report of KPMG LLP, our independent registered public accounting firm, on internal control over financial reporting appears on page F-4.

(c) Changes in internal control over financial reporting

We reviewed our internal control over financial reporting at December 31, 2007. There has been no change in our internal control over financial reporting identified in an evaluation thereof that occurred during the last fiscal quarter of 2007 that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2007. See "Executive Officers of the Registrant" in Part I of this Report following Item 4 for information relating to executive officers.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and

Related Stockholder Matters

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 13. Certain Relationships and Related Transactions, and Director

Independence

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2007.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2007.

PART IV

Item 15. Exhibits and Financial Statement Schedules

List of Documents Filed as a Part of This Report:

(1) Index to Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Operations for the years ended
December 31, 2007, 2006 and 2005

Consolidated Statements of Shareholders' Equity for the years ended
December 31, 2007, 2006 and 2005

Consolidated Statements of Comprehensive Income for the years ended
December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended
December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

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

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(2) Index to Exhibits:

All documents referenced below were filed pursuant to the Securities Exchange Act of 1934 by Citizens Communications Company, file number 001-11001, unless otherwise indicated.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Citizens Communications Company, (filed as Exhibit 3.200.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000).*
3.2	By-laws of Citizens Communications Company, as amended (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 31, 2006).*
4.1	Rights Agreement, dated as of March 6, 2002, between Citizens Communications Company and Mellon Investor Services, LLC, as Rights Agent (filed as Exhibit 1 to the Company's Registration Statement on Form 8-A filed on March 22, 2002).*
4.2	Amendment No. 1 to Rights Agreement, dated as of January 16, 2003, between Citizens Communications Company and Mellon Investor Services LLC, as Rights Agent (filed as Exhibit 1.1 to the Company's Registration Statement on Form 8-A/A, dated January 16, 2003).*
4.3	Indenture of Securities, dated as of August 15, 1991, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (the "August 1991 Indenture") (filed as Exhibit 4.100.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1991).*
4.4	Fourth Supplemental Indenture to the August 1991 Indenture, dated October 1, 1994, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (filed as Exhibit 4.100.7 to the Company Current Report on Form 8-K filed on January 3, 1995).*
4.5	Fifth Supplemental Indenture to the August 1991 Indenture, dated as of June 15, 1995, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (filed as Exhibit 4.100.8 to the Company's Current Report on Form 8-K filed on March 29, 1996 (the "March 29, 1996 8-K")).*
4.6	Sixth Supplemental Indenture to the August 1991 Indenture, dated as of October 15, 1995, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (filed as Exhibit 4.100.9 to the March 29, 1996 8-K).*
4.7	Seventh Supplemental Indenture to the August 1991 Indenture, dated as of June 1, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (filed as Exhibit 4.100.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 10-K")).*
4.8	Eighth Supplemental Indenture to the August 1991 Indenture, dated as of December 1, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as Trustee (filed as Exhibit 4.100.12 to the 1996 10-K).*
4.9	Amended and Restated Declaration of Trust dated as of January 15, 1996, of Citizens Utilities Trust (filed as Exhibit 4.200.4 to the Company's Form 8-K Current Report filed on May 28, 1996 (the "May 28, 1996 8-K")).*
4.10	Convertible Preferred Security Certificate (filed as Exhibit A-1 to Exhibit 4.200.4 to the May 28, 1996 8-K).*
4.11	Amended and Restated Limited Partnership Agreement dated as of January 15, 1996 of Citizens Utilities Capital L.P. (filed as Exhibit 4.200.6 to the May 28, 1996 8-K).*
4.12	Partnership Preferred Security Certificate (filed as Annex A to Exhibit 4.200.6 to the May 28, 1996 8-K).*
4.13	Convertible Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as guarantee trustee (filed as Exhibit 4.200.8 to the May 28, 1996 8-K).*
4.14	Partnership Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as guarantee trustee (filed as Exhibit 4.200.9 to the May 28, 1996 8-K).*

4.15 Letter of Representations dated January 18, 1996, from Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as trustee, to DTC, for deposit of Convertible Preferred Securities with DTC (filed as Exhibit 4.200.10 to the May 28, 1996 8-K).*

*Incorporated by reference.

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4.16 Indenture, dated as of January 15, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as indenture trustee (the "January 1996 Indenture") (filed as Exhibit 4.200.1 to the May 28, 1996 8-K).*

4.17 First Supplemental Indenture to the January 1996 Indenture, dated as of January 15, 1996, between Citizens Communications Company (f/k/a Citizens Utilities Company) and JPMorgan Chase Bank, N.A. (as successor to Chemical Bank), as indenture trustee (including the form of note attached thereto) (filed as Exhibit 4.200.2 to the May 28, 1996 8-K).*

4.18 Senior Indenture, dated as of May 23, 2001, between Citizens Communications Company and JPMorgan Chase Bank, N.A. (as successor to The Chase Manhattan Bank), as trustee (the "May 2001 Indenture") (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 24, 2001 8-K (the "May 24, 2001 8-K")).*

4.19 Form of Senior Note due 2011 (filed as Exhibit 4.4 to the May 24, 2001 8-K).*

4.20 Third Supplemental Indenture to the May 2001 Indenture, dated as of November 12, 2004, between Citizens Communications and JPMorgan Chase Bank, N.A. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 12, 2004 (the "November 12, 2004 8-K")).*

4.21 Form of Senior Note due 2013 (filed as Exhibit A to Exhibit 4.1 to the November 12, 2004 8-K).*

4.22 Indenture, dated as of August 16, 2001, between Citizens Communications Company and JPMorgan Chase Bank, N.A. (as successor to The Chase Manhattan Bank), as Trustee (including the form of note attached thereto) (filed as Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 22, 2001).*

4.23 Indenture, dated as of December 22, 2006, between Citizens Communications Company and The Bank of New York, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 29, 2006).*

4.24 First Supplemental Indenture, dated March 8, 2007, among Commonwealth Telephone Enterprises, Inc., Citizens Communications Company and The Bank of New York, as Trustee. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 9, 2007 (the "March 9, 2007 8-K")).*

4.25 First Supplemental Indenture, dated March 8, 2007, among Commonwealth Telephone Enterprises, Inc., Citizens Communications Company and The Bank of New York, as Trustee. (filed as Exhibit 10.2 to the March 9, 2007 8-K).*

4.26 Indenture dated as of March 23, 2007 by and between Citizens Communications Company and The Bank of New York with respect to the 6.625% Senior Notes due 2015 (including the form of such note attached thereto) (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 27, 2007 (the "March 27, 2007 8-K")).*

4.27 Indenture dated as of March 23, 2007 by and between Citizens Communications Company and The Bank of New York with respect to the 7.125% Senior Notes due 2019 (including the form of such note attached thereto) (filed as Exhibit 4.2 to the March 27, 2007 8-K).*

10.1 Loan Agreement between Citizens Communications Company and Rural Telephone Finance Cooperative for \$200,000,000 dated October 24, 2001 (filed as Exhibit 10.39 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001).*

10.2 Amendment No. 1, dated as of March 31, 2003, to Loan Agreement between Citizens Communications Company and Rural Telephone Finance Cooperative (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003).*

- 10.3 Credit Agreement, dated as of December 6, 2006, among Citizens Communications Company, as the Borrower, and CoBank, ACB, as the Administrative Agent, the Lead Arranger and a Lender, and the other Lenders referred to therein (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 7, 2006).*
- 10.4 Loan Agreement, dated as of March 8, 2007, among Citizens Communications Company, as borrower, the Lenders listed therein, Citicorp North America, Inc., as Administrative Agent, and Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and J.P. Morgan Securities Inc. as Joint-Lead Arrangers and Joint Book-Running Managers. (filed as Exhibit 10.3 to the March 9, 2007 8-K).*
- 10.5 Credit Agreement, dated as of May 18, 2007, among Citizens Communications Company, the lenders party thereto and Deutsche Bank AG New York Branch, as Administrative Agent, and Deutsche Bank Securities Inc., as Sole Lead Arranger and Bookrunner.
- 10.6 Amended and Restated Non-Employee Directors' Deferred Fee Equity Plan dated as of May 18, 2004 (filed as Exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004 (the "2nd Quarter 2004 10-Q")).*
- 10.7 Amendment No. 1 to the Amended and Restated Non-Employee Directors' Deferred Fee Equity Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 20, 2005).*

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- 10.8 Non-Employee Directors' Equity Incentive Plan (filed as Appendix B to the Company's Proxy Statement dated April 17, 2006).*
- 10.9 Separation Agreement between Citizens Communications Company and Leonard Tow effective July 10, 2004 (filed as Exhibit 10.2.4 of the 2nd Quarter 2004 10-Q).*
- 10.10 Citizens Executive Deferred Savings Plan dated January 1, 1996 (filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K")).*
- 10.11 1996 Equity Incentive Plan (filed as Appendix A to the Company's Proxy Statement dated March 29, 1996).*
- 10.12 Amendment to 1996 Equity Incentive Plan (filed as Exhibit B to the Company's Proxy Statement dated March 28, 1997).*
- 10.13 Amendment to 1996 Equity Incentive Plan (effective March 4, 2005) (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005).*
- 10.14 2008 Citizens Incentive Plan (filed as Appendix A to the Company's Proxy Statement dated April 10, 2007).*
- 10.15 Amended and Restated 2000 Citizens Communications Company Equity Incentive Plan, as amended May 18, 2007 (filed as Appendix B to the Company's Proxy Statement dated April 10, 2007).*
- 10.16 Employment Agreement between Citizens Communications Company and Mary Agnes Wilderotter, effective November 1, 2004 (filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004 (the "3rd Quarter 2004 10-Q")).*
- 10.17 Employment Agreement between Citizens Communications Company and Robert Larson, effective September 1, 2004 (filed as Exhibit 10.18 to the 3rd Quarter 2004 10-Q).*
- 10.18 Employment Agreement between Citizens Communications Company and John H. Casey, III, effective February 15, 2005 (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 10-K")).*
- 10.19 Offer of Employment Letter between Citizens Communications Company and Peter B. Hayes, effective February 1, 2005 (filed as Exhibit 10.23 to the 2004 10-K).*
- 10.20 Offer of Employment Letter between Citizens Communications Company and Donald R. Shassian, effective March 8, 2006 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006).*
- 10.21 Separation Agreement between Citizens Communications Company and John H. Casey III dated November 15, 2007.
- 10.22 Form of arrangement with named executive officers (other than CEO) with respect to vesting of restricted stock upon a change-in-control.
- 10.23 Form of Restricted Stock Agreement for CEO.
- 10.24 Form of Restricted Stock Agreement for named executive officers

- 10.25 other than CEO.
Summary of Compensation Arrangements for Named Executive Officers Outside of Employment Agreements (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 27, 2008).*
- 10.26 Summary of Non-Employee Directors' Compensation Arrangements Outside of Formal Plans.
- 10.27 Membership Interest Purchase Agreement between Citizens Communications Company and Integra Telecom Holdings, Inc. dated February 6, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 9, 2006).*
- 10.28 Agreement and Plan of Merger dated as of September 17, 2006 among Commonwealth Telephone Enterprises, Inc., Citizens Communications Company and CF Merger Corp. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 18, 2006).*
- 10.29 Stock Purchase Agreement, dated as of July 3, 2007, between Citizens Communications Company and Country Road Communications LLC (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 9, 2007).*
- 12.1 Computation of ratio of earnings to fixed charges (this item is included herein for the sole purpose of incorporation by reference).
- 21.1 Subsidiaries of the Registrant.
- 23.1 Auditors' Consent.
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 (the "1934 Act").
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the 1934 Act.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("SOXA").
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of SOXA .

Exhibits 10.6 through 10.26 are management contracts or compensatory plans or arrangements.

SIGNATURES

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

CITIZENS COMMUNICATIONS COMPANY

(Registrant)

By: /s/ Mary Agnes Wilderotter

Mary Agnes Wilderotter
Chairman of the Board, President and Chief Executive
Officer

February 27, 2008

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 27th day of February 2008.

Signature

Title

/s/ Kathleen Q. Abernathy

Director

----- (Kathleen Q. Abernathy)	
/s/ Leroy T. Barnes, Jr.	Director
----- (Leroy T. Barnes, Jr.)	
/s/ Peter Bynoe	Director
----- (Peter Bynoe)	
/s/ Michael T. Dugan	Director
----- (Michael T. Dugan)	
/s/ Jeri B. Finard	Director
----- (Jeri B. Finard)	
/s/ Lawton Fitt	Director
----- (Lawton Fitt)	
/s/ William Kraus	Director
----- (William Kraus)	
/s/ Robert J. Larson	Senior Vice President and Chief Accounting Officer
----- (Robert J. Larson)	
/s/ Howard L. Schrott	Director
----- (Howard L. Schrott)	
/s/ Lorraine D. Segil	Director
----- (Lorraine D. Segil)	
/s/ Donald R. Shassian	Chief Financial Officer
----- (Donald R. Shassian)	
/s/ Bradley E. Singer	Director
----- (Bradley E. Singer)	
/s/ David H. Ward	Director
----- (David H. Ward)	
/s/ Myron A. Wick III	Director
----- (Myron A. Wick III)	
/s/ Mary Agnes Wilderotter	Chairman of the Board, President and Chief Executive Officer
----- (Mary Agnes Wilderotter)	

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Management's Report on Internal Control Over Financial Reporting

The Board of Directors and Shareholders
Citizens Communications Company:

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

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2007 and for the period then ended.

Our independent registered public accounting firm, KPMG LLP, has audited the consolidated financial statements included in this report and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

Stamford, Connecticut
February 27, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Citizens Communications Company:

We have audited the accompanying consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the years in the three-year

period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Communications Company and subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company adopted the recognition and disclosure provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. As discussed in Notes 1 and 2, effective January 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". Also, as discussed in Note 23, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Citizens Communications Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Stamford, Connecticut
February 27, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Citizens Communications Company:

We have audited Citizens Communications Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Citizens Communications Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective

internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Citizens Communications Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 27, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Stamford, Connecticut
February 27, 2008

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CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(\$ in thousands)

	2007	2006
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 226,466	\$ 1,041,106
Accounts receivable, less allowances of \$32,748 and \$108,537, respectively	234,762	187,737
Prepaid expenses	29,437	30,377
Other current assets	33,489	13,773
	-----	-----
Total current assets	524,154	1,272,993
Property, plant and equipment, net	3,335,244	2,983,504
Goodwill, net	2,634,559	1,917,751
Other intangibles, net	547,735	432,353
Investments	21,191	16,474
Other assets	193,186	174,461
	-----	-----
Total assets	\$ 7,256,069	\$ 6,797,536

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Long-term debt due within one year	\$ 2,448	\$ 39,271
Accounts payable	179,402	153,890
Advanced billings	44,722	39,417
Income taxes accrued	-	9,897
Other taxes accrued	21,400	21,434
Interest accrued	116,923	103,342
Other current liabilities	80,996	58,392
Total current liabilities	445,891	425,643
Deferred income taxes	711,645	514,130
Other liabilities	363,737	332,645
Long-term debt	4,736,897	4,467,086
Shareholders' equity:		
Common stock, \$0.25 par value (600,000,000 authorized shares; 327,749,000 and 322,265,000 outstanding, respectively, and 349,456,000 and 343,956,000 issued at December 31, 2007 and 2006, respectively)	87,364	85,989
Additional paid-in capital	1,280,508	1,207,399
Retained earnings	14,001	134,705
Accumulated other comprehensive loss, net of tax	(77,995)	(81,899)
Treasury stock	(305,979)	(288,162)
Total shareholders' equity	997,899	1,058,032
Total liabilities and shareholders' equity	\$ 7,256,069	\$ 6,797,536

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

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CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
(\$ in thousands, except for per-share amounts)

	2007	2006	2005
Revenue	\$ 2,288,015	\$ 2,025,367	\$ 2,017,041
Operating expenses:			
Network access expenses	228,242	171,247	156,822
Other operating expenses	808,501	733,143	751,047
Depreciation and amortization	545,856	476,487	520,204
Total operating expenses	1,582,599	1,380,877	1,428,073
Operating income	705,416	644,490	588,968
Investment income	35,781	79,436	12,223
Other income (loss), net	(17,833)	3,007	756
Interest expense	380,696	336,446	338,735
Income from continuing operations before income taxes	342,668	390,487	263,212
Income tax expense	128,014	136,479	75,270
Income from continuing operations	214,654	254,008	187,942
Discontinued operations (see Note 8):			
Income from discontinued operations before income taxes	-	147,136	36,844
Income tax expense	-	56,589	22,411
Income from discontinued operations	-	90,547	14,433
Net income available for common shareholders	\$ 214,654	\$ 344,555	\$ 202,375
Basic income per common share:			
Income from continuing operations	\$ 0.65	\$ 0.79	\$ 0.56
Income from discontinued operations	-	0.28	0.04
Net income per common share	\$ 0.65	\$ 1.07	\$ 0.60
Diluted income per common share:			
Income from continuing operations	\$ 0.65	\$ 0.78	\$ 0.56
Income from discontinued operations	-	0.28	0.04
Net income per common share	\$ 0.65	\$ 1.06	\$ 0.60

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
 (dollars and shares in thousands, except for per-share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance December 31, 2004	339,635	\$ 84,909	\$1,664,627	\$ (287,719)	\$ (99,569)	(2)	\$ (8)	\$1,362,240
Stock plans	2,096	524	24,039	-	-	2,598	34,689	59,252
Conversion of EPPICS	2,225	556	24,308	-	-	391	5,115	29,979
Dividends on common stock of \$1.00 per share	-	-	(338,364)	-	-	-	-	(338,364)
Shares repurchased	-	-	-	-	-	(18,775)	(250,000)	(250,000)
Net income	-	-	-	202,375	-	-	-	202,375
Other comprehensive loss, net of tax and reclassifications adjustments	-	-	-	-	(23,673)	-	-	(23,673)
Balance December 31, 2005	343,956	85,989	1,374,610	(85,344)	(123,242)	(15,788)	(210,204)	1,041,809
Cumulative Effect Adjustment (see Note 5)	-	-	-	36,392	-	-	-	36,392
Stock plans	-	-	(1,875)	-	-	2,908	38,793	36,918
Conversion of EPPICS	-	-	(2,563)	-	-	1,389	18,488	15,925
Dividends on common stock of \$1.00 per share	-	-	(162,773)	(160,898)	-	-	-	(323,671)
Shares repurchased	-	-	-	-	-	(10,200)	(135,239)	(135,239)
Net income	-	-	-	344,555	-	-	-	344,555
Pension Liability Adjustment, after adoption of SFAS No. 158, net of taxes	-	-	-	-	(83,634)	-	-	(83,634)
Other comprehensive income, net of tax and reclassifications adjustments	-	-	-	-	124,977	-	-	124,977
Balance December 31, 2006	343,956	85,989	1,207,399	134,705	(81,899)	(21,691)	(288,162)	1,058,032
Stock plans	-	-	(6,237)	667	-	1,824	25,399	19,829
Acquisition of Commonwealth	5,500	1,375	77,939	-	-	12,640	168,121	247,435
Conversion of EPPICS	-	-	(549)	-	-	291	3,888	3,339
Conversion of Commonwealth notes	-	-	1,956	-	-	2,508	34,775	36,731
Dividends on common stock of \$1.00 per share	-	-	-	(336,025)	-	-	-	(336,025)
Shares repurchased	-	-	-	-	-	(17,279)	(250,000)	(250,000)
Net income	-	-	-	214,654	-	-	-	214,654
Other comprehensive income, net of tax and reclassifications adjustments	-	-	-	-	3,904	-	-	3,904
Balance December 31, 2007	349,456	\$ 87,364	\$1,280,508	\$ 14,001	\$ (77,995)	(21,707)	\$(305,979)	\$ 997,899

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
 (\$ in thousands)

	2007	2006	2005
Net income	\$ 214,654	\$ 344,555	\$ 202,375
Other comprehensive income (loss), net of tax and reclassifications adjustments*	3,904	124,977	(23,673)
Total comprehensive income	\$ 218,558	\$ 469,532	\$ 178,702

* Consists of amortization of pension and post retirement costs, unrealized holding (losses)/gains of marketable securities, realized gains taken to income as a result of the sale of securities and minimum pension and other post retirement liabilities (see Note 20).

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
 (\$ in thousands)

	2007	2006	2005
Cash flows provided by (used in) operating activities:			

Net income	\$ 214,654	\$ 344,555	\$ 202,375
Deduct: Gain on sale of discontinued operations, net of tax	-	(71,635)	(1,167)
Income from discontinued operations, net of tax	-	(18,912)	(13,266)
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization expense	545,856	476,487	520,204
Stock based compensation expense	9,022	10,340	8,427
Loss on debt exchange	-	2,433	3,175
Loss on extinguishment of debt	20,186	-	-
Investment gain	-	(61,428)	(492)
Other non-cash adjustments	(7,598)	5,191	22,438
Deferred income taxes	81,011	132,031	100,636
Legal settlement	(7,905)	-	-
Change in accounts receivable	(4,714)	15,333	8,782
Change in accounts payable and other liabilities	(36,257)	(3,064)	(37,257)
Change in other current assets	7,428	(2,148)	1,609
Net cash provided by continuing operating activities	821,683	829,183	815,464
Cash flows provided from (used by) investing activities:			
Capital expenditures	(315,793)	(268,806)	(259,448)
Cash paid for acquisitions (net of cash acquired)	(725,548)	-	-
Proceeds from sales of assets, net of selling expenses	-	-	24,195
Proceeds from sale of discontinued operations	-	255,305	43,565
Other assets (purchased) distributions received, net	6,629	67,050	973
Net cash (used by) provided from investing activities	(1,034,712)	53,549	(190,715)
Cash flows provided from (used by) financing activities:			
Repayment of customer advances for construction and contributions in aid of construction	(942)	(264)	(1,662)
Long-term debt borrowings	950,000	550,000	-
Debt issuance costs	(12,196)	(6,948)	-
Long-term debt payments	(946,070)	(227,693)	(6,299)
Premium paid to retire debt	(20,186)	-	-
Issuance of common stock	13,808	27,200	47,550
Common stock repurchased	(250,000)	(135,239)	(250,000)
Dividends paid	(336,025)	(323,671)	(338,364)
Net cash used by financing activities	(601,611)	(116,615)	(548,775)
Cash flows of discontinued operations:			
Operating cash flows	-	17,833	27,500
Investing cash flows	-	(6,593)	(11,388)
Financing cash flows	-	-	(134)
Net cash provided by discontinued operations	-	11,240	15,978
(Decrease) increase in cash and cash equivalents	(814,640)	777,357	91,952
Cash and cash equivalents at January 1,	1,041,106	263,749	171,797
Cash and cash equivalents at December 31,	\$ 226,466	\$1,041,106	\$ 263,749
Cash paid during the period for:			
Interest	\$ 364,381	\$ 332,204	\$ 318,638
Income taxes	\$ 54,407	\$ 5,365	\$ 4,711
Non-cash investing and financing activities:			
Change in fair value of interest rate swaps	\$ 18,198	\$ (1,562)	\$ (13,193)
Conversion of EPPICS	\$ 3,339	\$ 15,925	\$ 29,979
Conversion of Commonwealth notes	\$ 36,731	\$ -	\$ -
Debt-for-debt exchange	\$ -	\$ 2,433	\$ 3,175
Shares issued for Commonwealth acquisition	\$ 247,435	\$ -	\$ -
Acquired debt	\$ 244,570	\$ -	\$ -
Other acquired liabilities	\$ 112,194	\$ -	\$ -

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

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CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies:

(a) Description of Business:

Citizens Communications Company and its subsidiaries are referred to as "we," "us," "our," or the "Company" in this report. We are a communications company providing services to rural areas and small and medium-sized towns and cities as an incumbent local exchange carrier, or ILEC. We offer our ILEC services under the "Frontier" name.

(b) Basis of Presentation and Use of Estimates:

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of

America (U.S. GAAP). Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(c) Cash Equivalents:

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

(d) Revenue Recognition:

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

The Company collects various taxes from its customers and subsequently remits such funds to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund ("USF") surcharges from customers (primarily federal USF) which have been recorded on a gross basis in our consolidated statements of operations and have been included in revenue and other operating expenses at \$35.9 million, \$37.1 million and \$39.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(e) Property, Plant and Equipment:

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

(f) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses and have determined for the year ended December 31, 2007 that there was no impairment.

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

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

Of:

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

(h) Derivative Instruments and Hedging Activities:

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

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

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

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

As of December 31, 2007, we had interest rate swap arrangements related to a portion of our fixed rate debt. These hedge strategies satisfied the fair value hedging requirements of SFAS No. 133, as amended. As a result, the fair value of the swaps is carried on the consolidated balance sheets in other liabilities and the related hedged liabilities are also adjusted to fair value by the same amount.

(i) Investments:

Marketable Securities

We classify our cost method investments at purchase as

available-for-sale. We do not maintain a trading portfolio or held-to-maturity securities. Our marketable securities are insignificant (see Note 9).

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Investments in Other Entities

Investments in entities that we do not control, but where we have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method of accounting (see Note 9).

(j) Income Taxes and Deferred Income Taxes:

We file a consolidated federal income tax return. We utilize the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recorded for the tax effect of temporary differences between the financial statement basis and the tax basis of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to reverse.

(k) Stock Plans:

We have various stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees, non-management employees and non-employee directors. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards. We have no awards with market or performance conditions. Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury.

On January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) and elected to use the modified prospective transition method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service had not been rendered as of the date of adoption. Compensation cost for awards that were outstanding at the effective date are recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes. Prior periods have not been restated.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position SFAS No. 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We elected to adopt the alternative transition method provided for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

In accordance with the adoption of SFAS No. 123R, we recorded stock-based compensation expense for the cost of stock options, restricted shares and stock units issued under our stock plans (together, Stock-Based Awards). Stock-based compensation expense for the years ended December 31, 2007 and 2006 was \$9.0 million and \$10.3 million, respectively, (\$5.6 million and \$6.7 million after tax, respectively).

The compensation cost recognized is based on awards ultimately expected to vest. SFAS No. 123R requires forfeitures to be estimated and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Prior to the adoption of SFAS No. 123R, we applied Accounting Principles Board Opinion (APB) No. 25 and related interpretations to account for our stock plans resulting in the use of the intrinsic-value based method to value the stock. Under APB No. 25, we were not required to recognize compensation expense for the cost of stock options issued under our stock plans.

Prior to 2006, we provided pro forma net income and pro forma net income per common share disclosures for employee and non-employee director stock option grants based on the fair value of the options at the date of grant (see Note 17). For purposes of presenting pro forma information, the fair value of options granted is computed using the Black Scholes option-pricing model.

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Had we determined compensation cost based on the fair value at the grant date for the Management Equity Incentive Plan (MEIP), Equity Incentive Plan (EIP), Employee Stock Purchase Plan (ESPP) and Non-Employee Directors' Deferred Fee Equity Plan, our pro forma net income and net income per common share available for common shareholders would have been as follows for the year ended December 31, 2005:

(\$ in thousands)		2005
-----		-----
Net income available for common shareholders	As reported	\$ 202,375
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		5,267
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(8,165)
	Pro forma	\$ 199,477
		=====
Net income per common share available for common shareholders	As reported:	
	Basic	\$ 0.60
	Diluted	\$ 0.60
	Pro forma:	
	Basic	\$ 0.59
	Diluted	\$ 0.59

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

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

(2) Recent Accounting Literature and Changes in Accounting Principles:

 New Accounting Pronouncements

 Accounting for Uncertainty in Income Taxes

 In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." Among other things, FIN No. 48 requires applying a "more likely than not" threshold to the recognition and derecognition of uncertain tax positions either taken or expected to be taken in the Company's income tax returns. We adopted the provisions of FIN No. 48 in the first quarter of 2007. The total amount of our gross FIN No. 48 tax liability for tax positions that may not be sustained under a "more likely than not" threshold as

of the date of adoption was \$44.7 million (including \$10.4 million acquired from CTE) and amounts to \$66.0 million as of December 31, 2007. This amount includes an accrual for interest from the date the tax positions were taken in the amount of \$6.2 million as of December 31, 2007. These balances include amounts of \$9.0 million and \$1.4 million for total FIN No. 48 tax liabilities and accrued interest, respectively, resulting from positions taken by Commonwealth Telephone Enterprises, Inc., which we acquired in March 2007. An increase of \$14.8 million in the balance since the date of adoption is attributable to a change made to the estimated useful life of an intangible asset for income tax purposes. This tax position is temporary in nature and, therefore, will not impact the Company's results of operations when ultimately settled in the future. The amount of our total FIN No. 48 tax liabilities reflected above that would positively impact the calculation of our effective income tax rate, if our tax positions are sustained, is \$21.1 million as of December 31, 2007.

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The Company's policy regarding the classification of interest and penalties is to include these amounts as a component of income tax expense. This treatment of interest and penalties is consistent with prior periods. We have recognized in our consolidated statement of operations for the year ended December 31, 2007, additional interest in the amount of \$1.2 million. We are subject to income tax examinations generally for the years 2003 forward for both our Federal and state filing jurisdictions. We maintain uncertain tax positions in various state jurisdictions. It is reasonably possible that amounts related to previous asset dispositions and tax credits will change within the next 12 months, due to the expiration of the relevant statutes of limitations. This could favorably impact our results of operations by up to \$7.0 million and reduce acquired goodwill balances by up to \$3.0 million. Amounts related to all other positions that may change within the next twelve months are not material.

How Taxes Collected from Customers and Remitted to Governmental

Authorities Should be Presented in the Income Statement

In June 2006, the FASB issued EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement," which requires disclosure of the accounting policy for any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction, that is Gross versus Net presentation. EITF No. 06-3 is effective for periods beginning after December 15, 2006. We adopted the disclosure requirements of EITF No. 06-3 commencing January 1, 2007. See Note 1(d).

Accounting for Purchases of Life Insurance

In September 2006, the FASB reached consensus on the guidance provided by EITF No. 06-5, "Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." EITF No. 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF No. 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF No. 06-5 was effective for fiscal years beginning after December 15, 2006. The adoption of the accounting requirements of EITF No. 06-5 in the first quarter of 2007 had no material impact on our financial position, results of operation or cash flows.

Accounting for Endorsement Split-Dollar Life Insurance Arrangements

In September 2006, the FASB reached consensus on the guidance provided by EITF No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life

Insurance Arrangements." The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF No. 06-4 requires that for a split-dollar life insurance arrangement within the scope of the issue, an employer should recognize a liability for future benefits in accordance with SFAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF No. 06-4 is effective for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF No. 06-4 in the first quarter of 2008 to have a material impact on our financial position, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. We do not expect the adoption of SFAS No. 157, as amended, to have a material impact on our financial position, results of operations or cash flows.

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Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective as of the beginning of our 2008 fiscal year. We do not expect the adoption of SFAS No. 159 to have a material impact on our financial position, results of operations or cash flows.

Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB ratified the consensus reached by the EITF on Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF No. 06-10 provides guidance on an employers' recognition of a liability and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and the asset in collateral assignment split-dollar life insurance arrangements. The effective date of EITF No. 06-10 is for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF No. 06-4 in the first quarter of 2008 to have a material impact on our financial position, results of operations or cash flows.

Business Combinations

In December 2007, the FASB revised SFAS Statement No. 141, "Business Combinations". The revised statement, SFAS No. 141R, requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R is for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard does not impact our currently reported results. The Company is currently evaluating the impact that the adoption of the standard will have on the Company's future results of operations or financial condition.

(3) Acquisition of Commonwealth Telephone and Global Valley Networks:

On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. ("Commonwealth" or "CTE") in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. We paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued common stock with a value of \$247.4 million.

In connection with the acquisition of Commonwealth, we assumed \$35.0 million of debt under a revolving credit facility and \$191.8 million face amount of Commonwealth convertible notes (fair value of \$209.6 million). During March 2007, we paid down the \$35.0 million credit facility. We have retired all but \$8.5 million of the \$191.8 million face amount of Commonwealth convertible notes as of December 31, 2007. The notes were retired by the payment of \$165.4 million in cash and the issuance of our common stock valued at \$36.7 million. The premium paid of \$18.9 million was recorded as \$17.8 million to goodwill and \$1.1 million to other income (loss), net.

We entered into an agreement on July 5, 2007 with Country Road Communications LLC ("Country Road") to acquire Global Valley Networks, Inc. ("GVN") and GVN Services ("GVS") through the purchase from Country Road of 100% of the outstanding common stock of Evans Telephone Holdings, Inc., the parent company of GVN and GVS. We closed on this acquisition on October 31, 2007. The purchase price of \$62.0 million was paid with cash on hand.

We have accounted for the acquisitions of Commonwealth and GVN as purchases under U.S. generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of Commonwealth and GVN are recorded as of the acquisition date, at their respective fair values, and consolidated with those of Citizens. The reported consolidated financial condition of Citizens as of December 31, 2007, reflects the final allocation of these fair values. The final allocation reflects a decrease of \$236.5 million in the value of the Commonwealth customer base, as compared to our preliminary estimate.

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The following schedule provides a summary of the purchase price paid by Citizens in the acquisitions of Commonwealth and GVN as of December 31, 2007:

(\$ in thousands)	Commonwealth	GVN
Cash paid	\$ 804,085	\$ 62,001
Value of Citizens common stock issued	247,435	-
Accrued closing costs	2,838	-
Total Purchase Price	\$ 1,054,358	\$ 62,001

With respect to our acquisition of Commonwealth, the purchase price has been allocated based on fair values to the net tangible and intangible assets acquired and liabilities assumed. Our GVN purchase price allocation is preliminary. The allocations are as follows:

(\$ in thousands)	Commonwealth (Final)	GVN (Preliminary)
Allocation of purchase price:		
Current assets (1)	\$ 190,106	\$ 1,945
Property, plant and equipment	387,343	25,712
Goodwill	690,035	26,774
Other intangibles	273,800	13,000
Other assets	11,234	386
Current portion of debt	(35,000)	(17)
Accounts payable and other current liabilities	(81,767)	(911)
Deferred income taxes	(143,472)	(3,740)
Convertible notes	(209,553)	-

Other liabilities	(28,368)	(1,148)
Total Purchase Price	\$ 1,054,358	\$ 62,001

(1) Includes \$140.6 million of total acquired cash.

The following unaudited pro forma financial information presents the combined results of operations of Citizens, Commonwealth and GVN as if the acquisitions had occurred at the beginning of each period presented. The historical results of the Company include the results of Commonwealth from the date of acquisition on March 8, 2007, and GVN from November 1, 2007. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisitions been completed at the dates indicated. In addition, the unaudited pro forma financial information does not purport to project the future financial position or operating results of Citizens after completion of the acquisitions.

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	2007	2006
(\$ in thousands, except per share amounts)		
Revenue	\$ 2,362,695	\$ 2,371,143
Operating income	\$ 719,518	\$ 716,162
Income from continuing operations	\$ 216,266	\$ 284,707
Income from discontinued operations	\$ -	\$ 90,547
Net income available for common shareholders	\$ 216,266	\$ 375,254
Basic income per common share:		
Income from continuing operations	\$ 0.65	\$ 0.83
Income from discontinued operations	-	0.26
Net income per common share	\$ 0.65	\$ 1.09
Diluted income per common share:		
Income from continuing operations	\$ 0.65	\$ 0.83
Income from discontinued operations	-	0.26
Net income per common share	\$ 0.65	\$ 1.09

(4) Property, Plant and Equipment:

The components of property, plant and equipment at December 31, 2007 and 2006 are as follows:

(\$ in thousands)	Estimated Useful Lives	2007	2006
Land	N/A	\$ 23,347	\$ 17,944
Buildings and leasehold improvements	41 years	343,826	324,230
General support	5 to 17 years	492,771	425,952
Central office/electronic circuit equipment	5 to 11 years	2,855,645	2,602,168
Cable and wire	15 to 60 years	3,484,838	3,171,421
Other	20 to 30 years	46,620	11,800
Construction work in progress		128,250	131,951
		7,375,297	6,685,466
Less: Accumulated depreciation		(4,040,053)	(3,701,962)
Property, plant and equipment, net		\$ 3,335,244	\$ 2,983,504

Depreciation expense is principally based on the composite group method. Depreciation expense was \$374.4 million, \$350.1 million and \$393.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. Effective with the completion of an independent study of the estimated

useful lives of our plant assets we adopted new lives beginning October 1, 2007.

(5) Retained Earnings - Cumulative Effect Adjustment:

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) Topic 1N (SAB No. 108), "Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the financial statements are materially misstated. Under this guidance, companies should take into account both the effect of a misstatement on the current year balance sheet as well as the impact upon the current year income statement in assessing the materiality of a current year misstatement. Once a current year misstatement has been quantified, the guidance in SAB Topic 1M, "Financial Statements Materiality," (SAB No. 99) will be applied to determine whether the misstatement is material.

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SAB No. 108 allowed for a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material as they were being evaluated under a single method but were material when evaluated under the dual approach prescribed by SAB No. 108. The Company adopted SAB No. 108 in connection with the preparation of its financial statements for the year ended December 31, 2006. The adoption did not have any impact on the Company's cash flow or prior year financial statements. As a result of adopting SAB No. 108 in the fourth quarter of 2006 and electing to use the one-time transitional cumulative effect adjustment, the Company made adjustments to the beginning balance of retained earnings as of January 1, 2006 in the fourth quarter of 2006 for the following errors (all of which were determined to be immaterial under the Company's previous methodology):

Summary SAB No. 108 entry recorded January 1, 2006:

(\$ in thousands)	Increase/ (Decrease)
-----	-----
Property, Plant & Equipment	\$ 1,990
Goodwill	(3,716)
Other Assets	(20,081)

	\$ (21,807)
	=====
Current Liabilities	\$ (2,922)
Deferred Taxes	(17,339)
Other Long-Term Liabilities	(13,037)
Long-Term Debt	(24,901)
Retained Earnings	36,392

	\$ (21,807)
	=====

Deferred Tax Accounting. As a result of adopting SAB No. 108 in the fourth quarter of 2006 we recorded a decrease in deferred income tax liabilities in the amount of approximately \$23.5 million and an increase in retained earnings of approximately \$23.5 million as of January 1, 2006. The change in deferred tax and retained earnings is a result of excess deferred tax liabilities that built up in periods prior to 2004 (approximately \$4 million in 2003, \$5.4 million in 2002 and \$14.1 million in 2001 and prior), resulting primarily from differences between actual state income tax rates and the effective composite state rate utilized for estimating the Company's book state tax provisions.

Goodwill. During 2002, we estimated and booked impairment charges (pre-tax) of \$1.07 billion. We subsequently discovered that the impairment charge recorded was overstated as it exceeded the underlying book value by approximately \$8.1 million. The result was an understatement of goodwill. We corrected this error by reversing the negative goodwill balance of \$8.1

million with an offset to increase retained earnings.

Unrecorded Liabilities. The Company changed its accounting policies associated with the accrual of utilities and vacation expense. Historically, the Company's practice was to expense utility and vacation costs in the period these items were paid, which generally resulted in a full year of utilities and vacation expense in the consolidated statements of income. The utility costs are now accrued in the period used and vacation costs are accrued in the period earned. The cumulative amount of these changes as of the beginning of fiscal 2006 was approximately \$3.0 million and, as provided in SAB No. 108, the impact was recorded as a reduction of retained earnings as of the beginning of fiscal 2006.

We established an accrual of \$4.5 million for advance billings associated with certain revenue at two telephone properties that the Company operated since the 1930's. For these two properties, the Company's records have not reflected the liability. This had no impact on the revenue reported for any of the five years reported in this 10-K.

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We recorded a long-term liability of \$2.5 million to recognize a post retirement annuity payment obligation for two former executives of the Company. The liability should have been established in 1999 at the time the two employees elected to exchange their death benefit rights for an annuity payout in accordance with the terms of their respective split dollar life insurance agreements. We established the liability effective January 1, 2006 in accordance with SAB No. 108 by reducing retained earnings by a like amount.

Long-Term Debt. We recorded a reclassification of \$20.1 million from other assets to long-term debt. The amount represents debt discounts which the company historically accounted for as a deferred asset. For certain debt issuances the Company amortized the debt discount using the straight line method instead of the effective interest method. We corrected this error by increasing the debt discount by \$4.8 million and increasing retained earnings by a like amount.

Customer Advances for Construction. Amounts associated with "construction advances" remaining on the Company's balance sheet (\$92.4 million at December 31, 2005) included approximately \$7.3 million of such contract advances that were transferred to the purchaser of our water and wastewater operations on January 15, 2002 and accordingly should have been included in the gain recognized upon sale during that period. Upon the adoption of SAB No. 108 in the fourth quarter of 2006, this error was corrected as of January 1, 2006 through a decrease in other long-term liabilities and an increase in retained earnings.

Purchase Accounting. During the period 1991 to 2001, Citizens acquired a number of telecommunications businesses, growing its asset base from approximately \$400.0 million in 1991 to approximately \$6.0 billion by the end of 2001. As a result of these acquisitions, we recorded in accordance with purchase accounting standards, all of the assets and liabilities associated with these properties. We have determined that approximately \$18.8 million (net) of liabilities were established in error. Approximately \$18.0 million of the liabilities should have been recorded as a decrease to goodwill and \$4.2 million should have been an increase to property, plant and equipment (\$1.99 million after amortization of \$2.21 million). In addition, \$4.964 million of liabilities should have been reversed in 2001. We corrected this error by reversing the liability to retained earnings.

As permitted by the adoption of SAB No. 108 we have adjusted our previously recorded acquisition entries as follows:

(\$ in thousands)	Increase/ (Decrease)
Property, Plant & Equipment	\$ 1,990
Goodwill	(18,049)
	\$ (16,059)

Current Liabilities	\$ (10,468)
Other Long-Term Liabilities	(8,345)
Retained Earnings	2,754

	\$ (16,059)
	=====

Tax Effect. The net effect on taxes (excluding the \$23.5 million entry described above) resulting from the GRAPHIC OMITTED][GRAPHIC OMITTED] adoption of SAB No. 108 was an increase to deferred tax liabilities of \$6.2 million and an increase to goodwill of \$6.2 million.

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(6) Accounts Receivable:

The components of accounts receivable at December 31, 2007 and 2006 are as follows:

(\$ in thousands)	2007	2006
-----	-----	-----
End user	\$ 244,592	\$ 273,828
Other	22,918	22,446
Less: Allowance for doubtful accounts	(32,748)	(108,537)
	-----	-----
Accounts receivable, net	\$ 234,762	\$ 187,737
	=====	=====

An analysis of the activity in the allowance for doubtful accounts for the years ended December 31, 2007, 2006, and 2005 is as follows:

Allowance for doubtful accounts	Balance at beginning of Period	Additions			Deductions	Balance at end of Period
		Balance of acquired properties	Charged to bad debt expense*	Charged to other accounts - Revenue		
2005	\$ 35,080	\$ -	\$ 12,797	\$ 1,080	\$ 17,572	\$ 31,385
2006	31,385	-	20,257	80,003	23,108	108,537
2007	108,537	1,499	31,131	(77,898)	30,521	32,748

* Such amounts are included in bad debt expense and for financial reporting purposes are classified as contra-revenue.

We maintain an allowance for estimated bad debts based on our estimate of collectability of our accounts receivable. Bad debt expense is recorded as a reduction to revenue.

Our allowance for doubtful accounts increased by approximately \$78.3 million in 2006 as a result of carrier activity that was in dispute. Our allowance for doubtful accounts (and "end user" receivables) declined from December 31, 2006, primarily as a result of the resolution of our principal carrier dispute. On March 12, 2007, we entered into a settlement agreement with a carrier pursuant to which we were paid \$37.5 million, resulting in a favorable impact on our revenue in the first quarter of 2007 of \$38.7 million.

(7) Other Intangibles:

Other intangibles at December 31, 2007 and 2006 are as follows:

(\$ in thousands)	2007	2006
-----	-----	-----
Customer base	\$ 1,271,085	\$ 994,605
Trade name	132,381	122,058
	-----	-----
Other intangibles	1,403,466	1,116,663
Less: Accumulated amortization	(855,731)	(684,310)

Total other intangibles, net	\$ 547,735	\$ 432,353
------------------------------	------------	------------

Amortization expense was \$171.4 million, \$126.4 million and \$126.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. Amortization expense for 2007 is comprised of \$126.4 million for amortization associated with our "legacy" properties and \$45.0 million for intangible assets (customer base and trade name) acquired in the Commonwealth and Global Valley acquisitions. As of December 31, 2007, \$263.5 million has been allocated to the customer base (five year life) and \$10.3 million to the trade name (five year life) acquired in the Commonwealth acquisition, and \$13.0 million on a preliminary basis to the customer base (five year life) acquired in the Global Valley acquisition. Amortization expense, based on our estimate of useful lives, is estimated to be \$183.7 million in 2008, \$115.0 million in 2009, and \$57.4 million annually thereafter through 2012.

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(8) Discontinued Operations:

(a) Electric Lightwave

On July 31, 2006, we sold our CLEC business, Electric Lightwave, LLC (ELI), for \$255.3 million (including the sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. We recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Our after-tax gain on the sale was \$71.6 million. Our cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the Federal and state level.

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

We ceased to record depreciation expense for ELI effective February 2006.

Summarized financial information for ELI is set forth below:

(\$ in thousands)	For the years ended December 31,	
-----	2006	2005
-----	-----	-----
Revenue	\$ 100,612	\$ 159,161
Operating income	\$ 27,882	\$ 21,480
Income taxes	\$ 11,583	\$ 9,070
Net income	\$ 18,912	\$ 12,226
Gain on disposal of ELI, net of tax	\$ 71,635	\$ -

(b) Conference Call USA

In February 2005, we entered into a definitive agreement to sell Conference-Call USA, LLC (CCUSA), our conferencing services business. On March 15, 2005, we completed the sale for \$43.6 million in cash. The pre-tax gain on the sale of CCUSA was \$14.1 million. Our after-tax gain was approximately \$1.2 million. The book income taxes recorded upon sale are primarily attributable to a low tax basis in the assets sold.

In accordance with SFAS No. 144, any component of our business that we dispose of, or classify as held for sale, that has operations and cash flows clearly distinguishable from continuing operations for financial reporting purposes, and that will be eliminated from the ongoing

operations, should be classified as discontinued operations. Accordingly, we have classified the results of operations of CCUSA as discontinued operations in our consolidated statements of operations.

The Company had no outstanding debt specifically identified with CCUSA and therefore no interest expense was allocated to discontinued operations. In addition, we ceased to record depreciation expense effective February 16, 2005.

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Summarized financial information for CCUSA is set forth below:

(\$ in thousands)

	For the year ended December 31, 2005
Revenue	\$ 4,607
Operating income	\$ 1,489
Income taxes	\$ 449
Net income	\$ 1,040
Gain on disposal of CCUSA, net of tax	\$ 1,167

(9) Investments:

The components of investments at December 31, 2007 and 2006 are as follows:

(\$ in thousands)	2007	2006
Marketable equity securities	\$ -	\$ 30
Equity method investments	21,191	16,444
	\$ 21,191	\$ 16,474

Equity Method Investments

Our investments in entities that are accounted for under the equity method of accounting consist of the following: (1) a 50% interest in the C-Don Partnership, acquired in the purchase of Commonwealth, which publishes, manufactures and distributes classified telephone directories in the Commonwealth service territory; (2) a 16.8% interest in the Fairmount Cellular Limited Partnership which is engaged in cellular mobile telephone service in the Rural Service Area (RSA) designated by the FCC as Georgia RSA No. 3; and (3) our investments in CU Capital and CU Trust with relation to our convertible preferred securities.

(10) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2007 and 2006. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments for which market values are not readily available are carried at cost, which approximates fair value.

The fair value of our long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments.

(\$ in thousands)	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (1)	\$ 4,736,897	\$ 4,760,639	\$ 4,467,086	\$ 4,620,921

- (1) 2007 and 2006 include interest rate swaps of \$7.9 million and (\$10.3 million), respectively. 2007 and 2006 include EPPICS of \$14.5 million and \$17.9 million, respectively.

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(11) Long-Term Debt:

The activity in our long-term debt from December 31, 2006 to December 31, 2007 is summarized as follows:

(\$ in thousands)	Year Ended December 31, 2007							Interest Rate* at December 31, 2007
	December 31, 2006	Payments	New Borrowings	Assumed from Commonwealth Acquisition	Interest Rate Swap	Conversion to Common Stock	December 31, 2007	
Rural Utilities Service								
Loan Contracts	\$ 21,886	\$ (4,331)	\$ -	\$ -	\$ -	\$ -	\$ 17,555	6.07%
Senior Unsecured Debt	4,435,018	(897,149)	950,000	226,779	18,198	(17,833)	4,715,013	7.96%
EPPICS (see Note 15)	17,860	-	-	-	-	(3,339)	14,521	5.00%
Industrial Development Revenue Bonds	58,140	(44,590)	-	-	-	-	13,550	6.31%
TOTAL LONG-TERM DEBT	\$ 4,532,904	\$ (946,070)	\$950,000	\$ 226,779	\$ 18,198	\$ (21,172)	\$ 4,760,639	7.94%
Less: Debt Discount	(26,547)						(21,294)	
Less: Current Portion	(39,271)						(2,448)	
	\$ 4,467,086						\$ 4,736,897	

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

Additional information regarding our Senior Unsecured Debt at December 31:

(\$ in thousands)	2007		2006	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes:				
Due 8/15/2008	\$ -	-	\$ 495,240	7.625%
Due 5/15/2011	1,050,000	9.250%	1,050,000	9.250%
Due 10/24/2011	200,000	6.270%	200,000	6.270%
Due 12/31/2012	148,500	6.44% (Variable)	150,000	6.75% (Variable)
Due 1/15/2013	700,000	6.250%	700,000	6.250%
Due 3/15/2015	300,000	6.625%	-	-
Due 3/15/2019	450,000	7.125%	-	-
Due 1/15/2027	400,000	7.875%	400,000	7.875%
Due 8/15/2031	945,325	9.000%	945,325	9.000%
	4,193,825		3,940,565	
Debentures due 2025 - 2046	468,742	7.136%	468,742	7.136%
Subsidiary Senior				
Notes due 12/1/2012	36,000	8.050%	36,000	8.050%
CTE Convertible Notes due 7/23/2023	8,537	3.250%	-	-
Fair value of interest rate swaps	7,909		(10,289)	
Total	\$ 4,715,013		\$ 4,435,018	

During 2007, we retired an aggregate principal amount of \$967.2 million of debt, including \$3.3 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (EPPICS) and \$17.8 million of 3.25% Commonwealth convertible notes that were converted into our common stock. As further described below, we temporarily borrowed and repaid \$200.0 million during the month of March 2007, utilized to temporarily fund our acquisition of Commonwealth. Although this borrowing does not appear in our December 31, 2006 or 2007 balance sheet, the borrowing and repayment are shown gross in the above table.

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In connection with the acquisition of Commonwealth, we assumed \$35.0 million of debt under a revolving credit facility and approximately \$191.8 million face amount of Commonwealth convertible notes (fair value of approximately \$209.6 million). During March 2007, we paid down the \$35.0 million credit facility, and through December 31, 2007, we have retired approximately \$183.3 million face amount (for which we paid \$165.4 million in cash and \$36.7 million in common stock) of the convertible notes (premium paid of \$18.9 million was recorded as \$17.8 million to goodwill and \$1.1 million to other income (loss), net), resulting in a remaining outstanding balance of \$8.5 million as of December 31, 2007.

On March 23, 2007, we issued in a private placement an aggregate \$300.0 million principal amount of 6.625% Senior Notes due 2015 and \$450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down \$200.0 million principal amount of indebtedness borrowed on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth, and redeem, on April 26, 2007, \$495.2 million principal amount of our 7.625% Senior Notes due 2008.

During the first quarter of 2007, we incurred and expensed approximately \$4.1 million of fees associated with the bridge loan facility. In the second quarter of 2007, we completed an exchange offer (to publicly register the debt) on the \$750.0 million in total of private placement notes described above, in addition to the \$400.0 million principal amount of 7.875% Senior Notes issued in a private placement on December 22, 2006, for registered Senior Notes due 2027. On April 26, 2007, we redeemed \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. The debt retirement generated a pre-tax loss on the early extinguishment of debt at a premium of approximately \$16.3 million in the second quarter of 2007 and is included in other income (loss), net. As a result of this debt redemption, we also terminated three interest rate swap agreements hedging an aggregate \$150.0 million notional amount of indebtedness. Payments on the swap terminations of approximately \$1.0 million were made in the second quarter of 2007.

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain will be deferred on the balance sheet, and amortized into income over the term of the associated debt.

As of December 31, 2007, EPPICS representing a total principal amount of \$197.3 million have been converted into 15,918,182 shares of our common stock. Approximately \$4.0 million of EPPICS, which are convertible into 350,259 shares of our common stock, were outstanding at December 31, 2007. Our long-term debt footnote indicates \$14.5 million of EPPICS outstanding at December 31, 2007, of which \$10.5 million is debt of related parties for which the Company has an offsetting receivable.

As of December 31, 2007, we had available lines of credit with financial institutions in the aggregate amount of \$250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of December 31, 2007. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

For the year ended December 31, 2006, we retired an aggregate principal amount of \$251.0 million of debt, including \$15.9 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2006 (EPPICS) that were converted into our common stock.

During the first quarter of 2006, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$47.5 million of our 7.625% notes due 2008 were exchanged for approximately \$47.4 million of our 9.00% notes due 2031. During the fourth quarter of 2006, we entered into four debt-for-debt exchanges and exchanged \$157.3 million of our 7.625% notes due 2008 for \$149.9 million of our 9.00% notes due 2031. The 9.00% notes

are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions. However, with respect to the first quarter debt exchanges, a non-cash pre-tax loss of approximately \$2.4 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net, for the year ended December 31, 2006.

On June 1, 2006, we retired at par our entire \$175.0 million principal amount of 7.60% Debentures due June 1, 2006.

On June 14, 2006, we repurchased \$22.7 million of our 6.75% Senior Notes due August 17, 2006 at a price of 100.181% of par.

On August 17, 2006, we retired at par the \$29.1 million remaining balance of the 6.75% Senior Notes.

On December 22, 2006, we issued in a private placement, an aggregate \$400.0 million principal amount of 7.875% Senior Notes due January 15, 2027. Proceeds from the sale were used to partially finance the Commonwealth acquisition.

In December 2006, we borrowed \$150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on an average prime rate or London Interbank Offered Rate or LIBOR plus 1 3/8%, at our election. Proceeds were used to partially finance the Commonwealth acquisition.

For the year ended December 31, 2005, we retired an aggregate principal amount of \$36.4 million of debt, including \$30.0 million of EPPICS that were converted into our common stock. During the second quarter of 2005, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$50.0 million of our 7.625% notes due 2008 were exchanged for approximately \$52.2 million of our 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions, however a non-cash pre-tax loss of approximately \$3.2 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net.

We are in compliance with all of our debt and credit facility covenants.

Our principal payments for the next five years are as follows:

(\$ in thousands)	Principal Payments
-----	-----
2008	\$ 2,448
2009	2,507
2010	5,886
2011	1,252,517
2012	179,017

(12) Derivative Instruments and Hedging Activities:

Interest rate swap agreements were used to hedge a portion of our debt that is subject to fixed interest rates. Under our interest rate swap agreements, we agree to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount. The notional amounts of the contracts are not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination and represents the market value, at the then current rate of interest, of the remaining obligations to exchange payments under the terms of the contracts.

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain will be deferred on the balance sheet, and amortized into

income over the term of the associated debt.

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As of January 16, 2008, we no longer have any derivative instruments. The following disclosure is necessary to understand our historical financial statements.

The interest rate swap contracts are reflected at fair value in our consolidated balance sheets and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its book value and an amount representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying value of the related portion of the fixed-rate debt being hedged, are recognized in the consolidated statements of operations in interest expense. The notional amounts of interest rate swap contracts hedging fixed-rate indebtedness as of December 31, 2007 and 2006 were \$400.0 million and \$550.0 million, respectively. Such contracts require us to pay variable rates of interest (average pay rates of approximately 8.54% and 9.02% as of December 31, 2007 and 2006, respectively) and receive fixed rates of interest (average receive rates of 8.50% and 8.26% as of December 31, 2007 and 2006, respectively). The fair value of these derivatives is reflected in other assets as of December 31, 2007 and other liabilities as of December 31, 2006, in the amount of \$7.9 million and (\$10.3 million), respectively. The related underlying debt has been increased in 2007 and decreased in 2006 by a like amount. For the years ended December 31, 2007 and 2006, the interest expense resulting from these interest rate swaps totaled approximately \$2.4 million and \$4.2 million, respectively. For the year ended December 31, 2005, our interest expense was reduced by \$2.5 million.

(13) Investment Income:

 The components of investment income for the years ended December 31, 2007, 2006 and 2005 are as follows:

(\$ in thousands)	2007	2006	2005
-----	-----	-----	-----
Interest and dividend income	\$ 32,986	\$ 22,172	\$ 15,822
Gain from Rural Telephone Bank dissolution	-	61,428	-
Equity earnings/minority interest in joint ventures, net	2,795	(4,164)	(3,599)
	-----	-----	-----
Total investment income	\$ 35,781	\$ 79,436	\$ 12,223
	=====	=====	=====

(14) Other Income(Loss) net:

 The components of other income (loss), net for the years ended December 31, 2007, 2006 and 2005 are as follows:

(\$ in thousands)	2007	2006	2005
-----	-----	-----	-----
Bridge loan fee	\$ (4,069)	\$ -	\$ -
Premium on debt repurchases	(18,217)	-	-
Legal contingency	-	(1,000)	(7,000)
Gain on expiration/settlement of customer advances	2,031	3,539	681
Loss on exchange of debt	-	(2,433)	(3,175)
Gain on forward rate agreements	-	430	1,851
Other, net	2,422	2,471	8,399
	-----	-----	-----
Total other income (loss), net	\$ (17,833)	\$ 3,007	\$ 756
	=====	=====	=====

During the first quarter of 2007, we incurred \$4.1 million of fees associated with a bridge loan facility. In 2007, we retired certain debt and recognized a pre-tax loss of \$18.2 million on the early extinguishment of debt at a premium, mainly for the 7.625% Senior Notes due 2008. During 2006 and 2005, we recorded expense in connection with the Bangor, Maine legal matter. During 2007, 2006 and 2005, we recognized income in connection with certain retained liabilities, that have terminated, associated with customer advances for construction from our disposed water properties. In connection with our exchange of debt during the first quarter of 2006 and second quarter of 2005, we recognized a non-cash, pre-tax loss. 2006 and 2005 also include a gain for the changes in fair value of our forward rate agreements.

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Pre-tax gains (losses) in connection with the following transactions were also recorded in other income (loss), net during 2005:

On February 1, 2005, we sold shares of Prudential Financial, Inc. for approximately \$1.1 million in cash, and we recognized a pre-tax gain of approximately \$493,000.

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

During 2005, we sold shares of Global Crossing Limited for approximately \$1.1 million in cash, and we recognized a pre-tax gain for the same amount.

(15) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

As of December 31, 2007, we have only \$4.0 million of EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issue.

In 1996, our consolidated wholly-owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of EPPICS, representing preferred undivided interests in the assets of the Trust, with a liquidation preference of \$50 per security (for a total liquidation amount of \$201.3 million). These securities have an adjusted conversion price of \$11.46 per share of our common stock. The conversion price was reduced from \$13.30 to \$11.46 during the third quarter of 2004 as a result of the \$2.00 per share of common stock special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase \$207.5 million aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly-owned subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from us \$211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures are substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constitute a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2007, 2006 and 2005. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2007, EPPICS representing a total principal amount of \$197.3 million have been converted into 15,918,182 shares of our common stock. A total of \$4.0 million of EPPICS was outstanding as of December 31, 2007, and if all outstanding EPPICS were converted, 350,259 shares of our common stock would be issued upon such conversion. Our long-term debt

footnote indicates \$14.5 million of EPPICS outstanding at December 31, 2007, of which \$10.5 million is debt of related parties for which the Company has an offsetting receivable.

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

(16) Capital Stock:

We are authorized to issue up to 600,000,000 shares of common stock. The amount and timing of dividends payable on common stock are, subject to applicable law, within the sole discretion of our Board of Directors.

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(17) Stock Plans:

At December 31, 2007, we had five stock-based compensation plans under which grants have been made and awards remained outstanding. These plans, which are described below, are the Management Equity Incentive Plan (MEIP), the 1996 Equity Incentive Plan (1996 EIP), the Amended and Restated 2000 Equity Incentive Plan (2000 EIP), the Non-Employee Directors' Deferred Fee Plan (Deferred Fee Plan) and the Non-Employee Directors' Equity Incentive Plan (Director's Equity Plan, and together with the Deferred Fee Plan, the Director Plans).

Prior to the adoption of SFAS No. 123R, we applied APB No. 25 and related interpretations to account for our stock plans resulting in the use of the intrinsic value to value the stock and determine compensation expense. Under APB No. 25, we were not required to recognize compensation expense for the cost of stock options. In accordance with the adoption of SFAS No. 123R as of January 1, 2006, we recorded stock-based compensation expense for the cost of our stock options. Compensation expense, recognized in other operating expenses, of \$0.8 million and \$2.2 million in 2007 and 2006, respectively, has been recorded for the cost of our stock options. Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury. At December 31, 2007, there were 16,058,182 shares authorized for grant under these plans and 5,242,717 shares available for grant. No further awards may be granted under the MEIP, the 1996 EIP and the Deferred Fee Plan.

In connection with the Director Plans, compensation costs associated with the issuance of stock units was \$1.6 million, \$2.0 million and \$1.1 million in 2007, 2006 and 2005, respectively. Cash compensation associated with the Director Plans was \$0.5 million, \$0.5 million and \$0.4 million in 2007, 2006 and 2005, respectively. These costs are recognized in other operating expenses.

We have granted restricted stock awards to key employees in the form of our common stock. The number of shares issued as restricted stock awards during 2007, 2006 and 2005 were 722,000, 732,000 and 352,000, respectively. None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse, subject to limited exceptions. The restrictions are time based. At December 31, 2007, 1,210,000 shares of restricted stock were outstanding. Compensation expense, recognized in other operating expenses, of \$6.6 million, \$6.0 million and \$7.4 million, for the years ended December 31, 2007, 2006 and 2005, respectively, has been recorded in connection with these grants.

Management Equity Incentive Plan

Prior to its expiration on June 21, 2000, awards of our common stock could have been granted under the MEIP to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, stock appreciation rights (SARs), restricted stock or other stock-based awards.

Since the expiration of the MEIP, no awards have been or may be granted under the MEIP. The exercise price of stock options issued was equal to or

greater than the fair market value of the underlying common stock on the date of grant. Stock options were not ordinarily exercisable on the date of grant but vest over a period of time (generally four years). 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.

1996 and 2000 Equity Incentive Plans

Since the expiration date of the 1996 EIP on May 22, 2006, no awards have been or may be granted under the 1996 EIP. Under the 2000 EIP, awards of our common stock may be granted to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, SAR's, restricted stock or other stock-based awards. As discussed under the Non-Employee Directors' Compensation Plans below, prior to May 25, 2006 non-employee directors received an award of stock options under the 2000 EIP upon commencement of service.

At December 31, 2007, there were 13,517,421 shares authorized for grant under the 2000 EIP and 2,871,999 shares available for grant, as adjusted to reflect stock dividends. No awards will be granted more than 10 years after the effective date (May 18, 2000) of the 2000 EIP plan. The exercise price of stock options and SARs under the 2000 and 1996 EIP generally shall be equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are not ordinarily exercisable on the date of grant but vest over a period of time (generally four years). Under the terms of the EIPs, 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.

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The following summary presents information regarding outstanding stock options and changes with regard to options under the MEIP and EIP plans:

	Shares Subject to Option	Weighted Average Option Price Per Share	Weighted Average Remaining Life in Years	Aggregate Intrinsic Value
Balance at January 1, 2005	12,411,000	\$ 11.15	6.11	\$ 38,162,000
Options granted	183,000	\$ 11.58		
Options exercised	(4,317,000)	\$ 10.52		\$ 12,730,000
Options canceled, forfeited or lapsed	(292,000)	\$ 10.48		
Balance at December 31, 2005	7,985,000	\$ 11.52	5.32	\$ 13,980,000
Options granted	22,000	\$ 12.55		
Options exercised	(2,695,000)	\$ 9.85		\$ 9,606,000
Options canceled, forfeited or lapsed	(70,000)	\$ 10.13		
Balance at December 31, 2006	5,242,000	\$ 12.41	4.36	\$ 14,490,000
Options granted	-	\$ -		
Options exercised	(1,254,000)	\$ 10.19		\$ 6,033,000
Options canceled, forfeited or lapsed	(33,000)	\$ 10.79		
Balance at December 31, 2007	3,955,000	\$ 13.13	3.4	\$ 5,727,000

The following table summarizes information about shares subject to options under the MEIP and EIP plans at December 31, 2007:

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
254,000	\$ 6.45 - 6.67	\$ 6.51	0.98	254,000	\$ 6.51
433,000	8.19 - 8.19	8.19	4.37	433,000	8.19
17,000	8.80 - 9.68	9.11	0.78	17,000	9.11
570,000	10.44 - 10.44	10.44	5.41	570,000	10.44
213,000	11.15 - 11.15	11.15	2.80	213,000	11.15
489,000	11.79 - 11.79	11.79	3.38	489,000	11.79
175,000	11.90 - 14.27	13.41	5.86	158,000	13.45
582,000	15.02 - 15.02	15.02	2.75	582,000	15.02
640,000	15.94 - 16.74	16.67	2.73	640,000	16.67
582,000	18.46 - 18.46	18.46	2.75	582,000	18.46
3,955,000	\$ 6.45 - 18.46	\$ 13.13	3.40	3,938,000	\$ 13.13

The number of options exercisable at December 31, 2006 and 2005 were 4,791,000 and 6,548,000, with a weighted average exercise price of \$12.58 and \$11.92, respectively.

Cash received upon the exercise of options during 2007, 2006 and 2005 was \$13.8 million, \$27.2 million and \$47.6 million, respectively. Total remaining unrecognized compensation cost associated with unvested stock options at December 31, 2007 was \$0.1 million and the weighted average period over which this cost is expected to be recognized is approximately one year.

For purposes of determining compensation expense, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model which requires the use of various assumptions including expected life of the option, expected dividend rate, expected volatility, and risk-free interest rate. The expected life (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis.

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The following table presents the weighted average assumptions used for stock option grants in 2006 and 2005. No stock option grants were issued in 2007.

	2006	2005
Dividend yield	7.55%	7.72%
Expected volatility	44%	46%
Risk-free interest rate	4.89%	4.16%
Expected life	5 years	6 years

The following summary presents information regarding unvested restricted stock and changes with regard to restricted stock under the MEIP and the EIPs:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Fair Value
B			
Balance at January 1, 2005	1,686,000	\$ 12.29	\$ 23,253,000
Restricted stock granted	352,000	\$ 13.11	\$ 4,305,000
Restricted stock vested	(491,000)	\$ 12.27	\$ 6,000,000
Restricted stock forfeited	(91,000)	\$ 12.58	
Balance at December 31, 2005	1,456,000	\$ 12.47	\$ 17,808,000
Restricted stock granted	732,000	\$ 12.87	\$ 10,494,000
Restricted stock vested	(642,000)	\$ 12.08	\$ 9,226,000
Restricted stock forfeited	(372,000)	\$ 12.60	
Balance at December 31, 2006	1,174,000	\$ 12.89	\$ 16,864,000
Restricted stock granted	722,000	\$ 15.04	\$ 9,187,000
Restricted stock vested	(587,000)	\$ 12.94	\$ 7,465,000
Restricted stock forfeited	(100,000)	\$ 13.95	
Balance at December 31, 2007	1,209,000	\$ 14.06	\$ 15,390,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at December 31, 2007 was \$12.7 million and the weighted average period over which this cost is expected to be recognized is approximately two to three years.

Non-Employee Directors' Compensation Plans

Upon commencement of his or her service on the Board of Directors, each non-employee director receives a grant of 10,000 stock options. These options are currently awarded under the Directors' Equity Plan. Prior to effectiveness of the Directors' Equity Plan on May 25, 2006, these options were awarded under the 2000 EIP. The exercise price of these options, which

become exercisable six months after the grant date, is the fair market value (as defined in the relevant plan) of our common stock on the date of grant. Options granted under the Directors' Equity Plan expire on the earlier of the tenth anniversary of the grant date or the first anniversary of termination of service as a director. Options granted to non-employee directors under the 2000 EIP expire on the tenth anniversary of the grant date.

Each non-employee director also receives an annual grant of 3,500 stock units. These units are currently awarded under the Directors' Equity Plan and prior to effectiveness of that plan, were awarded under the Deferred Fee Plan. Since the effectiveness of the Director's Equity Plan, no further grants have been made under the Deferred Fee Plan. Prior to April 20, 2004, each non-employee director received an award of 5,000 stock options. The exercise price of such options was set at 100% of the fair market value on the date the options were granted. The options were exercisable six months after the grant date and remain exercisable for ten years after the grant date.

In addition, each year, each non-employee director is also entitled to receive a retainer, meeting fees, and, when applicable, fees for serving as a committee chair or as Lead Director. For 2007, each non-employee director had to elect, by December 31 of the preceding year, to receive \$40,000 cash or 5,760 stock units as an annual retainer and to receive meeting fees and Lead Director and committee chair stipends in the form of cash or stock units. Stock units are awarded under the Directors' Equity Plan. Directors making a stock unit election must also elect to convert the units to either common stock (convertible on a one-to-one basis) or cash upon retirement or death.

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The number of shares of common stock authorized for issuance under the Directors' Equity Plan is 2,540,761, which includes 540,761 shares that were available for grant under the Deferred Fee Plan on the effective date of the Directors' Equity Plan. In addition, if and to the extent that any "plan units" outstanding on May 25, 2006 under the Deferred Fee Plan are forfeited or if any option granted under the Deferred Fee Plan terminates, expires, or is cancelled or forfeited, without having been fully exercised, shares of common stock subject to such "plan units" or options cancelled shall become available under the Directors' Equity Plan. At December 31, 2007, there were 2,370,718 shares available for grant. There were 13 directors participating in the Directors' Plans during all or part of 2007. In 2007, the total options, plan units, and stock earned were 10,000, 98,070, and 0, respectively. In 2006, the total options, plan units, and stock earned were 20,000, 81,000 and 0, respectively. In 2005, the total options, plan units, and stock earned were 70,000, 64,000 and 0, respectively. Options granted prior to the adoption of the Directors' Equity Plan were granted under the 2000 EIP. At December 31, 2007, 177,952 options were outstanding and 172,952 options were exercisable under the Director Plans at a weighted average exercise price of \$12.59.

For 2007, each non-employee director received fees of \$2,000 for each in-person Board of Directors and committee meeting attended and \$1,000 for each telephone Board and committee meeting attended. The chairs of the Audit, Compensation, Nominating and Corporate Governance and Retirement Plan Committees were paid an additional annual fee of \$25,000, \$15,000, \$7,500 and \$5,000, respectively. In addition, the Lead Director, who heads the ad hoc committee of non-employee directors, received an additional annual fee of \$15,000. A director must elect, by December 31 of the preceding year, to receive meeting and other fees in cash, stock units, or a combination of both. All fees paid to the non-employee directors in 2007 were paid quarterly. If the director elects stock units, the number of units credited to the director's account is determined as follows: the total cash value of the fees payable to the director are divided by 85% of the closing prices of our common stock on the last business day of the calendar quarter in which the fees or stipends were earned. Units are credited to the director's account quarterly.

We account for the Deferred Fee Plan and Directors' Equity Plan in accordance with SFAS No. 123R. To the extent directors elect to receive the distribution of their stock unit account in cash, they are considered liability-based awards. To the extent directors elect to receive the distribution of their stock unit accounts in common stock, they are

considered equity-based awards. Compensation expense for stock units that are considered equity-based awards is based on the market value of our common stock at the date of grant. Compensation expense for stock units that are considered liability-based awards is based on the market value of our common stock at the end of each period. For awards granted prior to 1999, a director could elect to be paid in stock options. Generally, compensation cost was not recorded because the options were granted at the fair market value of our common stock on the grant date under APB No. 25 and related interpretations.

We had also maintained a Non-Employee Directors' Retirement Plan providing for the payment of specified sums annually to our non-employee directors, or their designated beneficiaries, starting at the director's retirement, death or termination of directorship. In 1999, we terminated this Plan. As of December 31, 2007, the liability for such payments was reduced to \$0 as the obligation was fully settled during the second quarter of 2007.

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(18) Income Taxes:

The following is a reconciliation of the provision for income taxes for continuing operations computed at Federal statutory rates to the effective rates for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
	-----	-----	-----
Consolidated tax provision at federal statutory rate	35.0 %	35.0 %	35.0 %
State income tax provisions, net of federal income tax benefit	1.8 %	2.1 %	1.6 %
Tax reserve adjustment	1.0 %	0.2 %	(8.2) %
All other, net	(0.4) %	(2.4) %	0.2 %
	-----	-----	-----
	37.4 %	34.9 %	28.6 %
	=====	=====	=====

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

(\$ in thousands)	2007	2006
-----	-----	-----
Deferred income tax liabilities:		

Property, plant and equipment basis differences	\$ 624,426	\$ 547,726
Intangibles	275,102	175,991
Other, net	10,431	9,675
	-----	-----
	909,959	733,392
	-----	-----
Deferred income tax assets:		

SFAS No. 158 pension/OPEB liability	58,540	51,660
Tax operating loss carryforward	83,203	81,515
Alternate minimum tax credit carryforward	26,658	54,834
Employee benefits	67,813	70,013
State tax liability	10,361	-
Other, net	33,514	24,039
	-----	-----
	280,089	282,061
Less: Valuation allowance	(59,566)	(49,679)
	-----	-----
Net deferred income tax asset	220,523	232,382
	-----	-----
Net deferred income tax liability	\$ 689,436	\$ 501,010
	=====	=====

Deferred tax assets and liabilities are reflected in the following

captions on the balance sheet:

Deferred income taxes	\$ 711,645	\$ 514,130
Other current assets	(22,209)	(13,120)
	-----	-----

Net deferred income tax liability	\$ 689,436	\$ 501,010
	=====	=====

Our Federal and state tax operating loss carryforwards as of December 31, 2007 are estimated at \$11.3 million and \$1,563.0 million, respectively. Our Federal loss carryforward will expire in the year 2026. A portion of our state loss carryforward begins to expire in 2008. Our alternative minimum tax credit as of December 31, 2007 can be carried forward indefinitely to reduce future regular tax liability.

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

(\$ in thousands)	2007	2006	2005
-----	-----	-----	-----
Income taxes charged (credited) to the income statement for continuing operations:			
Current:			
Federal	\$ 37,815	\$ 772	\$ 16,708
State	9,188	3,676	(33,006)
Total current	47,003	4,448	(16,298)
Deferred:			
Federal	75,495	128,534	89,446
Federal tax credits	-	-	(18)
State	5,516	3,497	2,140
Total deferred	81,011	132,031	91,568
Subtotal income taxes for continuing operations	128,014	136,479	75,270
Income taxes charged to the income statement for discontinued operations:			
Current:			
Federal	-	3,018	-
State	-	2,004	2
Total current	-	5,022	2
Deferred:			
Federal	-	47,732	18,871
State	-	3,835	3,538
Total deferred	-	51,567	22,409
Subtotal income taxes for discontinued operations	-	56,589	22,411
Total income taxes charged to the income statement (a)	128,014	193,068	97,681
Income taxes charged (credited) to shareholders' equity:			
Deferred income tax benefits on unrealized/realized gains or losses on securities classified as available-for-sale	(11)	(35)	(411)
Current benefit arising from stock options exercised and restricted stock	(552)	(3,777)	(5,976)
Deferred income taxes (benefits) arising from the recognition of additional pension/OPEB liability	(6,880)	24,707	(13,933)
Deferred tax benefit from recording adjustments from the adoption of SAB No. 108	-	(17,339)	-
Income taxes charged (credited) to shareholders' equity (b)	(7,443)	3,556	(20,320)
Total income taxes: (a) plus (b)	\$ 120,571	\$ 196,624	\$ 77,361
	=====	=====	=====

The following table sets forth the changes in the Company's balance of unrecognized tax benefits for the year in accordance with FIN No. 48:

(\$ in thousands)	2007
Unrecognized tax benefits - beginning of year	\$ 30,332
Gross increases - unrecognized tax benefits acquired via acquisitions	8,977
Gross increases - current year tax positions	20,408
Unrecognized tax benefits - end of year	\$ 59,717

The amounts above exclude \$6.2 million of accrued interest that we have recorded and would be payable should the Company's tax positions not be sustained.

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(19) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the years ended December 31, 2007, 2006 and 2005 is as follows:

(\$ in thousands, except per-share amounts)	2007	2006	2005
Net income used for basic and diluted earnings per common share:			
Income from continuing operations	\$ 214,654	\$ 254,008	\$ 187,942
Income from discontinued operations	-	90,547	14,433
Total basic net income available for common shareholders	\$ 214,654	\$ 344,555	\$ 202,375
Effect of conversion of preferred securities - EPPICS	152	401	1,255
Total diluted net income available for common shareholders	\$ 214,806	\$ 344,956	\$ 203,630
Basic earnings per common share:			
Weighted-average shares outstanding - basic	331,037	322,641	337,065
Income from continuing operations	\$ 0.65	\$ 0.79	\$ 0.56
Income from discontinued operations	-	0.28	0.04
Net income per share available for common shareholders	\$ 0.65	\$ 1.07	\$ 0.60
Diluted earnings per common share:			
Weighted-average shares outstanding - basic	331,037	322,641	337,065
Effect of dilutive shares	940	931	1,417
Effect of conversion of preferred securities - EPPICS	401	973	3,193
Weighted-average shares outstanding - diluted	332,378	324,545	341,675
Income from continuing operations	\$ 0.65	\$ 0.78	\$ 0.56
Income from discontinued operations	-	0.28	0.04
Net income per share available for common shareholders	\$ 0.65	\$ 1.06	\$ 0.60

Stock Options

For the years ended December 31, 2007, 2006 and 2005, options to purchase shares of 1,804,000 (at exercise prices ranging from \$15.02 to \$18.46), 1,917,000 (at exercise prices ranging from \$13.45 to \$18.46), and 1,930,000 (at exercise prices ranging from \$13.09 to \$18.46), respectively, issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive. In calculating diluted EPS we apply the treasury stock method and include future unearned compensation as part of the assumed proceeds.

In addition, for the years ended December 31, 2007, 2006 and 2005, restricted stock awards of 1,209,000, 1,174,000 and 1,456,000 shares, respectively, are excluded from our basic weighted average shares outstanding and included in our dilutive shares until the shares are no longer subject to restriction after the satisfaction of all specified

conditions.

EPPICS

At December 31, 2007 and 2006, we had 80,307 and 147,079 shares, respectively, of potentially dilutive EPPICS, which were convertible into our common stock at a 4.3615 to 1 ratio at an exercise price of \$11.46 per share. If all EPPICS that remain outstanding as of December 31, 2007 are converted, we would issue approximately 350,259 shares of our common stock. As a result of the September 2004 special, non-recurring dividend, the EPPICS exercise price for conversion into common stock was reduced from \$13.30 to \$11.46. These securities have been included in the diluted income per common share calculation for the periods ended December 31, 2007, 2006 and 2005.

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Stock Units

At December 31, 2007, 2006 and 2005, we had 225,427, 319,423, and 206,630 stock units, respectively, issued under the Director Plans and the Non-Employee Directors' Retirement Plan. These securities have not been included in the diluted income per share of common stock calculation because their inclusion would have had an antidilutive effect.

Share Repurchase Programs

In February 2007, our Board of Directors authorized us to repurchase up to \$250.0 million of our common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 19, 2007. During 2007, we repurchased approximately 17.3 million shares of our common stock at an aggregate cost of approximately \$250.0 million. The repurchase program was completed on October 15, 2007.

In February 2006, our Board of Directors authorized us to repurchase up to \$300.0 million of our common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 6, 2006. During 2006, we repurchased approximately 10.2 million shares of our common stock at an aggregate cost of approximately \$135.2 million.

(20) Comprehensive Income:

Comprehensive income consists of net income and other gains and losses affecting shareholders' investment and SFAS No. 158 pension/OPEB liabilities that, under GAAP, are excluded from net income.

Our other comprehensive income (loss) for the years ended December 31, 2007, 2006 and 2005 is as follows:

(\$ in thousands)	2007		
	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
Amortization of pension and post retirement costs	\$ (3,023)	\$ (6,880)	\$ 3,857
All other	35	(12)	47
Other comprehensive income	\$ (2,988)	\$ (6,892)	\$ 3,904
	=====		
	2006		

(\$ in thousands)	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount

Net unrealized holding losses on securities arising during period	\$ (92)	\$ (35)	\$ (57)
SFAS No. 158 pension/OPEB liability	199,653	74,619	125,034

	\$199,561	\$ 74,584	\$ 124,977
	2005		
(\$ in thousands)	Before-Tax Amount	Tax Expense/ (Benefit)	Net-of-Tax Amount
Other comprehensive income			
Net unrealized holding losses on securities arising during period	\$ (1,055)	\$ (395)	\$ (660)
Minimum pension liability	(36,416)	(13,933)	(22,483)
Less: Reclassification adjustments for net gains on securities realized in net income	(537)	(7)	(530)
Other comprehensive (loss)	\$ (38,008)	\$ (14,335)	\$ (23,673)

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(21) Segment Information:

We operate in one reportable segment, Frontier. Frontier provides both regulated and unregulated communications services to residential, business and wholesale customers and is typically the incumbent provider in its service areas.

As permitted by SFAS No. 131, we have utilized the aggregation criteria in combining our markets because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not materially impact the economic characteristics or operating results of a particular property.

(22) Quarterly Financial Data (Unaudited):

(\$ in thousands, except per share amounts)					
	First quarter	Second quarter	Third quarter	Fourth quarter	Year ended December 31,
2007					
Revenue	\$ 556,147	\$ 578,826	\$ 575,814	\$ 577,228	\$ 2,288,015
Operating income	193,302	171,298	165,925	174,891	705,416
Net income	67,667	40,559	47,415	59,013	214,654
Net income available for common shareholders per basic share	\$ 0.21	\$ 0.12	\$ 0.14	\$ 0.18	\$ 0.65
Net income available for common shareholders per diluted share	\$ 0.21	\$ 0.12	\$ 0.14	\$ 0.18	\$ 0.65
2006					
Revenue	\$ 506,861	\$ 506,912	\$ 507,198	\$ 504,396	\$ 2,025,367
Operating income	157,338	169,458	160,721	156,973	644,490
Net income	50,483	101,702	128,459	63,911	344,555
Net income available for common shareholders per basic share	\$ 0.15	\$ 0.32	\$ 0.40	\$ 0.20	\$ 1.07
Net income available for common shareholders per diluted share	\$ 0.15	\$ 0.31	\$ 0.40	\$ 0.20	\$ 1.06

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. Our quarterly results include the results of operations of Commonwealth from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. During the second quarter of 2006, we recorded a gain in investment income of \$61.4 million resulting from the dissolution and liquidation of the Rural Telephone Bank. In the third quarter of 2006 we sold ELI (see Note 8). See Notes 13 and 14 for a description of other miscellaneous transactions impacting our quarterly results.

(23) Retirement Plans:

We sponsor a noncontributory defined benefit pension plan covering a significant number of our former and current employees and other postretirement benefit plans that provide medical, dental, life insurance and other benefits for covered retired employees and their beneficiaries and covered dependents. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to meet ERISA funding requirements while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities and alternative investments.

The accounting results for pension and postretirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. We review these assumptions for changes annually with our independent actuaries. We consider our discount rate and expected long-term rate of return on plan assets to be our most critical assumptions.

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The discount rate is used to value, on a present value basis, our pension and postretirement benefit obligations as of the balance sheet date. The same rate is also used in the interest cost component of the pension and postretirement benefit cost determination for the following year. The measurement date used in the selection of our discount rate is the balance sheet date. Our discount rate assumption is determined annually with assistance from our actuaries based on the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination we consider, among other things, the yields on the Citigroup Pension Discount Curve and Bloomberg Finance and the changes in those rates from one period to the next. This rate can change from year-to-year based on market conditions that impact corporate bond yields. Our discount rate increased from 6.00% at year-end 2006 to 6.50% at year-end 2007.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and postretirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, we considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and our own historical 5-year and 10-year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 35% to 55% in fixed income securities, 35% to 55% in equity securities and 5% to 15% in alternative investments. We review our asset allocation at least annually and make changes when considered appropriate. In 2007, we did not change our expected long-term rate of return from the 8.25% used in 2006. Our pension plan assets are valued at actual market value as of the measurement date. The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). We adopted SFAS No. 158 prospectively on December 31, 2006. SFAS No. 158 requires that we recognize all obligations related to defined benefit pensions and other postretirement benefits. This statement requires that we quantify the plans' funded status as an asset or a liability on our consolidated balance sheets. In accordance with SFAS No. 158, our 2005 accounting and related disclosures were not affected by the adoption of the new standard. The table below summarizes the incremental effects of SFAS No. 158 adoption on the individual line items in our consolidated balance sheet at December 31, 2006:

	Pre SFAS No. 158 Adoption	SFAS No. 158 Adjustment	Post SFAS No. 158 Adoption
-----	-----	-----	-----

Liabilities:

Deferred income taxes	\$ 564,041	\$ (49,911)	\$ 514,130
Other liabilities	199,100	133,545	332,645

Shareholders' Equity:

Accumulated other comprehensive loss	1,735	(83,634)	(81,899)
--------------------------------------	-------	----------	----------

SFAS No. 158 requires that we measure the plan's assets and obligations that determine our funded status as of the end of the fiscal year. We are also required to recognize as a component of Other Comprehensive Income "OCI" the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit cost as explained in SFAS No. 87, "Employers' Accounting for Pensions," or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Based on the funded status of our defined benefit pension and postretirement benefit plans as of December 31, 2006, we reported a gain (net of tax) to our AOCI of \$41.4 million, a decrease of \$66.1 million to accrued pension obligations and an increase of \$24.7 million to accumulated deferred income taxes. Our adoption of SFAS No. 158 on December 31, 2006, had no impact on our earnings. The following tables present details about our pension plans.

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Pension Benefits

The following tables set forth the plan's projected benefit obligations and fair values of plan assets as of December 31, 2007 and 2006 and net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005:

(\$ in thousands)	2007	2006
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 780,719	\$ 842,602
Commonwealth plan as of acquisition date	107,047	-
Service cost	9,175	6,811
Interest cost	50,948	45,215
Actuarial gain	(26,524)	(46,597)
Benefits paid	(87,049)	(69,005)
Curtailment	(14,379)	-
Special termination benefits	467	1,809
Plan change	-	(116)
Projected benefit obligation at end of year	\$ 820,404	\$ 780,719

Change in plan assets		
Fair value of plan assets at beginning of year	\$ 770,182	\$ 762,225
Commonwealth plan as of acquisition date	92,175	-
Actual return on plan assets	46,857	76,962
Benefits paid	(87,049)	(69,005)
Fair value of plan assets at end of year	\$ 822,165	\$ 770,182

(Accrued)/Prepaid benefit cost		
Funded status	\$ 1,761	\$ (10,537)

Amounts recognized in the consolidated balance sheet		
Other assets/(other long-term liabilities)	\$ 1,761	\$ (10,537)
Accumulated other comprehensive income	\$ 134,276	\$ 147,248

(\$ in thousands)	Expected 2008	2007	2006	2005
Components of net periodic benefit cost				
Service cost		\$ 9,175	\$ 6,811	\$ 6,117
Interest cost on projected benefit obligation		50,948	45,215	46,416
Expected return on plan assets		(67,467)	(60,759)	(60,371)
Amortization of prior service cost and unrecognized net obligation	\$ (255)	(255)	(255)	(244)
Amortization of unrecognized loss	5,075	7,313	11,871	9,882
Net periodic benefit cost/(income)		(286)	2,883	1,800
Plan curtailment gain		(14,379)	-	-
Special termination charge		467	1,809	-
Total periodic benefit cost/(income)		\$ (14,198)	\$ 4,692	\$ 1,800

Effective December 30, 2007, the CTE Employees' Pension Plan was frozen for all non-union Commonwealth employees. No additional benefit accruals for service rendered subsequent to December 30, 2007 will occur for those participants. As a result of this plan change and in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," a gain on pension curtailment of \$14.4 million was recorded in 2007 and included in other operating expenses in the consolidated statement of operations. Also, effective December 31, 2007, the CTE Employees' Pension Plan was merged into the Citizens Pension Plan.

The plan's weighted average asset allocations at December 31, 2007 and 2006 by asset category are as follows:

Asset category:	2007	2006
-----	-----	-----
Equity securities	51%	53%
Debt securities	38%	34%
Alternative investments	9%	12%
Cash and other	2%	1%
	-----	-----
Total	100%	100%
	=====	=====

The plan's expected benefit payments over the next 10 years are as follows:

(\$ in thousands)	
Year	Amount
-----	-----
2008	\$ 58,423
2009	61,277
2010	62,645
2011	64,540
2012	68,968
2013 - 2017	347,027

Total	\$ 662,880
	=====

We expect that no contribution will be made by us to the pension plan in 2008.

The accumulated benefit obligation for the plan was \$805.0 million and \$762.1 million at December 31, 2007 and 2006, respectively.

Assumptions used in the computation of annual pension costs and valuation of the year-end obligations were as follows:

	2007	2006	2005
	-----	-----	-----
Discount rate - used at year end to value obligation	6.50%	6.00%	5.625%
Discount rate - used to compute annual cost	6.00%	5.625%	6.00%
Expected long-term rate of return on plan assets	8.25%	8.25%	8.25%
Rate of increase in compensation levels	3.50%	4.00%	4.00%

Postretirement Benefits Other Than Pensions - "OPEB"

The following table sets forth the plans' benefit obligations, fair values of plan assets and the postretirement benefit liability recognized on our

balance sheets at December 31, 2007 and 2006 and net periodic postretirement benefit costs for the years ended December 31, 2007, 2006 and 2005.

(\$ in thousands)	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 159,931	\$ 160,922
Commonwealth plan as of date of acquisition	996	-
Service cost	533	664
Interest cost	10,241	8,974
Plan participants' contributions	3,370	1,558
Actuarial loss	15,620	1,778
Benefits paid	(15,064)	(13,965)
Plan change	(1,025)	-
Benefit obligation at end of year	\$ 174,602	\$ 159,931
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 11,869	\$ 11,424
Actual return on plan assets	815	445
Benefits paid	(11,695)	(12,407)
Employer contribution	8,380	12,407
Fair value of plan assets at end of year	\$ 9,369	\$ 11,869
Accrued benefit cost		
Funded status	\$ (165,233)	\$ (148,062)
Amounts recognized in the consolidated balance sheet		
Current liabilities	\$ (8,498)	\$ (7,238)
Other long-term liabilities	\$ (156,735)	\$ (140,824)
Accumulated other comprehensive income	\$ 2,292	\$ (13,703)

(\$ in thousands)	Expected 2008	2007	2006	2005
Components of net periodic postretirement benefit cost				
Service cost		\$ 533	\$ 664	\$ 1,046
Interest cost on projected benefit obligation		10,241	8,974	12,055
Expected return on plan assets		(578)	(889)	(1,248)
Amortization of prior service cost and transition obligation	\$ (7,735)	(7,735)	(7,589)	(1,255)
Amortization of unrecognized loss	5,617	6,099	4,678	6,615
Net periodic postretirement benefit cost		\$ 8,560	\$ 5,838	\$ 17,213

Assumptions used in the computation of annual OPEB costs and valuation of the year-end OPEB obligations were as follows:

	2007	2006	2005
Discount rate - used at year end to value obligation	6.50%	6.00%	5.625%
Discount rate - used to compute annual cost	6.00%	5.625%	6.00%
Expected long-term rate of return on plan assets	6.00%	8.25%	8.25%

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The plans' weighted average asset allocations at December 31, 2007 and 2006 by asset category are as follows:

Asset category:	2007	2006
Equity securities	0%	0%
Debt securities	100%	100%
Cash and other	0%	0%
Total	100%	100%

The plans' expected benefit payments over the next 10 years are as follows:

(\$ in thousands)

Year	Gross Benefits	Medicare D Subsidy	Total
2008	\$ 12,123	\$ 447	\$ 11,676
2009	12,697	526	12,171
2010	13,212	607	12,605
2011	13,857	699	13,158
2012	14,128	842	13,286
2013 - 2017	74,918	6,244	68,674
Total	\$ 140,935	\$ 9,365	\$ 131,570

Our expected contribution to the plans in 2008 is \$11.7 million.

For purposes of measuring year-end benefit obligations, we used, depending on medical plan coverage for different retiree groups, a 9.50% annual rate of increase in the per-capita cost of covered medical benefits, gradually decreasing to 5% in the year 2017 and remaining at that level thereafter. The effect of a 1% increase in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be \$0.6 million and the effect on the accumulated postretirement benefit obligation for health benefits would be \$8.9 million. 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 \$(0.5) million and the effect on the accumulated postretirement benefit obligation for health benefits would be \$(7.8) million.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) became law. The Act introduces a prescription drug benefit under Medicare. It includes a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare Part D benefit. The amount of the federal subsidy is based on 28% of an individual beneficiary's annual eligible prescription drug costs ranging between \$250 and \$5,000. We have determined that the Company-sponsored postretirement healthcare plans that provide prescription drug benefits are actuarially equivalent to the Medicare Prescription Drug benefit. The impact of the federal subsidy has been incorporated into the calculation.

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost at December 31, 2007 are as follows:

(\$ in thousands)	Pension Plan	OPEB
Net actuarial loss	\$ 135,627	\$ 49,154
Prior service cost	(1,351)	(46,862)
Total	\$ 134,276	\$ 2,292

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The amounts recognized as a component of accumulated comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

(\$ in thousands)	Pension Plan		OPEB	
	2007	2006	2007	2006
Accumulated other comprehensive income at beginning of year	\$ 147,248	\$ 199,652	\$ (13,703)	\$ -
Net actuarial loss recognized during year	(7,312)	(11,871)	(6,099)	(4,678)
Prior service cost recognized during year	255	255	7,735	7,589
Net actuarial loss (gain) occurring during year	(5,915)	(62,800)	15,384	2,222
Prior service cost (credit) occurring during year	-	(116)	(1,025)	-
Other adjustments	-	22,128	-	(18,836)

Net amount recognized in comprehensive income for the year	(12,972)	(52,404)	15,995	(13,703)
Accumulated other comprehensive income at end of year	\$ 134,276	\$ 147,248	\$ 2,292	\$ (13,703)

401(k) Savings Plans

We sponsor employee retirement savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, we provide matching contributions and also provide certain profit-sharing contributions to certain employees upon the attainment of pre-established financial criteria. Employer contributions were \$4.9 million, \$4.7 million and \$6.7 million for 2007, 2006 and 2005, respectively. The amount for 2007 includes employer contributions of \$0.4 million for CTE employees under a separate Commonwealth plan. Also, effective December 31, 2007, the Commonwealth Builder 401(k) Plan was merged into the Citizens 401(k) Savings Plan.

(24) Commitments and Contingencies:

Ronald A. Katz Technology Licensing LP, filed suit against us for patent infringement on June 8, 2007 in the U.S. District Court for the District of Delaware. Katz Technology alleges that, by operating automated telephone systems, including customer service systems, that allow our customers to utilize telephone calling cards, order internet, DSL, and dial-up services, and perform a variety of account related tasks such as billing and payments, we have infringed thirteen of Katz Technology's patents and continue to infringe three of Katz Technology's patents. Katz Technology seeks unspecified damages resulting from our alleged infringement, as well as a permanent injunction enjoining us from continuing the alleged infringement. Katz Technology subsequently filed a tag-along notice with the Judicial Panel on Multi-District Litigation, notifying them of this action and its relatedness to In re Katz Interactive Dial Processing Patent Litigation (MDL No. 1816), pending in the Central District of California before Judge R. Gary Klausner. The Judicial Panel on Multi-District Litigation has transferred the case to the Central District of California. Discovery in the case has commenced. In January 2008, we received notice of the accused services and 40 asserted claims from Katz Technology. We intend to vigorously defend against this lawsuit.

On June 24, 2004, one of our subsidiaries, Frontier Subsidiary Telco, Inc., received a "Notice of Indemnity Claim" from Citibank, N.A., that is related to a complaint pending against Citibank and others in the U.S. Bankruptcy Court for the Southern District of New York as part of the Global Crossing bankruptcy proceeding. Citibank bases its claim for indemnity on the provisions of a credit agreement that was entered into in October 2000 between Citibank and our subsidiary. We purchased Frontier Subsidiary Telco, Inc., in June 2001 as part of our acquisition of the Frontier telephone companies. The complaint against Citibank, for which it seeks indemnification, alleges that the seller improperly used a portion of the proceeds from the Frontier transaction to pay off the Citibank credit agreement, thereby defrauding certain debt holders of Global Crossing North America Inc. Although the credit agreement was paid off at the closing of the Frontier transaction, Citibank claims the indemnification obligation survives. Damages sought against Citibank and its co-defendants could exceed \$1.0 billion. In August 2004, we notified Citibank by letter that we believe its claims for indemnification are invalid and are not supported by applicable law. In 2005, Citibank moved to dismiss the underlying complaint against it. That motion is currently pending. We have received no further communications from Citibank since our August 2004 letter.

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

Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into

firm, written contracts for such activities.

We conduct certain of our operations in leased premises and also lease certain equipment and other assets pursuant to operating leases. The lease arrangements have terms ranging from 1 to 99 years and several contain rent escalation clauses providing for increases in monthly rent at specific intervals. When rent escalation clauses exist, we record total expected rent payments on a straight-line basis over the lease term. Certain leases also have renewal options. Renewal options that are reasonably assured are included in determining the lease term. Future minimum rental commitments for all long-term noncancelable operating leases and future minimum capital lease payments for continuing operations as of December 31, 2007 are as follows:

(\$ in thousands) -----	Operating Leases -----
Year ending December 31:	
2008	\$ 24,094
2009	12,436
2010	10,963
2011	9,604
2012	6,421
Thereafter	15,534

Total minimum lease payments	\$ 79,052 =====

Total rental expense included in our results of operations for the years ended December 31, 2007, 2006 and 2005 was \$23.6 million, \$16.3 million and \$16.9 million, respectively.

We are a party to contracts with several unrelated long distance carriers. The contracts provide fees based on traffic they carry for us subject to minimum monthly fees.

At December 31, 2007, the estimated future payments for obligations under our noncancelable long distance contracts and service agreements are as follows:

(\$ in thousands) -----	
Year -----	Amount -----
2008	\$ 27,813
2009	19,825
2010	7,411
2011	195
2012	165
Thereafter	495

Total	\$ 55,904 =====

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the state of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). Paragraph 13 of FIN No. 45 requires

that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 also states that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Regardless, despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2008 and remained in default for the duration of the contract (another 8 years), we estimate that our undiscounted purchase obligation for 2008 through 2015 would be approximately \$1.1 billion. In such a scenario the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

At December 31, 2007, we have outstanding performance letters of credit as follows:

(\$ in thousands)	

CNA	\$ 19,948
State of New York	2,993

Total	\$ 22,941
	=====

CNA serves as our agent with respect to general liability claims (auto, workers compensation and other insured perils of the Company). As our agent, they administer all claims and make payments for claims on our behalf. We reimburse CNA for such services upon presentation of their invoice. To serve as our agent and make payments on our behalf, CNA requires that we establish a letter of credit in their favor. CNA could potentially draw against this letter of credit if we failed to reimburse CNA in accordance with the terms of our agreement. The value of the letter of credit is reviewed annually and adjusted based on claims history.

None of the above letters of credit restrict our cash balances.

CREDIT AGREEMENT

dated as of

May 18, 2007

between

CITIZENS COMMUNICATIONS COMPANY

The LENDERS Party Hereto

and

DEUTSCHE BANK AG NEW YORK BRANCH,
as Administrative Agent

and

DEUTSCHE BANK SECURITIES INC.,
as Sole Lead Arranger and Bookrunner

\$250,000,000

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CREDIT AGREEMENT dated as of May 18, 2007, between CITIZENS COMMUNICATIONS COMPANY, the LENDERS party hereto, and DEUTSCHE BANK AG NEW YORK BRANCH, as Administrative Agent.

The Borrower (as hereinafter defined) has requested that the Lenders (as so defined) extend credit to it in an aggregate principal or face amount not exceeding \$250,000,000 (as such amount may be decreased or increased pursuant to the terms of this Agreement) at any one time outstanding.

The Lenders are prepared to extend such credit upon the terms and conditions hereof, and, accordingly, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Additional Lender" has the meaning assigned to such term in Section 2.07(e).

"Adjusted LIBO Rate" means, for the Interest Period for any Eurodollar Borrowing, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate for such Interest Period.

"Administrative Agent" means DBAG NY, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate for such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, as the case may be.

"Applicable Percentage" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" means, for any day, with respect to any ABR Loan or Eurodollar Loan, or with respect to the commitment fees payable hereunder, as the case may be, the applicable rate per annum set forth below, based upon the Leverage Ratio as of the most recent determination date; provided that until the earlier of the date the certificate is delivered under Section 5.02(c) with respect to the fiscal quarter ending March 31, 2007 and the date such certificate is required to be delivered under Section 5.02(c), the "Applicable Rate" shall be the applicable rate per annum set forth below in Pricing Level 2:

Pricing Level	Leverage Ratio	Applicable Rate for ABR Loans	Applicable Rate for Eurodollar Loans	Applicable Rate for Commitment Fee
1	Less than or equal to 3.00 to 1.00	0.000%	0.625%	0.175%
2	Greater than 3.00 to 1.00 but less than or equal to 3.50 to 1.00	0.000%	0.750%	0.200%
3	Greater than 3.50 to 1.00 but less than or equal to 4.00 to 1.00	0.000%	0.875%	0.225%
4	Greater than 4.00 to 1.00	0.250%	1.250%	0.275%

For purposes of the foregoing, (i) the Leverage Ratio shall be determined as of the end of each fiscal quarter of the Borrower's fiscal year and (ii) each

change in the Applicable Rate resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date one Business Day after delivery to the Administrative Agent of the Borrower's consolidated financial statements delivered pursuant to Section 5.02(a) or (b) and ending on the date immediately preceding the effective date of the next such change; provided that the Leverage Ratio shall be deemed to be in Pricing Level 4 if the Borrower fails to deliver the consolidated financial statements required to be delivered by it pursuant to Section 5.02(a) or (b), during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

"Asset Exchange" means the exchange or other transfer of telecommunications assets between or among the Borrower and another Person or other Persons in connection with which the Borrower would transfer telecommunications assets and/or other property in consideration of the receipt of telecommunications assets and/or other property having a fair market value substantially equivalent to those transferred by the Borrower (as determined in good faith by the Borrower's Board of Directors); provided that the principal value of the assets being transferred to the Borrower shall be represented by telecommunications assets.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in substantially the form of Exhibit A or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Commitment Termination Date and the date of termination of the Commitments.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Citizens Communications Company, a Delaware corporation.

"Borrowing" means (a) all ABR Loans made or converted on the same date or (b) Eurodollar Loans of the same Type that have the same Interest Period.

"Borrowing Approvals" has the meaning assigned to such term in Section 3.01(b).

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day (a) that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed and (b) if such day relates to a borrowing, a continuation or conversion of or into, or the Interest Period for, a Eurodollar Borrowing, or to a notice by the Borrower with respect to any such borrowing, payment, prepayment, continuation, conversion, or Interest Period, that is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

A "Change in Control" shall be deemed to have occurred if (a) any Person or group (within the meaning of Rule 13d-5 of the Securities and Exchange Commission as in effect on the date hereof) shall own directly or indirectly, beneficially or of record, shares representing 50% or more of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) a majority of the seats (other than vacant seats) on the board of directors of the Borrower shall at any time have been occupied by Persons who were neither (i) nominated by the management of the Borrower, nor (ii) appointed by directors so nominated; or (c) any Person or group (within the meaning of Rule 13d-5 of the Securities and Exchange Commission as in effect on

the date hereof) shall otherwise directly or indirectly Control the Borrower.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

"Code" means the Internal Revenue Code of 1986.

"Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure hereunder, as such commitment may be (a) reduced or increased from time to time pursuant to Section 2.07 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 1 or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders' Commitments is \$250,000,000.

"Commitment Termination Date" means May 18, 2012, provided that if such date is not a Business Day then the "Commitment Termination Date" shall be the immediately preceding Business Day.

"Companies" has the meaning assigned to such term in Section 5.02(a).

"Consolidated EBITDA" means, with respect to the Borrower and its Subsidiaries for any period, the sum of (i) operating income for such period (excluding integration and restructuring costs) plus (ii) depreciation and amortization expense for such period plus (iii) the amount of non-cash charges for such period exceeding \$25,000,000, all determined on a consolidated basis in accordance with GAAP. For any period of calculation, "Consolidated EBITDA" shall be adjusted to give pro forma effect to any Material Transaction (without giving effect to cost savings not actually realized), as determined reasonably and in good faith by a Financial Officer, during the period of calculation as if such Material Transaction occurred on the first day of such period of calculation, provided that such pro forma calculations shall only include such adjustments as are permitted under Regulation S-X of the Securities and Exchange Commission. As used in this definition, "Material Transaction" means any acquisition or disposition outside the ordinary course of business of any property or assets that (x) constitute assets comprising all or substantially all of an operating unit of a business or equity interests of a Person representing a majority of the ordinary voting power or economic interests in such Person that are represented by all its outstanding capital stock and (y) involves aggregate consideration in excess of \$50,000,000.

"Consolidated Net Worth" means, as at any date of determination, the consolidated stockholders' equity of the Borrower and its consolidated Subsidiaries, including redeemable preferred securities where the redemption date occurs after the Commitment Termination Date, mandatorily redeemable convertible preferred securities, mandatorily convertible Indebtedness (or Indebtedness subject to mandatory forward purchase contracts for equity or similar securities) and minority equity interests in other persons, as determined on a consolidated basis in conformity with GAAP consistently applied.

"Consolidated Tangible Assets" means, for any Person, total assets of such Person and its consolidated Subsidiaries, determined on a consolidated basis, less goodwill, patents, trademarks and other assets classified as intangible assets in accordance with GAAP.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"DBAG NY" means the New York Branch of Deutsche Bank AG.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency,

reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Default" means any event or condition which, upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Dollars" or "\$" refers to lawful money of the United States of America.

"Effective Date" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Environmental Laws" means all national, federal, state, provincial, municipal or local laws, statutes, ordinances, orders, judgments, decrees, injunctions, writs, policies and guidelines (having the force of law), directives, approvals, notices, rules and regulations and other applicable laws relating to environmental or occupational health and safety matters, including those relating to the Release or threatened Release of Specified Substances and to the generation, use, storage or transportation of Specified Substances, each as in effect as of the date of determination.

"ERISA" means the Employee Retirement Income Security Act of 1974 and the regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" means each trade or business (whether or not incorporated) which together with the Borrower or a Subsidiary of the Borrower would be deemed to be a "single employer" within the meaning of Section 4001(b)(1) of ERISA.

"ERISA Termination Event" means (i) a "Reportable Event" described in Section 4043 of ERISA (other than a "Reportable Event" not subject to the provision for 30-day notice to the PBGC under such regulations), or (ii) the withdrawal of the Borrower or any of its ERISA Affiliates from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, or (iii) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceeding to terminate a Plan by the PBGC or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Section 7.01.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender or the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.16(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new lending office) or is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with Section 2.14(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a).

"Existing Credit Agreement" means the Competitive Advance and Revolving Credit Facility Agreement dated as of October 29, 2004, among the Borrower, the lenders party thereto, and Bank of America, N.A., as administrative agent, as in effect on the date hereof.

"Federal Funds Effective Rate" means, for any day, the weighted average

(rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" of any Person means the President, Chief Financial Officer, Chief Executive Officer, Vice President - Finance, Executive Vice President, Chief Accounting Officer or Treasurer of such corporation. Any document delivered hereunder that is signed by a Financial Officer shall be conclusively presumed to have been authorized by all necessary corporate action on the part of the Borrower and such Financial Officer shall be conclusively presumed to have acted on behalf of the Borrower.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Approval" means any authorization, consent, order, approval, license, franchise, lease, ruling, tariff, rate, permit, certificate, exemption of, or filing or registration with, any Governmental Authority.

"Governmental Authority" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantee" means, as to any Person, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"Guaranty Agreement" means, collectively, each Guarantee executed and delivered pursuant to Section 6.08.

"Hostile Acquisition" means any Target Acquisition (as defined below) involving a tender offer or proxy contest that has not been recommended or approved by the board of directors (or similar governing body) of the Person that is the subject of such Target Acquisition prior to the first public announcement or disclosure relating to such Target Acquisition. As used in this definition, the term "Target Acquisition" means any transaction, or any series

of related transactions, by which the Borrower and/or any of its Subsidiaries is to directly or indirectly (i) acquire any ongoing business or all or substantially all of the assets of any Person or division thereof, whether through purchase of assets, merger or otherwise, (ii) acquire (in one transaction or as the most recent transaction in a series of transactions) control of at least a majority in ordinary voting power of the securities of a Person which have ordinary voting power for the election of directors or (iii) otherwise acquire control of a more than 50% ownership interest in any such Person.

"Increased Commitment Date" has the meaning assigned to such term in Section 2.07(e).

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind (other than customer deposits made in the ordinary course of business), (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Capital Lease Obligations of such Person, (h) all obligations of such Person in respect of Swap Contracts (except to the extent such obligations are used as a bona fide hedge of other Indebtedness of such Person), (i) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances (except to the extent any such obligations are incurred in support of other obligations constituting Indebtedness of such Person and other than, to the extent reimbursed if drawn, letters of credit in support of ordinary course performance obligations), and (j) all Guarantees of such Person in respect of any of the foregoing; provided that the term Indebtedness shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnitee" has the meaning assigned to such term in Section 9.03(b).

"Information" has the meaning assigned to such term in Section 9.12.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.06.

"Interest Payment Date" means (a) with respect to any ABR Loan, each Quarterly Date, and (b) with respect to any Eurodollar Loan, the last day of each Interest Period therefor and, in the case of any Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at three-month intervals after the first day of such Interest Period.

"Interest Period" means, for any Eurodollar Loan or Borrowing, the period commencing on the date of such Loan or Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months (or, with the consent of each Lender, nine or twelve months) thereafter, as specified in the applicable Borrowing Request or Interest Election Request; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Loan initially shall be the date on which such Loan is made and thereafter shall be the effective date of the most recent conversion or continuation of such Loan.

"Issuing Bank" means DBAG NY, in its capacity as an issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.04(j). The Issuing Bank may, in its discretion, arrange for one or more

Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"Laws" means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authority, in each case whether or not having the force of law.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"Lenders" means the Persons listed on Schedule 1, any other Person that shall have become a party hereto pursuant to an Assignment and Assumption and any "Additional Lender" pursuant to Section 2.07(e), other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"Letter of Credit Documents" means, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"Leverage Ratio" means, as of the last day of any fiscal quarter, the ratio of (a) Total Indebtedness as of such day to (b) Consolidated EBITDA for the four consecutive fiscal quarters ending on such day.

"LIBO Rate" means, for the Interest Period for any Eurodollar Borrowing, the rate appearing on Reuters Page LIBOR01 (or on any successor or substitute page or service providing rate quotations comparable to those currently provided on such page, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to Dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for Dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the LIBO Rate for such Interest Period shall be the rate at which Dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge, or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease, or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call, or similar right of a third party with respect to such securities.

"Loan Documents" means, collectively, this Agreement, the Letter of Credit Documents, any Guaranty Agreement and each note issued pursuant to Section 2.08(f).

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Margin Regulations" means Regulations T, U and X of the Board.

"Material Adverse Effect" means a material adverse effect on the business, assets, operations, financial condition or results of operations of the Borrower and the Subsidiaries taken as a whole.

"Material Transaction" has the meaning assigned to such term in the definition of Consolidated EBITDA.

"Obligations" means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Borrower or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Participant" means any Person to whom a participation is sold as permitted by clause (d) of Section 9.04.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any pension plan (including a multiemployer plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code which is maintained for or to which contributions are made for employees of the Borrower or any ERISA Affiliate.

"Prime Rate" means the per annum rate of interest established from time to time by DBAG NY at its principal office in New York, New York as its prime lending rate. Any change in the interest rate resulting from a change in the Prime Rate shall become effective as of 12:01 a.m. of the Business Day on which each change in the Prime Rate is announced by DBAG NY. The prime lending rate is a reference rate used by DBAG NY in determining interest rates on certain loans and is not intended to be the lowest rate of interest charged on any extension of credit to any debtor. DBAG NY may make commercial loans or other loans at rates of interest at, above, or below its prime lending rate.

"Principal Subsidiary" means any Subsidiary of the Borrower whose Consolidated Tangible Assets comprise in excess of 25% of the Consolidated Tangible Assets of the Borrower and its consolidated Subsidiaries as of the date hereof or at any time hereafter.

"Quarterly Dates" means the last Business Day of March, June, September and December in each year, the first of which shall be the first such day after the date hereof.

"Register" has the meaning set forth in Section 9.04.

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"Release" means any spilling, emitting, discharging, depositing, escaping, leaching, dumping or other releasing, including the movement of any Specified Substance through the air, soil, surface water, groundwater or property, and when used as a verb has a like meaning.

"Required Lenders" means, at any time, Lenders having Revolving Credit Exposures representing more than 50% of the aggregate Revolving Credit Exposures at such time or, at any time when there are no Revolving Credit Exposures outstanding, Lenders having Commitments representing more than 50% of the sum of the total Commitments at such time.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other equity interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other equity interest, or on account of any return of capital to the Borrower's stockholders, partners or members (or the equivalent Person thereof).

"Revolving Credit Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Loans and its LC Exposure at such time.

"Securitization Transaction" means (a) any transfer of accounts receivable or interests therein (i) to a trust, partnership, corporation or other entity (other than a Subsidiary), which transfer or pledge is funded by such entity in whole or in part by the issuance to one or more lenders or investors of indebtedness or other securities that are to receive payments principally from the cash flow derived from such accounts receivable or interests in accounts receivable, or (ii) directly to one or more investors or other purchasers (other than any Subsidiary), or (b) any transaction in which the Borrower or a Subsidiary incurs Indebtedness secured principally by Liens on accounts receivable. The "amount" of any Securitization Transaction shall be deemed at any time to be (A) in the case of a transaction described in clause (a) of the preceding sentence, the aggregate uncollected amount of the accounts receivable transferred pursuant to such Securitization Transaction, net of any such accounts receivable that have been written off as uncollectible, and (B) in the case of a transaction described in clause (b) of the preceding sentence, the aggregate outstanding principal amount of the Indebtedness secured by Liens on accounts receivable incurred pursuant to such Securitization Transaction.

"Specified Substance" means (i) any chemical, material or substance defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous waste", "restricted hazardous waste" or "toxic substances" or words of similar import under any applicable Environmental Laws; (ii) any (A) oil, natural gas, petroleum or petroleum derived substance, any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal fluid, any flammable substances or explosives, any radioactive materials, any hazardous wastes or substances, any toxic wastes or substances or (B) other materials or pollutants that, in the case of both (A) and (B), (1) pose a hazard to the property of the Borrower or any of its Subsidiaries or any part thereof or to persons on or about such property or to any other property that may be affected by the Release of such materials or pollutants from such property or any part thereof or to persons on or about such other property or (2) cause such property or such other property to be in violation of any Environmental Law; (iii) asbestos, urea formaldehyde foam insulation, toluene, polychlorinated biphenyls and any electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million; and (iv) any sound, vibration, heat, radiation or other form of energy and any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Governmental Authority.

"Statutory Reserve Rate" means, for the Interest Period for any Eurodollar Borrowing, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the arithmetic mean, taken over each day in such Interest Period, of the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to Regulation D of the Board. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under Regulation D of the Board or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subsidiary" means, with respect to any Person (herein referred to as the "parent"), any corporation, partnership, association, or other business entity (a) of which securities or other ownership interests representing more than 50%

of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled, or held by the parent, or (b) which is, at the time any determination is made, otherwise Controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless otherwise indicated, all references in this Agreement to "Subsidiaries" shall be construed as references to Subsidiaries of the Borrower.

"Swap Contract" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

"Swap Termination Value" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Total Indebtedness" means, as of any date, the aggregate principal amount of Indebtedness of the Borrower and its consolidated Subsidiaries outstanding as of such date, in the amount and only to the extent that such Indebtedness would be reflected on a balance sheet prepared as of such date on a consolidated basis in accordance with GAAP minus the amount of the cash and cash equivalents of the Borrower and its consolidated Subsidiaries in excess of \$50,000,000 that would be reflected on such balance sheet.

"Transactions" means the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

SECTION 1.02 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles,

Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.03 Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. To enable the ready and consistent determination of compliance with the covenants set forth in Article VI, the Borrower will not change the last day of its fiscal year from December 31, or the last days of the first three fiscal quarters in each of its fiscal years from March 31, June 30 and September 30, respectively.

ARTICLE II

THE CREDITS

SECTION 2.01 The Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (a) such Lender's Revolving Credit Exposure exceeding such Lender's Commitment or (b) the total Revolving Credit Exposures exceeding the total Commitments. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Loans.

SECTION 2.02 Loans and Borrowings.

(a) Obligations of Lenders. Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required. The amounts payable at any time hereunder shall be a separate and independent debt of the Borrower to each Lender and each Lender shall be entitled to protect and enforce its rights under this Agreement and the other Loan Documents, and it shall not be necessary for any other Lender to be joined as an additional party in any proceedings for such purpose.

(b) Type of Loans. Subject to Section 2.11, each Borrowing shall be comprised entirely of ABR Loans or of Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) Minimum Amounts; Limitation on Number of Borrowings. Each Borrowing shall be in an aggregate amount of \$10,000,000 or a larger multiple of \$1,000,000; provided that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(f). Borrowings of more than one Type may be outstanding at the same time; provided that there shall not at any time be more than a total of ten Eurodollar Borrowings outstanding.

(d) Limitations on Interest Periods. Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request (or to elect to convert to or continue as a Eurodollar Borrowing) any Borrowing if the Interest

Period requested therefor would end after the Commitment Termination Date.

SECTION 2.03 Requests for Borrowings.

(a) Notice by the Borrower. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request (i) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing, or (ii) in the case of an ABR Borrowing, not later than 12:00 noon, New York City time, on the date of the proposed Borrowing; provided that any such notice of an ABR Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(f) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such Borrowing Request shall be irrevocable.

(b) Content of Borrowing Requests. Each Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the Interest Period therefor, which shall be a period contemplated by the definition of the term "Interest Period" and permitted under Section 2.02(d); and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.05.

(c) Notice by the Administrative Agent to the Lenders. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

(d) Failure to Elect. If no election as to the Type of a Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration.

SECTION 2.04 Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, in addition to the Loans provided for in Section 2.01, the Borrower may request the Issuing Bank to issue, at any time and from time to time during the Availability Period, Letters of Credit for its own account in such form as is acceptable to the Administrative Agent and the Issuing Bank in its reasonable determination. Letters of Credit issued hereunder shall constitute utilization of the Commitments.

(b) Notice of Issuance, Amendment, Renewal or Extension. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (d) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(c) Limitations on Amounts. A Letter of Credit shall be issued, amended, renewed or extended only if (A) (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the aggregate LC Exposure shall not exceed \$50,000,000 and (ii) the total Revolving Credit Exposures shall not exceed the total Commitments, and (B) the Issuing Bank shall not have received written notice from the Administrative Agent (at the request of the Required Lenders) at least one Business Day prior to the requested date of issuance, amendment, renewal or extension that one or more of the conditions contained in Section 4.02 shall not be satisfied with respect thereto.

(d) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date twelve months after the date of the issuance of such Letter of Credit and (ii) the date that is five Business Days prior to the Commitment Termination Date; provided, that a Letter of Credit may provide for the automatic renewal thereof for additional one-year periods (but shall in no event extend beyond the date referred to in clause (ii) above).

(e) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) by the Issuing Bank, and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. Each Lender acknowledges and agrees that its obligation to acquire participations and fund ABR Loans pursuant to this sentence of this clause (e) and the next sentence hereof in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments.

In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank promptly upon the request of the Issuing Bank at any time from the time of such LC Disbursement until such LC Disbursement is reimbursed by the Borrower or at any time after any reimbursement payment is required to be refunded to the Borrower for any reason. Each such payment shall be deemed to be an ABR Loan by such Lender and shall be made without any offset, abatement, withholding or reduction whatsoever. Each such payment shall be made in the same manner as provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to the next following paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that the Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear.

(f) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse the Issuing Bank in respect of such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. The Borrower's obligations under this clause (f) shall be satisfied to the extent of the making of ABR Loans under clause (e) above.

(g) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (f) of this Section shall be absolute,

unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply strictly with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder.

Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit by the Issuing Bank or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination, and that:

- (i) the Issuing Bank may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit;
- (ii) the Issuing Bank shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit; and
- (iii) this sentence shall establish the standard of care to be exercised by the Issuing Bank when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof (and the parties hereto hereby waive, to the extent permitted by applicable law, any standard of care inconsistent with the foregoing).

(h) Disbursement Procedures. The Issuing Bank shall, within a reasonable time following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly after such examination notify the Administrative Agent and the Borrower of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(i) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (f) of this Section, then Section 2.10(c) shall apply. Interest accrued pursuant to this paragraph shall be for account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (f) of this Section to reimburse the Issuing Bank shall be for account of such Lender to the extent of such payment.

(j) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement between the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.09(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(k) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing more than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall immediately deposit into an account established and maintained on the books and records of the Administrative Agent, which account may be a "securities account" (within the meaning of Section 8-501 of the Uniform Commercial Code as in effect in the State of New York), in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Section 7.01. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement.

The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing 100% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.05 Funding of Borrowings.

(a) Funding by Lenders. Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by (i) 12:00 noon, New York City time, in the case of a Eurodollar Borrowing, and (ii) 3:00 p.m., New York City time, in the case of an ABR Borrowing, in each case to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower agreed between the Borrower and the Administrative Agent; provided that ABR Borrowings made to finance the reimbursement of an LC Disbursement as provided in Section 2.04(f) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Presumption by the Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to (i) the proposed date of any Eurodollar Borrowing or (ii) in the case of any proposed ABR Borrowing, 3:00

p.m., New York City time, on the proposed date of such ABR Borrowing, that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of a payment to be made by such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (ii) in the case of a payment to be made by the Borrower, the interest rate applicable to ABR Loans. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

SECTION 2.06 Interest Elections.

(a) Elections by the Borrower. The Loans comprising each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have the Interest Period specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a Borrowing of a different Type or to continue such Borrowing as a Borrowing of the same Type and, in the case of a Eurodollar Borrowing, may elect the Interest Period therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) Notice of Elections. To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such Interest Election Request shall be irrevocable.

(c) Content of Interest Election Requests. Each Interest Election Request shall specify the following information in compliance with Section 2.02:

- (i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);
- (ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;
- (iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and
- (iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period therefor after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period" and permitted under Section 2.02(d).

(d) Notice by the Administrative Agent to the Lenders. Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) Failure to Elect; Events of Default. If the Borrower fails to deliver a timely and complete Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period therefor, then, unless such Eurodollar Borrowing is repaid as provided herein, the Borrower shall be deemed to have selected an Interest Period of one month's duration.

Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period therefor.

SECTION 2.07 Termination, Reduction and Increase of the Commitments.

(a) Scheduled Termination. Unless previously terminated, the Commitments shall terminate on the Commitment Termination Date.

(b) Voluntary Termination or Reduction. The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each partial reduction of the Commitments shall be in an amount that is \$10,000,000 or a larger multiple of \$1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.08, the total Revolving Credit Exposures would exceed the total Commitments.

(c) Notice of Voluntary Termination or Reduction. The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied.

(d) Effect of Termination or Reduction. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

(e) Increase of Commitments. The Borrower shall have the right at any time to increase the aggregate Commitments hereunder to the extent that the sum of the aggregate Commitments hereunder (after giving effect to such increase) do not exceed \$350,000,000 by adding to this Agreement one or more other lenders, which may include any Lender (each such lender an "Additional Lender") with the approval of the Administrative Agent (not to be unreasonably withheld), each of which Additional Lenders shall have entered into an agreement in form and substance satisfactory to the Borrower and the Administrative Agent pursuant to which such Additional Lender shall undertake a Commitment (if any such Additional Lender is a Lender, its Commitment shall be in addition to such Lender's Commitment hereunder) which such Commitment shall be in an amount at least equal to \$10,000,000 or a larger multiple of \$1,000,000, and upon the effectiveness of such agreement (the date of the effectiveness of any such agreement being hereinafter referred to as the "Increased Commitment Date") such Additional Lender shall thereupon become a "Lender" for all purposes of this Agreement.

Notwithstanding the foregoing, the increase in the aggregate Commitments hereunder pursuant to this Section 2.07(e) shall not be effective unless:

- (i) the Borrower shall have given the Administrative Agent notice of any such increase at least 10 days prior to any such Increased Commitment Date;
- (ii) no Default shall have occurred and be continuing on the Increased Commitment Date (both immediately prior to and after giving effect to the increase in Commitments on the Increased Commitment Date);
- (iii) no existing Lender shall be under any obligation to increase its Commitment and any such decision whether to increase its Commitment

shall be in such Lender's sole and absolute discretion;

- (iv) if any Loan or Letter of Credit shall be outstanding, the Borrower shall have borrowed Loans from each of the Additional Lenders on the Increased Commitment Date, and the Additional Lenders shall have made Loans to the Borrower (in the case of Eurodollar Loans, with Interest Period(s) ending on the date(s) of any then outstanding Interest Period(s)) and shall be deemed to have acquired participations in any outstanding Letters of Credit, and (notwithstanding the provisions of Section 2.15 requiring that borrowings and prepayments be made ratably in accordance with the principal amounts of the Loans held by the Lenders) the Borrower in coordination with the Administrative Agent shall have taken such actions, including, if necessary, prepaying Loans held by the other Lenders (together with accrued interest thereon and any amounts owing pursuant to Section 2.13 as a result of such payment) in such amounts as may be necessary so that after giving effect to such Loans, purchases and prepayments the Loans (and Interest Period(s) of Eurodollar Loan(s)) and the LC Exposure shall be held by the Lenders pro rata in accordance with the respective amounts of their Commitments (as so increased) and, in that connection, the Issuing Bank shall be deemed to have released any Lenders so deemed to have sold participations in outstanding Letters of Credit on the date of such replacement from such sold participation; and
- (v) there shall have been no reduction of the Commitments pursuant to Section 2.07 (b) on or prior to any such Increased Commitment Date.

Promptly following any increase of Commitments pursuant to this Section 2.07(e), the Administrative Agent shall provide notice thereof to each of the Lenders. Without limiting the Obligations of the Borrower provided for in this Section 2.07, the Administrative Agent and the Lenders agree that they will use commercially reasonable efforts to attempt to minimize the costs of the type referred to in Section 2.13 that the Borrower would otherwise incur in connection with an increase of the Commitments.

SECTION 2.08 Repayment and Prepayment of Loans; Evidence of Debt.

(a) Repayment and Prepayment. The Borrower hereby unconditionally promises to pay to the Administrative Agent for account of the Lenders the outstanding principal amount of the Loans on the Commitment Termination Date. The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the requirements of this Section.

(b) Manner of Payment. Prior to any repayment or prepayment of any Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be paid and shall notify the Administrative Agent of such selection and payment (i) in the case of payment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of such payment or (ii) in the case of payment of an ABR Borrowing, not later than 12:00 noon, New York City time, on the date of such payment; provided that each simultaneous repayment or prepayment of ABR and Eurodollar Borrowings shall be applied, first, to pay any outstanding ABR Borrowings and, second, to other Borrowings in the order of the remaining duration of their respective Interest Periods (the Borrowing with the shortest remaining Interest Period to be repaid first). Each repayment or prepayment of a Borrowing shall be applied ratably to the Loans included in such Borrowing. Each such notice shall be irrevocable and shall specify the repayment or prepayment date and the principal amount of each Borrowing or portion thereof to be repaid or prepaid; provided that, if such notice is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.07, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial repayment or prepayment of any Borrowing shall be in an aggregate amount of \$5,000,000 or a larger multiple of \$1,000,000. Repayments and Prepayments shall be accompanied by accrued interest to the extent required by Section 2.10.

(c) Maintenance of Records by Lenders. Each Lender shall maintain in accordance with its usual practice records evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(d) Maintenance of Records by the Administrative Agent. The Administrative Agent shall maintain records in which it shall record (i) the amount of each Loan made hereunder, the Type thereof and each Interest Period therefor, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for account of the Lenders and each Lender's share thereof.

(e) Effect of Entries. The entries made in the records maintained pursuant to paragraph (c) or (d) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such records or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(f) Promissory Notes. Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.09 Fees.

(a) Commitment Fees. The Borrower agrees to pay to the Administrative Agent for account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily unused amount of the Commitment of such Lender during the period from and including the date hereof to but excluding the date such Commitment terminates. Accrued commitment fees shall be payable in arrears on each Quarterly Date and on the date the Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, the Commitment of a Lender shall be deemed to be used to the extent of the outstanding Loans and LC Exposure of such Lender.

(b) Letter of Credit Fees. The Borrower agrees to pay (i) to the Administrative Agent for account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at a rate per annum equal to the Applicable Rate applicable to interest on Eurodollar Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including each Quarterly Date shall be payable on the third Business Day following such Quarterly Date, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) Administrative Agent Fees. The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) Payment of Fees. All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.10 Interest.

(a) ABR Loans. The Loans comprising each ABR Borrowing shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Eurodollar Loans. The Loans comprising each Eurodollar Borrowing shall bear interest at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period for such Borrowing plus the Applicable Rate.

(c) Default Interest. Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to 2% plus the Alternate Base Rate.

(d) Payment of Interest. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand; (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the Commitment Termination Date), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Borrowing prior to the end of the Interest Period therefor, accrued interest on such Borrowing shall be payable on the effective date of such conversion.

(e) Computation. All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.11 Alternate Rate of Interest. If prior to the commencement of the Interest Period for any Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their respective Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or the continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and such Borrowing (unless prepaid) shall be continued as, or converted to, an ABR Borrowing and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.12 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank;

(ii) change the basis of taxation of payments to such Lender or the Issuing Bank in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 2.14 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or the Issuing Bank); or

(iii) impose on any Lender or the Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or any other amount), in each case by an amount reasonably deemed by such Lender to be material, then, upon request of such Lender or the Issuing Bank, the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the Issuing Bank determines that any Change in Law affecting such Lender or the Issuing Bank or any lending office of such Lender or such Lender's or the Issuing Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitment of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs incurred or reductions suffered more than 120 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 120-day period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Termination or Assignment. If any Lender shall have delivered a notice or certificate pursuant to paragraph (c) above, the Borrower shall have the right, at its own expense, upon notice to such Lender and the Administrative Agent, to require such Lender to (i) terminate its Commitment or (ii) transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all or a portion of its interest, rights and obligations under this Agreement to another financial institution (which must be reasonably acceptable to the Administrative Agent) which shall assume such obligations; provided that (A) no such termination or assignment shall conflict

with any law, rule, or regulation or order of any Governmental Authority and (B) the Borrower or the assignee, as the case may be, shall pay to the affected Lender in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder (including under Section 2.13).

SECTION 2.13 Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of the Interest Period therefor (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period therefor, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable under Section 2.08(b) and is revoked in accordance herewith), or (d) the assignment as a result of a request by the Borrower pursuant to Section 2.16(b) of any Eurodollar Loan other than on the last day of the Interest Period therefor, then, in any such event, the Borrower shall compensate each Lender for its loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of (i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of such Loan for the period from the date of such payment, conversion, failure or assignment to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, convert or continue, the duration of the Interest Period that would have resulted from such borrowing, conversion or continuation) if the interest rate payable on such deposit were equal to the Adjusted LIBO Rate for such Interest Period, over (ii) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for Dollar deposits from other banks in the eurodollar market at the commencement of such period. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.14 Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Without limiting the provisions of paragraph (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other

Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(f) If the Administrative Agent, a Lender or the Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent, such Lender or the Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, such Lender or the Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, such Lender or the Issuing Bank in the event the Administrative Agent, such Lender or the Issuing Bank is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent, any Lender or the Issuing Bank to make available its tax returns (or any other information relating to its taxes that it deems confidential in its reasonable discretion) to the Borrower or any other Person.

SECTION 2.15 Payments Generally; Pro Rata Treatment; Sharing of Setoffs.

(a) Payments by the Borrower. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.12, Section 2.13 or Section 2.14, or otherwise), or under any other Loan Document (except to the extent otherwise provided therein), prior to 2:00pm, New York City time, on the date when due, in immediately available funds, without setoff or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at the address provided pursuant to Section 9.01, except as otherwise expressly provided in the relevant Loan Document and except payments to be made directly to the Issuing Bank as expressly provided herein and payments pursuant to Section 2.12, Section 2.13, Section 2.14 and Section 9.03, which shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder or under any other Loan Document (except to the extent otherwise provided therein) shall be made in Dollars.

(b) Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the

amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Pro Rata Treatment. Except to the extent otherwise provided herein: (i) each Borrowing shall be made from the Lenders, each payment of commitment fee under Section 2.09 shall be made for account of the Lenders, and each termination or reduction of the amount of the Commitments under Section 2.07 shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitments; (ii) each Borrowing shall be allocated pro rata among the Lenders according to the amounts of their respective Commitments (in the case of the making of Loans) or their respective Loans that are to be included in such Borrowing (in the case of conversions and continuations of Loans); (iii) each payment or prepayment of principal of Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loans held by them; and (iv) each payment of interest on Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

(d) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or other obligations hereunder resulting in such Lender's receiving payment of a proportion of the aggregate amount of its Loans and accrued interest thereon or other such obligations greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (A) notify the Administrative Agent of such fact and (B) purchase (for cash at face value) participations in the Loans and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

- (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and
- (ii) the provisions of this paragraph shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary thereof (as to which the provisions of this paragraph shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Payments by the Borrower; Presumptions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(f) Certain Deductions by the Administrative Agent. If any Lender shall

fail to make any payment required to be made by it pursuant to Section 2.04(e), Section 2.05 or Section 2.15(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.16 Mitigation Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 2.12, or requires the Borrower to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or Section 2.14, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 9.04), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (i) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 9.04;
- (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 2.13) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);
- (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.12 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments thereafter; and
- (iv) such assignment does not conflict with applicable law.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent, the Issuing Bank and each of the Lenders that:

SECTION 3.01 Organization; Powers; Governmental Approvals.

(a) The Borrower and each Principal Subsidiary (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and

(iii) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not have a Material Adverse Effect. The Borrower's execution, delivery and performance of the Loan Documents are within its corporate powers, have been duly authorized by all necessary action and do not violate or create a default under (A) law, (B) its constituent documents, or (C) any contractual provision binding upon it, except to the extent (in the case of violations or defaults described under clauses (A) or (C)) such violation or default would not reasonably be expected to result in a Material Adverse Effect and would not have an adverse effect on the validity, binding effect or enforceability of this Agreement or any other Loan Documents and would not materially adversely affect any of the rights of the Administrative Agent or any Lender under or in connection with this Agreement or any other Loan Documents. Each of the Loan Documents constitutes the legal, valid and binding obligation of the Borrower enforceable against it in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting the rights of creditors generally and general principles of equity, including an implied covenant of good faith and fair dealing).

(b) Except for (i) any Governmental Approvals required in connection with any Borrowings (such approvals being "Borrowing Approvals") and (ii) any Governmental Approvals the failure to obtain which could not reasonably be expected to result in a Material Adverse Effect or affect the validity or enforceability of this Agreement or any other Loan Document, all Governmental Approvals required in connection with the execution and delivery by the Borrower of this Agreement and the other Loan Documents and the performance by the Borrower of its obligations hereunder and thereunder have been, and, prior to the time of any Borrowing, all Borrowing Approvals will be, duly obtained, are (or, in the case of Borrowing Approvals, will be) in full force and effect without having been amended or modified in any manner that may impair the ability of the Borrower to perform its obligations under this Agreement, and are not (or, in the case of Borrowing Approvals, will not be) the subject of any pending appeal, stay or other challenge.

SECTION 3.02 Financial Statements. The Borrower has furnished to the Lenders, for itself and its Subsidiaries, its most recent filings with the Securities and Exchange Commission on Forms 10-K and 10-Q. Such Forms 10-K and 10-Q do not contain any untrue statement of a material fact or omit to state a material fact necessary to make any statement therein, in light of the circumstances under which it was made, not misleading. Each of the financial statements in such Forms 10-K and 10-Q has been, and each of the financial statements to be furnished pursuant to Section 5.02 will be, prepared in accordance with GAAP applied consistently with prior periods, except as therein noted, and fairly presents or will fairly present in all material respects the consolidated financial position of the Borrower and its Subsidiaries as of the date thereof and the results of the operations of the Borrower and its Subsidiaries for the period then ended.

SECTION 3.03 No Material Adverse Change. Since the date of the Borrower's most recent financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, furnished to the Lenders pursuant to Section 3.02, there has been no material adverse change in, and there has occurred no event or condition which is likely to result in a material adverse change in, the financial condition, results of operations, business, assets or operations of the Borrower and the Subsidiaries taken as a whole (it being understood that the consummation of an Asset Exchange shall not constitute such a material adverse change).

SECTION 3.04 Titles to Properties; Possession under Leases.

(a) To the best of the Borrower's knowledge, each of the Borrower and the Principal Subsidiaries has good and marketable title to, or valid leasehold interests in, or other rights to use or occupy, all its material properties and assets, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.01.

(b) Each of the Borrower and the Principal Subsidiaries has complied with all obligations under all material leases to which it is a party and all such leases are in full force and effect, except where such failure to comply or maintain such leases in full force and effect would not have a Material Adverse Effect. Each of the Borrower and the Subsidiaries enjoys peaceful and

undisturbed possession under all such material leases except where such failure would not have a Material Adverse Effect.

SECTION 3.05 Ownership of Subsidiaries. The Borrower owns, free and clear of any Lien (other than Liens expressly permitted by Section 6.01), all of the issued and outstanding shares of common stock of each of the Principal Subsidiaries.

SECTION 3.06 Litigation; Compliance with Laws.

(a) There is no action, suit, or proceeding, or any governmental investigation or any arbitration, in each case pending or, to the knowledge of the Borrower, threatened against the Borrower or any of the Subsidiaries or any material property of any thereof before any court or arbitrator or any governmental or administrative body, agency, or official which (i) challenges the validity of this Agreement or any other Loan Document, (ii) may reasonably be expected to have a material adverse effect on the ability of the Borrower to perform any of its obligations under this Agreement or any other Loan Document or on the rights of or benefits available to the Lenders under this Agreement or any other Loan Document or (iii) except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, or its quarterly report on Form 10-Q for the quarter ended March 31, 2007, may reasonably be expected to have a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in violation of any law, rule, or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, where such violation or default could reasonably be anticipated to result in a Material Adverse Effect.

(c) Except as set forth in or contemplated by the financial statements or other reports referred to in Section 3.02 and which have been delivered to the Lenders on or prior to the date hereof, (i) the Borrower and each of its Subsidiaries have complied with all Environmental Laws, except to the extent that failure to so comply is not reasonably likely to have a Material Adverse Effect, (ii) neither the Borrower nor any of its Subsidiaries has failed to obtain, maintain or comply with any permit, license or other approval under any Environmental Law, except where such failure is not reasonably likely to have a Material Adverse Effect, (iii) neither the Borrower nor any of its Subsidiaries has received notice of any failure to comply with any Environmental Law or become subject to any liability under any Environmental Law, except where such failure or liability is not reasonably likely to have a Material Adverse Effect, (iv) no facilities of the Borrower or any of its Subsidiaries are used to manage any Specified Substance in violation of any law, except to the extent that such violations, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect, and (v) the Borrower is aware of no events, conditions or circumstances involving any Release of a Specified Substance that is reasonably likely to have a Material Adverse Effect.

SECTION 3.07 Agreements.

(a) Neither the Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted, or could reasonably be anticipated to result, in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be anticipated to result in a Material Adverse Effect.

SECTION 3.08 Federal Reserve Regulations. No part of the proceeds of the Loans will be used, whether directly or indirectly, and whether immediately, incidentally, or ultimately, for any purpose which entails a violation of, or which is inconsistent with, the provisions of the Margin Regulations.

SECTION 3.09 Investment Company Act. Neither the Borrower nor any of the Subsidiaries is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940.

SECTION 3.10 Use of Proceeds. The Borrower will use the proceeds of the Loans only for general corporate purposes, including working capital and support of commercial paper issuances and Securitization Transactions permitted hereunder as well as one or more acquisitions or Asset Exchanges; provided that no such proceeds shall be used (i) to make any Restricted Payment, or (ii) directly or indirectly in connection with any Hostile Acquisition.

SECTION 3.11 Tax Returns. Each of the Borrower and the Subsidiaries has filed or caused to be filed all Federal, state and local tax returns required to have been filed by it and has paid or caused to be paid all taxes shown to be due and payable on such returns or on any assessments received by it, except (i) taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books adequate reserves and (ii) where such failure to file or pay would not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.12 No Material Misstatements. No statement, information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the syndication or negotiation of this Agreement or any other Loan Document or included herein or therein or delivered pursuant hereto or thereto contained, contains, or will contain any material misstatement of fact or intentionally omitted, omits, or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are, or will be made, not misleading.

SECTION 3.13 Employee Benefit Plans.

(a) Each Plan is in compliance with ERISA, except for such noncompliance that has not resulted, and could not reasonably be anticipated to result, in a Material Adverse Effect.

(b) No Plan has an accumulated or waived funding deficiency within the meaning of Section 412 or Section 418B of the Code, except for any such deficiency that has not resulted, and could not reasonably be anticipated to result, in a Material Adverse Effect.

(c) No proceedings have been instituted to terminate any Plan, except for such proceedings where the termination of a Plan has not resulted, and could not reasonably be anticipated to result, in a Material Adverse Effect.

(d) Neither the Borrower nor any Subsidiary or ERISA Affiliate has incurred any liability to or on account of a Plan under ERISA (other than obligations to make contributions in accordance with such Plan), and no condition exists which presents a material risk to the Borrower or any Subsidiary of incurring such a liability, except for such liabilities that have not resulted, and could not reasonably be anticipated to result, in a Material Adverse Effect.

SECTION 3.14 Insurance. Each of the Borrower and the Principal Subsidiaries maintains insurance with financially sound and reputable insurers, or self-insurance, with respect to its properties and business against loss or damage of the kind customarily insured against by reputable companies in the same or similar business and of such types and in such amounts (with such deductible amounts) as is customary for such companies under similar circumstances.

ARTICLE IV

CONDITIONS

SECTION 4.01 Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) Executed Counterparts. The Administrative Agent shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence reasonably satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page to this Agreement) that such party has signed a counterpart of this Agreement.

(b) Opinion of General Counsel to the Borrower. The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Hilary E. Glassman, Esq., General Counsel to the Borrower, substantially in the form of Exhibit B, and covering such other matters relating to the Borrower, this Agreement or the Transactions as the Administrative Agent shall reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(c) Opinion of Special New York Counsel to the Borrower. The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Cravath, Swaine & Moore LLP, special New York Counsel to the Borrower, substantially in the form of Exhibit C, and covering such other matters relating to the Borrower, this Agreement or the Transactions as the Administrative Agent shall reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(d) Opinion of Milbank, Tweed, Hadley & McCloy LLP, Special New York Counsel to DBAG NY. The Administrative Agent shall have received an opinion, dated the Effective Date, of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to DBAG NY, substantially in the form of Exhibit D (and DBAG NY hereby instructs such counsel to deliver such opinion to the Lenders).

(e) Legal Matters. All legal matters incident to this Agreement and the borrowings hereunder shall be reasonably satisfactory to the Administrative Agent and the Lenders.

(f) Corporate Documents. The Administrative Agent shall have received, in form and substance reasonably satisfactory to it, such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and the authorization of the Transactions.

(g) Officer's Certificate. The Administrative Agent shall have received, in form and substance reasonably satisfactory to it, a certificate, dated the Effective Date and signed by a Financial Officer of the Borrower, confirming that as of the Effective Date (i) the representations and warranties of the Borrower set forth in this Agreement and in the other Loan Documents are true and correct in all material respects and (ii) no Default shall have occurred and be continuing.

(h) Fees. The Administrative Agent and the Lenders shall have received payment of all fees as the Borrower shall have agreed to pay to the Administrative Agent or any Lender in connection herewith, including the reasonable fees and expenses of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to DBAG NY, in connection with the negotiation, preparation, execution and delivery of this Agreement and the other Loan Documents and the extensions of credit hereunder (to the extent that statements for such fees and expenses have been delivered to the Borrower).

(i) Termination of Existing Credit Agreement. The Administrative Agent shall have received evidence that the principal of and interest on the loans under, and all other amounts owing under or in respect of, the Existing Credit Agreement shall have been (or shall simultaneously be) paid in full and all commitments to extend credit thereunder of any lender thereunder shall have been terminated, in each case in a manner reasonably satisfactory to the Administrative Agent.

(j) Necessary Consents and Approvals. The Administrative Agent shall have received evidence, in form and substance reasonably satisfactory to it, that all consents, licenses, permits and governmental and third-party consents and approvals required for the due execution, delivery and performance by the Borrower of this Agreement have been obtained and remain in full force and effect.

Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on May 30, 2007 (and, in the event such conditions are not so satisfied or waived, the

Commitments shall terminate at such time).

SECTION 4.02 Each Credit Event. The obligation of each Lender to make any Loan, including any Loans on the date hereof, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) the representations and warranties of the Borrower set forth in this Agreement and in the other Loan Documents (except Section 3.03 and 3.06(a) in the case of a conversion of a Loan from one Type to another or the continuation of a Loan with a new Interest Period that does not increase the principal amount thereof or the amendment of a Letter of Credit that does not increase the face amount thereof) shall be true and correct in all material respects on and as of the date of such Loan or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable (except to the extent such representations and warranties expressly relate to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date); and

(b) at the time of and immediately after giving effect to such Loan or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in the preceding sentence.

ARTICLE V

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with the Administrative Agent, the Issuing Bank and each Lender that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan (or any portion thereof), or any other expenses or amounts payable hereunder, shall be unpaid, or any Letter of Credit shall remain outstanding, the Borrower will:

SECTION 5.01 Existence; Businesses and Properties.

(a) Preserve and maintain, cause each of the Principal Subsidiaries to preserve and maintain, and cause each other Subsidiary to preserve and maintain (where the failure by any such other Subsidiary to so preserve and maintain would likely result in a Material Adverse Effect), its corporate existence, rights and franchises, except in connection with an Asset Exchange, provided that the corporate existence of any Principal Subsidiary may be terminated if such termination is not disadvantageous to the Administrative Agent or any Lender;

(b) continue to own all of the outstanding shares of common stock of each Principal Subsidiary, except in connection with an Asset Exchange;

(c) comply, and cause each of the Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, including all Environmental Laws;

(d) pay, and cause each of the Subsidiaries to pay, before any such amounts become delinquent, (i) all taxes, assessments and governmental charges imposed upon it or upon its property, and (ii) all claims (including claims for labor, materials, supplies, or services) which might, if unpaid, become a Lien upon its property, unless, in each case, the validity or amount thereof is being disputed in good faith, and the Borrower has maintained adequate reserves with respect thereto, in each case where the failure to so pay would be reasonably expected to cause a Material Adverse Effect;

(e) keep, and cause each of the Subsidiaries to keep, proper books of record and account, containing complete and accurate entries of all financial and business transactions of the Borrower and such Subsidiary in all material respects;

(f) continue to carry on, and cause each Principal Subsidiary to continue to carry on, substantially the same type of business as the Borrower or such

Principal Subsidiary conducted as of the date hereof and business reasonably related thereto, except for changes in such business that result from an Asset Exchange; and

(g) maintain or cause to be maintained insurance with financially sound and reputable insurers, or self-insurance, with respect to its properties and business and the properties and business of the Subsidiaries against loss or damage of the kinds customarily insured against by reputable companies in the same or similar businesses, such insurance to be of such types and in such amounts (with such deductible amounts) as is customary for such companies under similar circumstances;

provided that the foregoing shall not limit the right of the Borrower or any of its Subsidiaries to engage in any transaction not otherwise prohibited by Section 6.02, 6.03 or 6.04.

SECTION 5.02 Financial Statements, Reports, etc. In the case of the Borrower, furnish to the Administrative Agent and each Lender:

(a) as soon as available and in any event within 110 days after the end of each fiscal year, consolidated balance sheets and the related statements of income and cash flows of the Borrower and its Subsidiaries (the Borrower and its Subsidiaries being collectively referred to as the "Companies") as of the close of such fiscal year (which requirement shall be deemed satisfied by the delivery of the Borrower's Annual Report on Form 10-K (or any successor form) for such year), all audited by KPMG LLP or other independent public accountants of recognized national standing and accompanied by an opinion of such accountants to the effect that such consolidated financial statements fairly present in all material respects the financial condition and results of operations of the Companies on a consolidated basis in accordance with GAAP consistently applied;

(b) within 65 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ended March 31, 2007), consolidated balance sheets and related statements of income and cash flows of the Companies as of the close of such fiscal quarter and the then elapsed portion of the fiscal year (which requirement shall be deemed satisfied by the delivery of the Borrower's Quarterly Report on Form 10-Q (or any successor form) for such quarter), each certified by a Financial Officer as fairly presenting the financial condition and results of operations of the Companies on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under paragraph (a) or (b) of this Section 5.02, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (ii) setting forth reasonably detailed calculations (including with respect to any pro forma effect given to a Material Transaction) demonstrating compliance with Section 6.07 as of the last day of the most recent fiscal quarter covered by such financial statements;

(d) promptly upon the mailing or filing thereof, copies of all financial statements, reports and proxy statements mailed to the Borrower's public shareholders, and copies of all registration statements (other than those on Form S-8) and Form 8-K's (to the extent that such Form 8-K's disclose actual or potential adverse developments with respect to the Borrower or any of its Subsidiaries that constitute, or could reasonably be anticipated to constitute, a Material Adverse Effect) filed with the Securities and Exchange Commission (or any successor thereto) or any national securities exchange;

(e) promptly after (i) the occurrence thereof, notice of any ERISA Termination Event or "prohibited transaction", as such term is defined in Section 4975 of the Code, with respect to any Plan that results, or could reasonably be anticipated to result, in a Material Adverse Effect, which notice shall specify the nature thereof and the Borrower's proposed response thereto, and (ii) actual knowledge thereof, copies of any notice of PBGC's intention to terminate or to have a trustee appointed to administer any Plan; and

(f) promptly, from time to time, such other information, regarding its operations, business affairs and financial condition, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

Documents required to be delivered pursuant to Section 5.02(a), (b) or (d) (to the extent any such documents are included in materials otherwise filed with the Securities and Exchange Commission (or any successor thereto)) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto at www.czn.com; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify the Administrative Agent and each Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the compliance certificates required by Section 5.02(c) to the Administrative Agent. Except for such compliance certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

SECTION 5.03 Litigation and Other Notices. Furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

(b) the filing or commencement of, or any written notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any of the Subsidiaries which is reasonably likely to be adversely determined and which, if adversely determined, could reasonably be anticipated to result in a Material Adverse Effect; and

(c) any development with respect to the Borrower or any Subsidiary that has resulted in, or could reasonably be anticipated to result in, a Material Adverse Effect.

SECTION 5.04 Maintaining Records. Maintain all financial records in accordance with GAAP and, upon reasonable notice, permit the Administrative Agent and each Lender to visit and inspect the financial records of the Borrower at reasonable times and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent or any Lender to discuss the affairs, finances and condition of the Borrower with the appropriate officers thereof and, with the Borrower's consent (which shall not be unreasonably withheld), the independent accountants therefor; provided that if the Borrower shall so require, a single representative shall be appointed by Lenders holding at least 50% of the aggregate outstanding principal balance of the Loans to exercise the rights granted to the Lenders under this Section 5.04; provided further that when an Event of Default exists the Administrative Agent or any Lender may do any of the foregoing, upon reasonable notice, at any time during normal business hours (without appointment of a single representative by the Lenders).

SECTION 5.05 Use of Proceeds. Use the proceeds of the Loans only for general corporate purposes, including working capital and support of commercial paper issuances and Securitization Transactions permitted hereunder as well as one or more acquisitions or Asset Exchanges; provided that no such proceeds shall be used (i) to make any Restricted Payment, or (ii) directly or indirectly in connection with any Hostile Acquisition.

NEGATIVE COVENANTS

The Borrower covenants and agrees with each Lender, the Issuing Bank and the Administrative Agent that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan (or any portion thereof), or any other expenses or amounts payable hereunder, shall be unpaid or any Letter of Credit shall remain outstanding, it will not:

SECTION 6.01 Liens; Restrictions on Sales of Receivables. Create, incur, assume, or suffer to exist, or permit any of the Principal Subsidiaries to create, incur, assume, or suffer to exist, any Lien on any of its property now owned or hereafter acquired to secure any Indebtedness of the Borrower or any such Principal Subsidiary, or sell or assign any accounts receivable (other than in the ordinary course of business substantially in accordance with the Borrower's past practice), other than: (a) Liens incurred or deposits made in the ordinary course of business to secure surety and appeal bonds, leases, return-of-money bonds and other similar obligations (exclusive of obligations of the payment of borrowed money); (b) pledges or deposits to secure the utility obligations of the Borrower incurred in the ordinary course of business; (c) Liens upon or in property now owned or hereafter acquired to secure Indebtedness incurred solely for the purpose of financing the acquisition, construction or improvement of any property, provided that such Indebtedness shall not exceed the fair market value of the property being acquired, constructed or improved; (d) Liens on the assets of any Principal Subsidiary to secure the repayment of project financing for such Principal Subsidiary; (e) Liens on the assets of any Person merged or consolidated with or into (in accordance with Section 6.04) the Borrower or any Principal Subsidiary that were in effect at the time of such merger or consolidation; (f) Liens for taxes, assessments and governmental charges or levies, which are not yet due or are which are being contested in good faith by appropriate proceedings; (g) Liens securing Indebtedness of the Borrower or any Principal Subsidiary to the Rural Electrification Administration or the Rural Utilities Service (or any successor to any such agency); (h) carriers', warehousemen's, mechanics', materialmen's, repairmen's, suppliers or other like Liens arising in the ordinary course of business relating to obligations not overdue for a period of more than 60 days or which are bonded or being contested in good faith by appropriate proceedings; (i) pledges or deposits in connection with workers' compensation laws or similar legislation or to secure public or statutory obligations; (j) Liens incurred on deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (k) easements, rights of way, restrictions and other encumbrances incurred which, in the aggregate, do not materially interfere with the ordinary conduct of business; (l) restrictions by Governmental Authorities on the operations, business or assets of the Borrower or its Subsidiaries that are customary in the Borrower's and its Subsidiaries' businesses; (m) sales of accounts receivable pursuant to, and Liens existing or deemed to exist in connection with, any Securitization Transactions, provided that the aggregate amount of all such Securitization Transactions shall not at any time exceed \$150,000,000; and (n) other Liens securing Indebtedness outstanding in an aggregate principal amount not to exceed \$25,000,000; provided that the Borrower or any Principal Subsidiary may create, incur, assume or suffer to exist other Liens (in addition to Liens excepted by the foregoing clauses (a) through (n)) on its assets so long as such Liens equally and ratably secure the Obligations pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent.

SECTION 6.02 Ownership of the Principal Subsidiaries. Sell, assign, pledge, or otherwise transfer or dispose of any shares of common stock, voting stock, or stock convertible into voting or common stock of any Principal Subsidiary, except (a) to another Subsidiary or (b) in connection with an Asset Exchange; provided that the Borrower may pledge any shares of common stock, voting stock, or stock convertible into voting or common stock of any Principal Subsidiary so long as such pledge equally and ratably secures the Obligations pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent.

SECTION 6.03 Asset Sales. Except in connection with an Asset Exchange, permit any Principal Subsidiary to sell, assign, or otherwise dispose of telecommunications assets (whether in one transaction or a series of transactions), if the net, after-tax proceeds thereof are used by the Borrower or any Subsidiary to prepay (other than a mandatory prepayment in accordance

with the terms of the applicable governing documents, including pursuant to any put provision) Indebtedness incurred after the date hereof which Indebtedness has a maturity later than the Commitment Termination Date (other than bridge or other financings incurred in connection with an asset purchase or sale, including acquisition indebtedness or indebtedness of an acquired entity or indebtedness incurred to refinance indebtedness outstanding as of the date hereof).

SECTION 6.04 Mergers. Merge or consolidate with, or sell, assign, lease, or otherwise dispose of (whether in one transaction or a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired), except in connection with an Asset Exchange, to any Person, or permit any Principal Subsidiary to do so, except that any Subsidiary may merge into or, subject to Section 6.03, transfer assets to the Borrower or any other Subsidiary and the Borrower may merge with any Person; provided that, immediately thereafter and after giving effect thereto, no event shall occur or be continuing which constitutes an Event of Default or a Default and, in the case of any such merger to which the Borrower is a party, either the Borrower is the surviving corporation or the surviving entity (if not the Borrower) has a consolidated net worth (as determined in accordance with GAAP) immediately subsequent to such merger at least equal to the Consolidated Net Worth of the Borrower immediately prior to such merger and expressly assumes the obligations of the Borrower hereunder; provided that, notwithstanding the foregoing, the Borrower and any of the Principal Subsidiaries may sell assets in the ordinary course of its business and may sell or otherwise dispose of worn out or obsolete equipment on a basis consistent with good business practices.

SECTION 6.05 Restrictions on Dividends.

(a) Enter into or permit any Principal Subsidiary to enter into, any contract or agreement (other than with a governmental regulatory authority having jurisdiction over the Borrower or such Principal Subsidiary) restricting the ability of such Principal Subsidiary to pay dividends or make distributions to the Borrower in any manner that would impair the ability of the Borrower to meet its present and future obligations hereunder.

(b) In the case of the Borrower only, declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, in each case if any Event of Default has occurred and is continuing at the time of such action or will result therefrom (but excluding the payment of dividends declared and announced by the Board of Directors at a time when no Event of Default existed).

SECTION 6.06 Transactions with Affiliates. Except in connection with an Asset Exchange, sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that as long as no Default or Event of Default shall have occurred and be continuing, the Borrower or any Subsidiary may engage in any of the foregoing transactions (i) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (ii) as otherwise may be required by any Federal or state Governmental Authority, or (iii) so long as such transactions are not materially disadvantageous to the Borrower.

SECTION 6.07 Financial Ratio. Permit the Leverage Ratio as of the last day of any fiscal quarter to be greater than 4.5 to 1.

SECTION 6.08 Guarantors. Permit any Subsidiary to enter into, directly or indirectly, any Guarantee of any Indebtedness of the Borrower or any Subsidiary unless the Obligations are Guaranteed on a pari passu basis pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent, except (i) any Guarantee in effect at the time such Subsidiary becomes a Subsidiary of the Borrower, so long as such Guarantee was not entered into solely in contemplation of such Person becoming a Subsidiary of the Borrower, (ii) any Guarantee in effect as of the Effective Date that is listed on Schedule 2, and (iii) additional Guarantees aggregating not more than \$25,000,000 at any one time outstanding.

ARTICLE VII

EVENTS OF DEFAULT

SECTION 7.01 Events of Default. If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or under any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or any waiver hereunder or thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or any waiver hereunder or thereunder, shall prove to have been incorrect when made or deemed made in any material respect;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(f) or Section 5.05 or in Article VI;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article) or any other Loan Document and such failure shall continue unremedied for a period of 30 days after the earlier to occur of (i) the Borrower obtaining knowledge thereof and (ii) the date that notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender;

(f) the Borrower or any Principal Subsidiary shall fail to make any payment of any amount in respect of Indebtedness in an aggregate principal amount of \$50,000,000 or more, when and as the same shall become due and payable after giving effect to any applicable grace periods;

(g) any event or condition occurs that results in any Indebtedness of any one or more of the Borrower and its Principal Subsidiaries in an aggregate principal amount exceeding \$50,000,000 becoming due prior to its scheduled maturity or that enables or permits the holder or holders of any such Indebtedness or any trustee or agent on its or their behalf to cause any such Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, in each case after giving effect to any applicable grace period; or any such Indebtedness shall be required to be prepaid (other than by a regularly scheduled required prepayment, pursuant to any put right (or similar right) of the holder thereof, or by the exercise by the Borrower or any Principal Subsidiary of its right to make a voluntary prepayment) in whole or in part prior to its stated maturity; or there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Principal Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as defined in such Swap Contract) under such Swap Contract as to which the Borrower or any Principal Subsidiary is an Affected Party (as defined in such Swap Contract) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than \$50,000,000; provided that this clause (g) shall not apply to any Indebtedness that becomes due as a result of a voluntary redemption or repayment of such Indebtedness effected in accordance with the terms of the agreement governing such Indebtedness and which is not prohibited by this Agreement;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) liquidation, reorganization or other relief in respect of the Borrower or

any of its Principal Subsidiaries or its debts, or of a substantial part of its assets, under any Federal or state bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Principal Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of 60 or more days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Principal Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal or state bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Principal Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) one or more judgments for the payment of money in an aggregate amount in excess of \$50,000,000 shall be rendered against the Borrower or any of its Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

(k) a Plan shall fail to maintain the minimum funding standard required by Section 412(a) of the Code for any plan year or a waiver of such standard is sought or granted under Section 412(d), or a Plan is or shall have been terminated or the subject of termination proceedings under ERISA, or the Borrower or an ERISA Affiliate has incurred a liability to or on account of a Plan under Section 4062, 4063, 4064, 4201 or 4204 of ERISA, and there shall result from any such event or events a Material Adverse Effect; or

(l) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Section 7.01), and at any time thereafter during the continuance of such event, the Administrative Agent at the request of the Required Lenders shall, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and (iii) require that the Borrower cash collateralize the LC Exposure pursuant to Section 2.04(k); and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable and the Borrower shall automatically be required to provide such cash collateral, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII

AGENCY -----

SECTION 8.01 Administrative Agent.

Each of the Lenders and the Issuing Bank hereby irrevocably appoints DBAG

NY to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders and the Issuing Bank, and the Borrower shall not have rights as a third party beneficiary of any of such provisions except with respect to a successor Administrative Agent.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 9.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower, a Lender or the Issuing Bank.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by

it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the Issuing Bank, the Administrative Agent may presume that such condition is satisfactory to such Lender or the Issuing Bank unless the Administrative Agent shall have received notice to the contrary from such Lender or the Issuing Bank prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

The Administrative Agent may at any time give notice of its resignation to the Lenders, the Issuing Bank and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right to appoint a successor, which shall be a bank with an office in New York, New York, or an Affiliate of any such bank with an office in New York, New York and which shall be reasonably acceptable to the Borrower. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent meeting the qualifications set forth above, provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and the Issuing Bank directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this paragraph. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this paragraph). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Each Lender and the Issuing Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the Issuing Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Except as otherwise provided in Section 9.02(b) with respect to this

Agreement, the Administrative Agent may, with the prior consent of the Required Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Loan Documents.

SECTION 8.02 Bookrunners, Etc.. Anything herein to the contrary notwithstanding, none of the bookrunners, arrangers, syndication agents or documentation agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent, a Lender or the Issuing Bank hereunder.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01 Notices.

(a) Notices Generally. Except as provided in paragraph (b) below, all notices, requests, demands and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier, as follows:

(i) if to the Borrower, to it at Citizens Communications Company, 3 High Ridge Park, Stamford, Connecticut 06905, Attention of Treasurer (Telecopier No. 203-614-4602; Telephone No. 203-614-5124; Electronic Mail: darmour@czn.com), with a copy to Citizens Communications Company, 3 High Ridge Park, Stamford, Connecticut 06905, Attention of General Counsel (Telecopier No. 203-614-4651; Telephone No. 203-614-5600; Electronic Mail: hilary.glassman@czn.com);

(ii) if to the Administrative Agent, to Deutsche Bank AG New York Branch, 60 Wall Street, New York, New York 10005, Attention of Maxeen Jacques (Telecopier No. 201-593-2307; Telephone No. 201-593-2483; Electronic Mail: maxeen.jacques@db.com);

(iii) if to DBAG NY as Issuing Bank, to Deutsche Bank AG New York Branch, 60 Wall Street, New York, New York 10005, Attention of Lynn Nicaretta (Telecopier No. 212-797-0780; Telephone No. 212-250-9631; Electronic Mail: lynn.nicaretta@db.com), with a copy to Deutsche Bank AG New York Branch, 60 Wall Street, New York, New York 10005, Attention of Ann Thompson (Telecopier No. 212-797-0780; Telephone No. 212-250-9639; Electronic Mail: ann.thompson@db.com); and

(iv) if to a Lender, to it at its address (or telecopier number) set forth in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in paragraph (b) below, shall be effective as provided in said paragraph (b).

(b) Electronic Communications. Notices and other communications to the Lenders and the Issuing Bank hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or the Issuing Bank pursuant to Article II if such Lender or the Issuing Bank, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by

the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) Change of Address, Etc. Any party hereto may change its address or telecopier number for notices and other communications hereunder by notice to the other parties hereto (or, in the case of any such change by a Lender, by notice to the Borrower and the Administrative Agent).

SECTION 9.02 Waivers; Amendments.

(a) No Deemed Waivers; Remedies Cumulative. No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Amendments. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender adversely affected thereby,

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.15(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender, or

(v) change any of the provisions of this Section or the percentage in the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

and provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be.

SECTION 9.03 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender (including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender) (A) in connection with any amendments, modifications or waivers of the provisions of this Agreement or of the other Loan Documents or (B) in connection with the enforcement or protection of its rights (x) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (y) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and the Issuing Bank, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the reasonable fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the Transactions contemplated hereby or thereby, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit) or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under paragraph (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof) or the Issuing Bank or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent) or the Issuing Bank or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or the Issuing Bank in connection with such capacity. The obligations of the Lenders under this paragraph (c) are several obligations.

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in paragraph (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this

Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments. All amounts due under this Section shall be payable promptly after demand therefor.

SECTION 9.04 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender, and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of paragraph (b) of this Section, (ii) by way of participation in accordance with the provisions of paragraph (d) of this Section or (iii) by way of pledge or assignment of a security interest subject to the restrictions of paragraph (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, the Issuing Bank, Participants to the extent provided in paragraph (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) to any Person; provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender, no minimum amount need be assigned; and

(B) in any case not described in paragraph (b)(i)(A) of this Section, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date) shall not be less than \$10,000,000, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Commitment assigned.

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by paragraph (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender or an Affiliate of a Lender;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender or an Affiliate of a Lender; and

(C) the consent of the Issuing Bank shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then

outstanding).

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, and the assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to the Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to paragraph (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Section 2.13 and Section 9.03 with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at one of its offices in New York, New York a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the Issuing Bank shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in Section 9.02(b) that affects such Participant. Subject to paragraph (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Section 2.13 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided that such Participant agrees to be subject to Section 2.15(d) as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.12 and Section 2.14 than the applicable Lender would have been entitled to receive with respect to the

participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05 Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Section 2.12, Section 2.13, Section 2.14 and Section 9.03 shall survive and remain in full force and effect regardless of the consummation of the Transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06 Counterparts; Integration; Effectiveness; Electronic Execution.

(a) Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Administrative Agent, constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page to this Agreement by electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) Electronic Execution of Assignments. The words "execution", "signed", "signature" and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

SECTION 9.07 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08 Right of Setoff. If an Event of Default shall have occurred

and be continuing, each Lender, the Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, the Issuing Bank or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender or the Issuing Bank, irrespective of whether or not such Lender or the Issuing Bank shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower may be contingent or unmatured or are owed to a branch or office of such Lender or the Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender, the Issuing Bank and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, the Issuing Bank or their respective Affiliates may have. Each Lender and the Issuing Bank agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

SECTION 9.09 Governing Law; Jurisdiction; Etc.

(a) Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

(b) Submission to Jurisdiction. The Borrower irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or in any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. The Borrower irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by applicable law.

SECTION 9.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into

consideration in interpreting, this Agreement.

SECTION 9.12 Treatment of Certain Information; Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners) (and, in the case of any non-ordinary course disclosure under this clause (b), the disclosing party shall use its reasonable efforts to inform the Borrower thereof prior to any such disclosure and, in any event, shall promptly inform the Borrower thereof, in each case to the extent legally permitted to do so), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process (in which case the disclosing party shall use its reasonable efforts to inform the Borrower thereof prior to any such disclosure and, in any event, shall promptly inform the Borrower thereof, in each case to the extent legally permitted to do so), (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, the Issuing Bank or any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13 USA PATRIOT Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), such Lender may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with said Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CITIZENS COMMUNICATIONS COMPANY

By /s/ Donald R. Shassian

Name: Donald R. Shassian
Title: Chief Financial Officer

DEUTSCHE BANK AG NEW YORK BRANCH,
as Administrative Agent

By /s/ Yvonne Tilden

Name: Yvonne Tilden
Title: Vice President

By /s/ Andreas Neumeier

Name: Andreas Neumeier
Title: Director

LENDERS

DEUTSCHE BANK AG NEW YORK BRANCH

By /s/ Yvonne Tilden

Name: Yvonne Tilden
Title: Vice President

By /s/ Andreas Neumeier

Name: Andreas Neumeier
Title: Director

CITIBANK, N.A.

By /s/ Ross Levitsky

Name: Ross Levitsky
Title: Vice President

CREDIT SUISSE, CAYMAN ISLANDS BRANCH

By /s/ Doreen Barr

Name: Doreen Barr
Title: Vice President

By /s/ Rianka Mohan

Name: Rianka Mohan
Title: Vice President

GOLDMAN SACHS CREDIT PARTNERS L.P.

By /s/ Mark Walton

Name: Mark Walton
Title: Authorized Signatory

JPMORGAN CHASE BANK, N.A.

By /s/ John Kowalczuk

Name: John Kowalczuk
Title: Vice President

UBS LOAN FINANCE LLC

By /s/ Irja R. Otsa

Name: Irja R. Otsa
Title: Associate Director

By /s/ David B. Julie

Name: David B. Julie
Title: Associate Director

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release ("Agreement") is entered into by and between Citizens Communications Company, a Delaware Corporation, and its affiliate Citizens Telecom Services Company, LLC ("Citizens" or "Company"), and John H. Casey, III ("Employee"). Employee enters into this Agreement on behalf of the Employee, the Employee's spouse, heirs, successors, assigns, executors, and representatives of any kind, if any.

WHEREAS, the Employee is covered by an Employment Agreement with the Company dated February 15, 2005 ("Employment Agreement").

WHEREAS, the Employee's employment with the Company will terminate effective November 15, 2007 ("Separation Date").

WHEREAS, the Company will provide the Employee with certain severance benefits described below in exchange for the release of any claims that the Employee may have against the Company, including any claims concerning the Employee's employment with the Company or the Employee's termination of employment, and the other promises contained in this Agreement.

WHEREAS, the Employee accepts these severance benefits in return for the Employee signing a full release of any claims the Employee might have against the Company, including any claims concerning the Employee's employment, the termination of that employment, and any claims for any benefits pursuant to that employment, and in return for the other promises contained in this Agreement.

WHEREAS, the Employee and the Company enter into this Agreement for the purpose of concluding and resolving all matters relating to the Employee's employment with the Company, the terms and conditions of that employment, and the termination of that employment.

THEREFORE, the Company and the Employee agree as follows:

1. Termination of Employment. The Employee's employment with the Company will terminate effective upon the close of business on the Separation Date. The Employee shall have no right to re-employment with the Company after the Separation Date.
2. No Admission. Neither the Company's signing of this Agreement nor any actions taken by the Company toward compliance with the terms of this Agreement constitute an admission by the Company that it has acted improperly or unlawfully with regard to the Employee or that it has violated any federal, state, or local law.
3. Separation Benefits. Subject to the Employee's compliance with the terms of this Agreement (and provided that the Employee does not revoke this Agreement), the Company will provide the following separation benefits:
 - (a) The Company will pay the Employee severance pay in the amount of Four Hundred Fifteen Thousand Dollars (\$415,000.00). Such severance pay shall be distributed to the Employee in a lump sum, less all applicable taxes and payroll deductions. Such payment will be made by the Company six (6) months and one (1) day after the later of the Separation Date and the Effective Date of this Agreement as provided in Section 15 below.
 - (b) The Company will pay the Employee an additional Four Hundred Fifteen Thousand Dollars (\$415,000.00) as the Employee's Target Bonus under the Employment Agreement. Such amount shall be paid to the Employee in a lump sum, less all applicable taxes and payroll deductions. Such payment will be made by the Company six (6) months and one (1) day after the later of the Separation Date and the Effective Date of this Agreement as provided in Section 15 below.
 - (c) The Company will pay the Employee for eleven (11) days of unused and accrued PTO pursuant to the Company's PTO policy. Applicable taxes will be withheld. Such payment will be made by the Company within

fourteen (14) days after the Separation Date.

- (d) The restrictions on the Eighty-One Thousand Six Hundred Sixty-Seven (81,667) restricted shares of Citizens Communications Company stock that the Employee has shall lapse on the later of the Separation Date and the Effective Date of this Agreement as provided in Section 15 below.
 - (e) The Company will reimburse the Employee for all reasonable business expenses properly incurred by the Employee in accordance with the Company's policy on or prior to the Separation Date.
 - (f) The Company will pay on the Employee's behalf the premiums or equivalent premiums (to the extent set forth below) for the Employee's coverage and for the Employee's family, if applicable, under the Company's group medical, dental, vision plans and group life insurance plan if the Employee elects to continue coverage under such plans through November 30, 2008. During the period of Company paid benefits, the Employee will remain responsible for the Employee's share of the cost of Company provided medical, dental, vision, and life insurance coverage at the same monthly amount paid by the Employee during the Employee's last full month of employment by the Company. This monthly contribution amount will be multiplied by Twelve (12) and the sum total of this amount will be withheld from the lump sum severance payment as a "payroll deduction." Beginning December 1, 2008, the Employee will be eligible to continue coverage under the Company's group medical, dental, and vision plans under COBRA provided the Employee pays the applicable premiums.
4. General Releases. The Employee releases and forever discharges the Company, its subsidiaries, affiliates, and divisions, and its past, present, and future employees, directors, officers, agents, shareholders, insurers, attorneys, executors, successors, assigns, and other representatives of any kind (referred to in this Agreement collectively as "Released Parties") from any and all claims, charges, demands, liabilities, or causes of action of any kind, known or unknown, arising through the date the Employee executes this Agreement, including, but not limited to, any claims, liabilities, or causes of action of any kind arising in connection with the Employee's employment or termination of employment with the Company. The Employee also releases and waives any claim or right to further compensation, benefits, damages, penalties, attorneys' fees, costs, or expenses of any kind from the Company or any of the other Released Parties, except that nothing in this release shall affect any rights the Employee may have under: (i) this Agreement; (ii) any funded retirement or 401(k) plan of the Company; or (iii) to COBRA health insurance benefits. Without limitation, the Employee waives any right or claim to reinstatement of the Employee's employment with the Company. The claims that the Employee is releasing include, but are not limited to: claims for wrongful discharge; constructive discharge; breach of contract; tortious interference with contract; unlawful terms and conditions of employment; retaliation; defamation; invasion of privacy; claims for unlawful conspiracy; discrimination, including any discrimination claim arising under the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. ss.621 et seq.; Title VII of the Civil Rights Act of 1964, as amended, 29 U.S.C. ss.2000e et seq.; the Federal Rehabilitation Act of 1973, as amended, 29 U.S.C. ss.701 et seq.; the Americans with Disabilities Act of 1990, 42 U.S.C. ss.12101 et seq.; the Family and Medical Leave Act of 1993, 29 U.S.C. ss.2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. ss.201 et seq.; the Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. ss.301 et seq.; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. ss.2101 et seq.; the Connecticut Fair Employment Practices Act, as amended; any other federal, state, or local constitutional provision, statute, executive order, or ordinance relating to employment, or other civil rights violations; any claim under the CIP for any bonus for 2007 or any other year; any claim for additional severance, compensation or benefits under the Employment Agreement or otherwise; and any other claims whether based on contract or tort.
5. No Other Proceedings. The Employee represents that the Employee will not file or join in any action, charge, claim, complaint, lawsuit, or proceeding of any kind against the Company or any of the other Released Parties with respect to any claim that is released in this Agreement,

including any matter arising out of or in connection with the Employee's employment with the Company or termination of employment. If the Employee breaks this promise and files or joins in any action, charge, claim, complaint, lawsuit, or proceeding based on any claim that the Employee has released, then the Employee will pay for all costs the Company or any of the other Released Parties incurs in defending against the Employee's claim, including reasonable attorneys' fees. Should any such complaint, charge, lawsuit, or other action have been filed by the Employee or on the Employee's behalf, the Employee agrees to withdraw, dismiss, or cause to be withdrawn or dismissed, with prejudice, any such complaint, charge, lawsuit, or other action that is pending in any federal, state, or local agency or court.

6. No Sale of Claim. The Employee represents that the Employee has not given or sold any portion of any claim discussed in this Agreement to anyone else.
7. Intentionally Omitted.
8. Cooperation. The Employee agrees to reasonably cooperate with the Company and its financial and legal advisors when and as the Company requests in connection with any claims, investigations, or other legal or administrative proceedings involving the Company with respect to matters occurring while the Employee was employed by the Company. The Employee shall be reimbursed for reasonable out-of-pocket travel expenses incurred in connection with the Employee's cooperation pursuant hereto.
9. Effect of Breach. If the Employee breaches any of the Employee's promises or obligations contained in this Agreement, then the Company has the right to immediately stop making the payments described in Section 3. If the Company exercises its rights under this Section to stop making the payments described in Section 3, then the Employee will continue to be obligated to comply with all the Employee's promises and obligations contained in this Agreement. Additionally, if the Company exercises its rights under this Section to stop making the payments described in Section 3, then the Company will also have the right to pursue all additional rights it has against the Employee pursuant to this Agreement, including, but not limited to, all the rights described in Section 11, as well as any and all other legal rights it may have against the Employee for breaching any of the Employee's promises or obligations in this Agreement.
10. Arbitration. The parties agree that any disputes regarding any rights or obligations pursuant to this Agreement shall be resolved by final and binding arbitration pursuant to the Employment Rules of the American Arbitration Association, except that the Company may seek injunctive relief to enforce any confidentiality obligations in any court of competent jurisdiction. Any arbitration hearing must be conducted in Stamford, Connecticut and shall be a confidential and private proceeding.
11. Enforcement. If any arbitrator or court of competent jurisdiction determines that the Employee or the Company has violated any of his or its promises or obligations contained in this Agreement, then the other party shall be entitled to recover, in addition to its damages, all costs and expenses incurred in its enforcement efforts, including actual attorneys' fees, from the violating party. In addition, the parties acknowledge and agree that a breach by the other party of any of its or his promises or obligations contained in this Agreement shall cause the other party irreparable harm and that the other party shall be entitled to injunctive relief, in addition to damages, for any such breach.
12. Taxes. The Employee recognizes that the payments and benefits provided under this Agreement will result in taxable income to the Employee that the Company will report to appropriate taxing authorities. The Company shall have the right to deduct from any payment made under this Agreement any federal, state, local, or other income, employment, or other taxes it determines are required by law to be withheld with respect to such payments and benefits.
13. Consultation with Counsel. THE EMPLOYEE ACKNOWLEDGES THAT THE EMPLOYEE HAS

BEEN ADVISED, IN THIS WRITING, TO CONSULT WITH AN ATTORNEY OF THE EMPLOYEE'S CHOICE PRIOR TO SIGNING THIS AGREEMENT AND THAT THE EMPLOYEE HAS SIGNED THIS AGREEMENT KNOWINGLY, VOLUNTARILY, AND FREELY, AND WITH SUCH COUNSEL (IF ANY) AS THE EMPLOYEE DEEMED APPROPRIATE. The Employee understands, however, that whether or not to consult with an attorney is the Employee's decision. The Employee agrees that the Company shall not be required to pay any of the Employee's attorneys' fees in this or any related matter or lawsuit, now or later, and that the amounts payable under Section 3 are in full and complete payment of all matters between the Employee and the Company, including, without limitation, attorneys' fees and costs.

14. Right to Revoke Agreement. THE EMPLOYEE ACKNOWLEDGES THAT THE EMPLOYEE HAS BEEN PROVIDED WITH A PERIOD OF TWENTY-ONE (21) DAYS IN WHICH TO CONSIDER WHETHER OR NOT TO ENTER INTO THIS AGREEMENT. FURTHER, THE EMPLOYEE ACKNOWLEDGES THAT THE EMPLOYEE HAS BEEN ADVISED OF THE EMPLOYEE'S RIGHT TO REVOKE THIS AGREEMENT DURING THE SEVEN (7)-DAY PERIOD FOLLOWING EXECUTION OF THIS AGREEMENT. TO REVOKE, THE EMPLOYEE MUST GIVE THE COMPANY WRITTEN NOTICE OF THE EMPLOYEE'S REVOCATION WITHIN THE SEVEN (7)-DAY REVOCATION PERIOD.
15. Effective Date of Agreement. This Agreement becomes effective on the eighth (8th) day after the Employee signs and returns it to the Company, provided the Employee has not revoked this Agreement pursuant to Section 14.
16. No Reliance. The parties acknowledge that they execute this Agreement in reliance on their own personal knowledge, and are not relying on any representation or promise made by any other party that is not contained in this Agreement.
17. Entire Agreement. This Agreement contains the entire agreement between the parties concerning the subject matter of this Agreement and supersedes all prior negotiations, agreements, or understandings between the parties (including, without limitation, Sections 1 through 7 of the Employment Agreement), except that any obligations of the Employee to the Company, under any agreement, policy, or other document in force on the Separation Date, that by their terms apply after the termination of his employment shall survive the execution of this Agreement and continue in full force and effect (including, without limitation, Sections 8 and 9 of the Employment Agreement). No promises or oral or written statements have been made to the Employee other than those in this Agreement. If any portion of this Agreement is found to be unenforceable, all other portions that can be separated from it, or appropriately limited in scope, shall remain fully valid and enforceable.
18. Notice. Any notice to be given under this Agreement shall be in writing and delivered personally, sent by a nationally recognized courier service or sent by registered or certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give written notice of under this Agreement:

If to Employee, to:

Mr. John H. Casey, III 14 Red Oak Lane Ridgefield, CT 06877

If to the Company, to:

Hilary E. Glassman, Esq.
Senior Vice President, General Counsel, & Secretary
Citizens Communications Company
Three High Ridge Park
Stamford, Connecticut 06905

Any party may serve process in any matter relating to this Agreement in the same manner.
19. Governing Law. This Agreement shall be governed by the substantive laws of the State of Connecticut without regard to conflicts of law principles.
20. Headings. All descriptive headings of sections in this Agreement are intended solely for convenience, and no provision of this Agreement is to

be construed by reference to any such heading.

21. Inducement. To induce the Company to provide the Employee the consideration recited in this Agreement, the Employee voluntarily executes this Agreement, acknowledges that the only consideration for executing this Agreement is that recited in this Agreement, and that no other promise, inducement, threat, agreement, or understanding of any kind has been made by anyone to cause the Employee to execute this Agreement. The Employee acknowledges and agrees that this Separation Agreement and Release is being executed pursuant to the terms of the Employment Agreement.

THE EMPLOYEE UNDERSTANDS THIS AGREEMENT CONTAINS A FINAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS AND THAT THE EMPLOYEE CAN MAKE NO FURTHER CLAIM OF ANY KIND AGAINST THE COMPANY OR ANY OF THE OTHER RELEASED PARTIES ARISING OUT OF ACTIONS OCCURRING THROUGH THE DATE THE EMPLOYEE EXECUTES THIS AGREEMENT.

THE EMPLOYEE AGREES THAT THE EMPLOYEE READ AND UNDERSTANDS THIS AGREEMENT, AND IS ENTERING INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY AND WITHOUT ANY COERCION.

/s/ John H. Casey, III

Date: November 15, 2007

John H. Casey, III

CITIZENS COMMUNICATIONS COMPANY

By:/s/ Mary Agnes Wilderotter

Date: November 15, 2007

Title: Chief Executive Officer

Form of Arrangement with Named Executive Officers (other than CEO)
with Respect to Vesting of Restricted Stock Upon a Change-in-Control

The purpose of this memorandum is to confirm the terms of your restricted stock awards under the Citizens Restricted Stock Award Program in the event of a change in control of the Company as described below.

If, within one year following a "Change in Control" (as defined below) of Citizens Communications Company (the "Company"), (a) you are terminated by the Company without "Cause" (as defined below) or (b) you terminate your employment as a result of (i) a material decrease in your base salary, target bonus or long term incentive compensation target from those in effect immediately prior to the Change in Control for any reason other than Cause; (ii) the relocation of your principal office more than 50 miles from Stamford, Connecticut or (iii) a material decrease in your responsibilities, title or authority for any reason other than Cause, all restrictions on restricted shares held by the Executive shall immediately lapse and such restricted shares shall become non-forfeitable.

A "Change in Control" shall be deemed to have occurred:

(A) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as used in Section 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (but excluding the Company and any subsidiary and any employee benefit plan sponsored or maintained by the Company or any subsidiary (including any trustee of such plan acting as trustee)), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(B) Upon the consummation of any merger or other business combination involving the Company, a sale of substantially all of the Company's assets, liquidation or dissolution of the Company or a combination of the foregoing transactions (the "Transactions") other than a Transaction immediately following which the shareholders of the Company immediately prior to the Transaction own, in the same proportion, at least 51% of the voting power, directly or indirectly, of (i) the surviving corporation in any such merger or other business combination; (ii) the purchaser of or successor to the Company's assets; (iii) both the surviving corporation and the purchaser in the event of any combination of Transactions; or (iv) the parent company owning 100% of such surviving corporation, purchaser or both the surviving corporation and the purchaser, as the case may be.

"Cause" shall mean your (a) willful and continued failure (other than as a result of physical or mental illness or injury) to perform your material duties in effect immediately prior to the Change in Control which continues beyond 10 days after a written demand for substantial performance is delivered to you by the Company, which demand shall identify and describe each failure with sufficient specificity to allow you to respond, (b) willful or intentional conduct that causes material and demonstrable injury, monetary or otherwise, to the Company or (c) conviction of, or a plea of nolo contendere to, a crime constituting (i) a felony under the laws of the United States or any State thereof, or (ii) a misdemeanor involving moral turpitude. For these purposes, no act or failure to act on you part shall be considered "willful" or "intentional" unless it is done, or omitted to be done by you in bad faith and without reasonable belief that your action or inaction was in the best interests of the Company. Any act or failure to act based upon authority given pursuant to a resolution duly adopted by the Board of Directors or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

If it is determined (as hereafter provided) that any payment or distribution by the Company to or for your benefit, whether paid or payable or distributed or distributable pursuant to the terms of this letter or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, restricted stock award, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a

"Severance Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or any successor provision thereto) by reason of being "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then you shall receive the greater of (x) the Severance Payment, after payment by you of the Excise Tax imposed on the Severance Payment and (y) the amount of the Severance Payment (calculated on a net after-tax basis) which could be paid to you under Section 280G of the Code without causing any loss of deduction to the Company under such Section (the "Capped Payment").

Subject to the provisions of immediately preceding paragraph, all determinations required to be made pursuant to this letter, including whether an Excise Tax is payable by you and the amount of such Excise Tax, shall be made by the nationally recognized firm of certified public accountants (the "Accounting Firm") used by the Company prior to the Change in Control (or, if such Accounting Firm declines to serve, the Accounting Firm shall be a nationally recognized firm of certified public accountants selected by you). The Accounting Firm shall be directed by the Company or you to submit its preliminary determination and detailed supporting calculations to both the Company and you within 15 calendar days after the date of your termination of employment, if applicable, and any other such time or times as may be requested by the Company or you. If the Accounting Firm determines that any Excise Tax is payable by you, the Company shall either (x) make payment of the Severance Payment, less all amounts withheld in respect of the Excise Tax, as required by applicable law, or (y) reduce the Severance Payment by the amount which, based on the Accounting Firm's determination and calculations, would provide you with the Capped Payment, and pay to you such reduced amount. If the Accounting Firm determines that no Excise Tax is payable by you, it shall, at the same time as it makes such determination, furnish you with an opinion that you have substantial authority not to report any Excise Tax on your federal, state, local income or other tax return. All fees and expenses of the Accounting Firm shall be paid by the Company in connection with the calculations required by this letter.

The above terms were approved by the Compensation Committee of the Board of Directors for the Senior Leadership Team (SLT) and will remain the terms as long as you are a member of the SLT. If at any time you are no longer a member of the SLT, the aforementioned change of control terms would not apply. The Compensation Committee has the right, at any time, to modify the terms hereof as it applies to any grants of restricted shares.

FORM OF RESTRICTED STOCK AGREEMENT
(Mary Agnes Wilderotter)

This Agreement is made as of _____ ("Date of Award") between Citizens Communications Company, a Delaware corporation (the "Company") and Mary Agnes Wilderotter (the "Grantee"). In consideration of the agreements set forth below, the Company and the Grantee agree as follows:

1. Grant: A restricted stock award ("Award") of _____ shares ("Award Shares") of the Company's common stock ("Common Stock") is hereby granted by the Company to the Grantee subject to: (i) the terms and conditions of that certain Employment Agreement, dated November 1, 2004, between the Grantee and the Company (the "Employment Agreement"); (ii) the following terms and conditions; and (iii) the provisions of the Amended and Restated 2000 Equity Incentive Plan (the "Plan"), the terms of which are incorporated by reference herein. In the event of a conflict among or between the Employment Agreement and the terms and conditions stated herein, the terms most favorable to the Grantee shall control.
2. Transfer Restrictions: None of the Award Shares shall be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the Grantee until such time as the restrictions on said Award Shares shall have lapsed.
3. Release of Restrictions: The restrictions set forth in Section 2 above shall lapse on one-fourth (25%) of the Award Shares on each [GRANT DATE] beginning in [YEAR FOLLOWING GRANT DATE], and ending on [FOURTH ANNIVERSARY OF GRANT DATE].
4. Forfeiture: The Award Shares shall be subject to forfeiture to the Company in accordance with the terms of the Employment Agreement.
5. Adjustment of Shares: Notwithstanding anything contained herein to the contrary, in the event of any change in the outstanding Common Stock resulting from a subdivision or consolidation of shares, whether through reorganization, recapitalization, share split, reverse share split, share distribution or combination of shares or the payment of a share dividend, the Award Shares shall be treated in the same manner in any such transaction as other Common Stock. Any Common Stock or other securities received by the Grantee with respect to the Award Shares in any such transaction shall be subject to the restrictions and conditions set forth herein to the extent such restrictions and conditions are not inconsistent with the terms of the Employment Agreement.
6. Rights as Stockholder: The Grantee shall be entitled to all of the rights of a stockholder with respect to the Award Shares including the right to vote such shares and to receive dividends and other distributions payable with respect to such shares since the Date of Award. Any stock dividends payable with respect to such shares shall bear the same restrictions as the underlying shares. Said restrictions shall lapse at the same time as restrictions lapse on the underlying shares.
7. Escrow of Share Certificates: Certificates for the Award Shares shall be issued in the Grantee's name and shall be held by the Company's transfer agent until all restrictions lapse or such shares are forfeited as provided under the terms of the Employment Agreement. A certificate or certificates representing the Award Shares as to which restrictions have lapsed shall be delivered to the Grantee, upon the Grantee's request, upon such lapse.
8. Government Regulations: Notwithstanding anything contained herein to the contrary, the Company's obligation to issue or deliver certificates evidencing the Award Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.
9. Withholding Taxes: Unless inconsistent with the terms of the

Employment Agreement, the Company shall have the right to require the Grantee to remit to the Company, or to withhold from other amounts payable to the Grantee, as compensation or otherwise, an amount sufficient to satisfy all federal, state and local withholding tax requirements. The Company will offer Grantee the right to have withholding requirements satisfied by the Company's withholding of shares upon the timely written election of Grantee to utilize shares for withholding tax purposes.

10. Employment: Nothing in this Agreement shall confer upon Grantee any right to continue in the employ of Company, nor shall it interfere in any way with the right of the Company to terminate Grantee's employment at any time consistent with the terms of the Employment Agreement.
11. Plan: Grantee acknowledges receipt of a copy of the Plan, agrees to be bound by the terms and provisions of the Plan and agrees to acknowledge, upon request of Company, receipt of any prospectus or prospectus amendment provided to Grantee by Company.
12. Securities Laws: Grantee agrees to comply with all applicable securities laws upon sale or disposition of shares acquired hereunder.
13. Notices: Notices to Company shall be addressed to it at:

3 High Ridge Park
Stamford, CT 06905

and to Grantee at:

Company or Grantee may from time to time designate in writing different addresses for receipt of notice. Notice shall be deemed given when properly addressed and sent first class or express mail.

14. Governing Law: The terms of this Agreement shall be binding upon Company, Grantee and their respective successors and assigns. This Agreement shall be performed under and determined in accordance with the laws of the State of Connecticut.

In Witness Whereof, the Company has caused this Award to be granted on the date first above written.

CITIZENS COMMUNICATIONS COMPANY

By: _____
Hilary Glassman
Senior Vice President, General Counsel and
Secretary

Mary Agnes Wilderotter

FORM OF RESTRICTED STOCK AGREEMENT
(For Named Executive Officers other than Mary Agnes Wilderotter)

This Agreement is made as of _____ ("Date of Award") between Citizens Communications Company, a Delaware corporation (the "Company") and _____ (the "Grantee"). In consideration of the agreements set forth below, the Company and the Grantee agree as follows:

1. Grant: A restricted stock award ("Award") of _____ shares ("Award Shares") of the Company's common stock ("Common Stock") is hereby granted by the Company to the Grantee subject to: (i) the terms and conditions of that certain Memorandum from Mary Agnes Wilderotter, Chairman and Chief Executive Officer of the Company, dated July __, 2007, addressed to the Grantee (the "Change in Control Memorandum"); (ii) the following terms and conditions; and (iii) the provisions of the Amended and Restated 2000 Equity Incentive Plan (the "Plan"), the terms of which are incorporated by reference herein. In the event of a conflict between the Change in Control Memorandum and the terms and conditions stated herein, the terms of the Change in Control Memorandum shall control.
2. Transfer Restrictions: None of the Award Shares shall be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the Grantee until such time as the restrictions on said Award Shares shall have lapsed.
3. Release of Restrictions: Except as otherwise provided in the Change in Control Memorandum, the restrictions set forth in Section 2 above shall lapse on one-four (25%) of the Award Shares on each [GRANT DATE] beginning in [YEAR FOLLOWING GRANT DATE], and ending on [FOURTH ANNIVERSARY OF GRANT DATE].
4. Forfeiture: Subject to the terms of the Change in Control Memorandum, the Award Shares shall be subject to forfeiture to the Company upon the Grantee's termination of employment with the Company prior to the date the restrictions lapse as provided in Section 3 above.
5. Adjustment of Shares: Notwithstanding anything contained herein to the contrary, in the event of any change in the outstanding Common Stock resulting from a subdivision or consolidation of shares, whether through reorganization, recapitalization, share split, reverse share split, share distribution or combination of shares or the payment of a share dividend, the Award Shares shall be treated in the same manner in any such transaction as other Common Stock. Any Common Stock or other securities received by the Grantee with respect to the Award Shares in any such transaction shall be subject to the restrictions and conditions set forth herein.
6. Rights as Stockholder: The Grantee shall be entitled to all of the rights of a stockholder with respect to the Award Shares including the right to vote such shares and to receive dividends and other distributions payable with respect to such shares since the Date of Award. Any stock dividends payable with respect to such shares shall bear the same restrictions as the underlying shares. Said restrictions shall lapse at the same time as restrictions lapse on the underlying shares.
7. Escrow of Share Certificates: Certificates for the Award Shares shall be issued in the Grantee's name and shall be held by the Company's transfer agent until all restrictions lapse or such shares are forfeited as provided herein or under the terms of the Change in Control Memorandum, as applicable. A certificate or certificates representing the Award Shares as to which restrictions have lapsed shall be delivered to the Grantee, upon the Grantee's request, upon such lapse.
8. Government Regulations: Notwithstanding anything contained herein to the contrary, the Company's obligation to issue or deliver certificates evidencing the Award Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any

governmental agencies or national securities exchanges as may be required.

- 9. Withholding Taxes: The Company shall have the right to require the Grantee to remit to the Company, or to withhold from other amounts payable to the Grantee, as compensation or otherwise, an amount sufficient to satisfy all federal, state and local withholding tax requirements. The Company will offer Grantee the right to have withholding requirements satisfied by the Company's withholding of shares upon the timely written election of Grantee to utilize shares for withholding tax purposes.
- 10. Employment: Nothing in this Agreement shall confer upon Grantee any right to continue in the employ of Company, nor shall it interfere in any way with the right of the Company to terminate Grantee's employment at any time.
- 11. Plan: Grantee acknowledges receipt of a copy of the Plan, agrees to be bound by the terms and provisions of the Plan and agrees to acknowledge, upon request of Company, receipt of any prospectus or prospectus amendment provided to Grantee by Company.
- 12. Securities Laws: Grantee agrees to comply with all applicable securities laws upon sale or disposition of shares acquired hereunder.
- 13. Notices: Notices to Company shall be addressed to it at:

3 High Ridge Park
Stamford, CT 06905

and to Grantee at:

Company or Grantee may from time to time designate in writing different addresses for receipt of notice. Notice shall be deemed given when properly addressed and sent first class or express mail.

- 14. Governing Law: The terms of this Agreement shall be binding upon Company, Grantee and their respective successors and assigns. This Agreement shall be performed under and determined in accordance with the laws of the State of Connecticut.

In Witness Whereof, the Company has caused this Award to be granted on the date first above written.

CITIZENS COMMUNICATIONS COMPANY

By: _____
Hilary Glassman
Senior Vice President, General Counsel and
Secretary

[GRANTEE]

CITIZENS COMMUNICATIONS COMPANY

NON-EMPLOYEE DIRECTORS' COMPENSATION SUMMARY
 Non-Employee Directors' Equity Incentive Plan (the "Plan")
 Approved and effective May 25, 2006

SIGN-ON OPTIONS

As approved by the Compensation Committee and subject to Section 3 of the Plan, upon commencement of service on the board each non-employee director will be awarded a grant of 10,000 options to purchase the Company's common stock. These options are exercisable six months after their grant. The price of these options is the Fair Market Value (closing price) of the Company's common stock on the day of the director's election to the board. Options expire ten years after the Grant Date or, if earlier, on the first anniversary of a director's termination of service with respect to options granted after May 25, 2006.

FORMULA PLAN AWARDS

Pursuant to Section 4.1(a) of the Plan, each non-employee director will receive a grant of 3,500 stock units on the first business day of each Plan Year.

QUARTERLY RETAINER FEE

A non-employee director may elect to receive an annual retainer of either \$40,000 cash or 5,760 stock units, in each case payable in quarterly installments as of the first business day of each calendar quarter (\$10,000 or 1,440 stock units per quarter).

QUARTERLY MEETING FEES AND STIPENDS

A non-employee director may elect to receive meeting fees and stipends, when applicable, in cash or stock units, or a combination of the two forms of compensation.

Each in-person board and committee meeting is valued at \$2,000 and each telephonic board and committee meeting is valued at \$1,000.

Each Committee Chair and the Lead Director will also receive quarterly stipends as follows:

Non-Employee Director Stipends	Qtrly	Annualized
Lead Director	\$3,750	\$15,000
Audit Committee Chair	\$6,250	\$25,000
Compensation Committee Chair	\$3,750	\$15,000
Nominating and Corporate Governance Committee Chair	\$1,875	\$7,500
Retirement Plan Committee Chair	\$1,250	\$5,000

Meeting fees and stipends are paid on the last business day of the calendar quarter in which they were earned.

VALUATION OF STOCK UNITS

Fees: The number of units to be awarded to a director who elects to defer all or part of his or her fees and/or stipends in stock units is determined as follows:

The cash value of the fees and/or stipends payable to the director are divided by 85% of the Fair Market Value (the closing price) of the Company's common stock on the last business day of the calendar quarter in which the fees or stipends were earned.

Dividends: As of the date of any payment of a stock dividend or stock split by the Company, a director's Stock Unit Account will be credited with Stock Units equal to the number of shares of Common Stock (including fractional share entitlements) which are payable by the Company with respect to the number of shares (including fractional share entitlements) equal to the number of Stock Units credited to the director's Stock Unit Account on the record date for such stock dividend or stock split. As of the date of any dividend in cash or property or other distribution payable to holders of Common Stock, the director's Stock Unit Account shall be credited with additional Stock Units equal to the number of shares of Common Stock (including fractional share entitlements) that could have been purchased at the Fair Market Value as of such payment date with the amount which would have been received as a dividend or distribution on the number of shares (including fractional share entitlements) equal to the Stock Units credited to the director's Stock Unit Account as of the record date.

ELECTION RULES AND PROCEDURES

Each director must elect by December 31 of the preceding year (or within 30 days after the individual becomes a director) whether he or she will receive his or her meeting fees, stipends, and retainer in cash or stock units, or an equal combination of the two forms of compensation. All elections made are irrevocable.

DISTRIBUTION UPON TERMINATION OF SERVICE

Upon termination of service as a director, a director's stock unit account shall be paid out in the form of cash (valuing each stock unit at the Fair Market Value [closing price] of a share of the Company's common stock on the termination date) or Company common stock, at the election of the director (one share of common stock shall be distributed for each stock unit in the director's stock unit account). Absent a valid election, stock units shall be paid out in common stock.

Citizens Communications Company
Statements of the Ratio of Earnings to Fixed Charges
(Dollars in Thousands)
(Unaudited)

	Years Ended December 31,				
	2007	2006	2005	2004	2003
Pre-tax income from continuing operations before dividends on convertible preferred securities, and cumulative effect of changes in accounting principle	\$ 342,668	\$ 390,487	\$ 263,212	\$ 61,311	\$ 112,928
(Income) or loss from equity investees	(4,655)	136	(91)	(1,267)	(259)
Pre-tax income from continuing operations before (income) or loss from equity investees	338,013	390,623	263,121	60,044	112,669
Fixed charges	391,409	343,954	346,531	386,372	418,223
Distributed income of equity investees	4,064	-	818	558	98
Interest capitalized	(2,857)	(2,081)	(2,176)	(2,278)	(2,993)
Preference security dividend requirements of consolidated subsidiaries	(246)	(642)	(2,008)	(8,718)	(10,063)
Total earnings	\$ 730,383	\$ 731,854	\$ 606,286	\$ 435,978	\$ 517,934
Ratio of earnings to fixed charges	1.86	2.13	1.75	1.13	1.24

NOTE: The above calculation was performed in accordance with Regulation S-K 229.503(d) Ratio of earnings to fixed charges.

Citizens Communications Company
Statements of the Ratio of Earnings to Combined Fixed Charges and Preferred Dividends

(Dollars in Thousands)
(Unaudited)

	Years Ended December 31,				
	2007	2006	2005	2004	2003
Pre-tax income from continuing operations before dividends on convertible preferred securities, and cumulative effect of changes in accounting principle	\$ 342,668	\$ 390,487	\$ 263,212	\$ 61,311	\$ 112,928
(Income) or loss from equity investees	(4,655)	136	(91)	(1,267)	(259)
Pre-tax income from continuing operations before (income) or loss from equity investees	338,013	390,623	263,121	60,044	112,669
Fixed charges	391,409	343,954	346,531	386,372	428,286
Distributed income of equity investees	4,064	-	818	558	98
Interest capitalized	(2,857)	(2,081)	(2,176)	(2,278)	(2,993)
Preference security dividend requirements of consolidated subsidiaries	(246)	(642)	(2,008)	(8,718)	(10,063)
Total earnings	\$ 730,383	\$ 731,854	\$ 606,286	\$ 435,978	\$ 527,997
Ratio of earnings to combined fixed charges	1.86	2.13	1.75	1.13	1.23

Note: The above calculation was performed in accordance with Regulation S-K 229.503(d) Ratio of earnings to fixed charges.

Company Name	Related Name	State
C-DON Partnership		PA
Citizens Capital Ventures Corp.		DE
Citizens Communications Company		DE
Citizens Directory Services Company L.L.C.		DE
Citizens Louisiana Accounting Company		DE
Citizens Mohave Cellular Company		DE
Citizens NEWCOM Company		DE
Citizens NEWTEL, LLC	New North Telecommunications, Inc.	DE
Citizens Pennsylvania Company LLC		DE
Citizens SERP Administration Company		DE
Citizens Telecom Services Company L.L.C.		DE
Citizens Telecommunications Company of California Inc.	Frontier Communications of California	CA
Citizens Telecommunications Company of Idaho	Citizens Communications Company of Idaho; Frontier Communications Company of Idaho	DE
Citizens Telecommunications Company of Illinois	Citizens Communications Company of Illinois; Frontier Citizens Communications of Illinois	IL
Citizens Telecommunications Company of Minnesota, LLC	Citizens Communications of Minnesota; Frontier Communications of Minnesota	DE
Citizens Telecommunications Company of Montana	Frontier Communications of Montana	DE
Citizens Telecommunications Company of Nebraska	Citizens Communications Company of Nebraska; Frontier Communications of Nebraska	DE
DE		
Citizens Telecommunications Company of Nebraska LLC		DE
Citizens Telecommunications Company of Nevada	Frontier Communications of Nevada	NV
Citizens Telecommunications Company of New York, Inc.	Citizens Communications Company of New York; Citizens Telecom; Frontier Communications of New York	NY
Citizens Telecommunications Company of Oregon	Frontier Communications of Oregon	DE
Citizens Telecommunications Company of Tennessee L.L.C.		DE
Citizens Telecommunications Company of the Golden State		CA
Citizens Telecommunications Company of the Volunteer State LLC		DE
Citizens Telecommunications Company of the White Mountains, Inc.	Frontier Communications of the White Mountains	DE
Citizens Telecommunications Company of Tuolumne		CA
Citizens Telecommunications Company of Utah		DE
Citizens Telecommunications Company of West Virginia	Citizens Communications of the Mountain State; Frontier Communications of West Virginia	WV
Citizens Utilities Capital L.P.		DE
Citizens Utilities Rural Company, Inc.	Frontier Citizens Utilities Rural	DE
Commonwealth Communication, LLC	Frontier Communications Equipment Services	DE
Commonwealth Telephone Company	Frontier Communications Commonwealth Telephone Company	PA
Commonwealth Telephone Company LLC		PA
Commonwealth Telephone Enterprises LLC		PA
Commonwealth Telephone Enterprises of Delaware, Inc.		DE
Commonwealth Telephone Enterprises, Inc.		PA
Commonwealth Telephone Management Services, Inc.		PA
Conference-Call USA, LLC		DE
CTE Delaware Holdings, LLC		DE
CTE Holdings, Inc.		PA
CTE Services, Inc.		PA
CTE Telecom, LLC	Commonwealth Long Distance Company; Epix Internet Services; Frontier Communications CTE Telecom Company	PA
CTSI, LLC	Frontier Communications CTSI Company	PA
CU Capital LLC		DE
CU Wireless Company LLC		DE
Electric Lightwave NY, LLC		DE
Evans Telephone Holdings, Inc.		DE
Fairmount Cellular LLC		GA
Frontier Cable of Wisconsin LLC		WI
Frontier Communications - Midland, Inc.		IL
Frontier Communications - Prairie, Inc.		IL
Frontier Communications - Schuyler, Inc.		IL
Frontier Communications - St. Croix LLC		WI
Frontier Communications of Alabama, LLC		AL
Frontier Communications of America, Inc.	Citizens Communications Company; Citizens Long Distance Company; Citizens Long Distance; Citizens Telecom; Frontier Long Distance	DE
Frontier Communications of AuSable Valley, Inc.		NY
Frontier Communications of Breezewood, LLC		PA
Frontier Communications of Canton, LLC		PA
Frontier Communications of DePue, Inc.		IL
Frontier Communications of Fairmount LLC		GA
Frontier Communications of Georgia LLC		GA
Frontier Communications of Illinois, Inc.		IL
Frontier Communications of Indiana LLC		IN
Frontier Communications of Iowa, Inc.		IA
Frontier Communications of Lakeside, Inc.		IL
Frontier Communications of Lakewood, LLC		PA
Frontier Communications of Lamar County, LLC		AL
Frontier Communications of Michigan, Inc.		MI
Frontier Communications of Minnesota, Inc.		MN
Frontier Communications of Mississippi LLC		MS
Frontier Communications of Mondovi LLC		WI
Frontier Communications of Mt. Pulaski, Inc.		IL
Frontier Communications of New York, Inc.		NY

Frontier Communications of Orion, Inc.		IL
Frontier Communications of Oswayo River, LLC		PA
Frontier Communications of Pennsylvania, LLC		PA
Frontier Communications of Rochester, Inc.		DE
Frontier Communications of Seneca-Gorham, Inc.		NY
Frontier Communications of Sylvan Lake, Inc.		NY
Frontier Communications of the South, LLC		AL
Frontier Communications of Thorntown LLC		IN
Frontier Communications of Viroqua LLC		WI
Frontier Communications of Wisconsin LLC		WI
Frontier Directory Services Company, LLC		DE
Frontier InfoServices Inc.		DE
Frontier Security Company	Frontier Home Security	DE
Frontier Subsidiary Telco LLC		DE
Frontier TechServ, Inc.		DE
Frontier Telephone of Rochester, Inc.		NY
Global Valley Networks, Inc.	Frontier Communications of Global Valley	CA

GWN Services	Frontier Communications Global Valley Long Distance	CA
Mohave Cellular Limited Partnership		DE
Navajo Communications Company, Inc.	Frontier Navajo Communications	NM
NCC Systems, Inc.	Cablevision of Needles	TX
Ogden Telephone Company		NY
Phone Trends, Inc.		NY
Rhineland Telecommunications, LLC	Citizens Communications Company of Wisconsin	WI
Rhineland Telephone LLC	Frontier Rhineland Telephone Company	WI
Rib Lake Cellular for Wisconsin RSA#3, Inc.	Citizens Communications Company of Wisconsin	WI
Rib Lake Telecom, Inc.	Frontier Rib lake Telecom	WI
T.M.H., Inc.		DE

Consent of Independent Registered Public Accounting Firm

Board of Directors and Shareholders Citizens Communications Company:

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-58044, 33-52873 and 33-63615), and on Form S-8 (Nos. 333-142636, 333-71597, 333-71821, 333-61432, 333-71029, 33-42972 and 33-48683), of Citizens Communications Company and subsidiaries of our reports dated February 27, 2008, with respect to the consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of Citizens Communications Company and subsidiaries. Our reports refer to a change in the methods of accounting and disclosure resulting from the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007, Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" and Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Qualifying misstatements in the Current Year Financial Statements" as of January 1, 2006 and Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" as of December 31, 2006.

/s/KPMG LLP

Stamford, Connecticut
February 27, 2008

CERTIFICATIONS

I, Mary Agnes Wilderotter, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens Communications Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2008

/s/ Mary Agnes Wilderotter

Mary Agnes Wilderotter
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Donald R. Shassian, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens Communications Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2008

/s/ Donald R. Shassian

Donald R. Shassian
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual Report of Citizens Communications Company (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mary Agnes Wilderotter, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary Agnes Wilderotter

Mary Agnes Wilderotter
Chairman and Chief Executive Officer
February 27, 2008

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Citizens Communications Company and will be retained by Citizens Communications Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual Report of Citizens Communications Company (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald R. Shassian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donald R. Shassian

Donald R. Shassian
Chief Financial Officer
February 27, 2008

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Citizens Communications Company and will be retained by Citizens Communications Company and furnished to the Securities and Exchange Commission or its staff upon request.