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, 2000

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2000 Commission file number 001-11001

OR

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

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
P.O. Box 3801
Stamford, Connecticut 06905
(Address, zip code of principal executive offices)

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

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

(Title of each class)	(Name of exchange on which registered)
Common Stock, par value $.25 per share	New York Stock Exchange
Guarantee of Convertible Preferred Securities of Citizens Utilities Trust	New York Stock Exchange
Citizens Convertible Debentures	N/A
Guarantee of Partnership Preferred Securities of Citizens Utilities Capital L.P.	N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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]

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 28, 2001 was $3,950,663,535.

The number of shares outstanding of the registrant's Common Stock as of February 28, 2001 was 266,372,768.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the registrant's 2001 Annual Meeting of Stockholders to be held on May 17, 2001 is incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

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. Further discussion regarding forward-looking statements, including the factors which may cause actual results to differ from such statements, is located in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. Citizens Communications Company and its subsidiaries will be referred to as "we", "us" or "our" throughout this report.

(a) Recent Developments

Citizens Communications Company (Citizens) is a telecommunications company providing wireline communications services primarily to rural areas, small and medium sized cities and towns throughout the United States as an incumbent local exchange carrier (ILEC). In addition, we provide competitive local exchange carrier (CLEC) services to business customers and to other communications carriers in the western United States through our 85% owned subsidiary, Electric Lightwave Inc. (ELI). We also provide public services including natural gas transmission and distribution, electric transmission and distribution and water distribution and wastewater treatment services to primarily rural and suburban customers throughout the United States.

In recent years, we have focused our efforts and resources toward transforming ourselves into a telecommunications provider. In order to execute this strategy, we announced our intention to acquire telephone access lines and to partially fund our future expansion into the telecommunications business through the divestiture of our public utility operations. During 1999, opportunities became available to acquire a significant number of telephone access lines that met our investment criteria. These acquisitions are consistent with our strategy to broaden our geographic profile and to acquire and operate ILEC businesses in small and medium sized cities and towns. They provide us with the opportunity to further achieve critical mass as well as economies of scale throughout the United States and will enable us to improve operating efficiencies. Between May 1999 and July 2000, we announced that we had entered into agreements to purchase approximately 2,034,700 telephone access lines (as of December 31, 2000) for approximately $6.5 billion in cash (see Acquisitions and Divestitures below).

During 1999, our Board of Directors also approved a plan of divestiture for our public services properties. Currently, we have agreements to sell all of our water and wastewater treatment businesses, one of our electric businesses and one of our gas businesses for approximately $1.5 billion in cash plus the assumption of certain liabilities (see Acquisitions and Divestitures below). In 1999, we initially accounted for the planned divestiture of public services as discontinued operations. As of December 31, 2000, we had not yet completed our plan of disposal for our gas and electric assets. In the third and fourth quarters of 2000, we reclassified all of our gas and electric assets to "assets held for sale", and their related liabilities to "liabilities related to assets held for sale", we also reclassified the results of these operations from discontinued operations to their original income statement captions as part of continuing operations, and restated the 1999 balance sheet to conform to the current presentation. We are continuing to actively pursue buyers for our gas and electric businesses that are not currently contracted for.

The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. This agreement was terminated on March 7, 2001 as a result of Cap Rock Energy Corp.'s inability to obtain the required financing in a timely

manner.

(b) Financial Information about Industry Segments

We traditionally measured our segments by service (ILEC, ELI, Gas, Electric, Water and Wastewater). Currently, the water and wastewater segment is no longer presented as a segment but is included in discontinued operations. Although the gas and electric segments have been classified as "assets held for sale" and "liabilities related to assets held for sale" and it is our intention to divest of these operations, we are classifying these businesses as continuing operations and are presenting these operations in our segment footnote as required. As we divest our gas and electric operations and become solely a telecommunications provider, the measurement of segments will evolve to be representative of our then current business activities. Note 16 of the Notes to Consolidated Financial Statements included herein sets forth financial information about our industry segments for the last three fiscal years.

(c) Description of Business

ILEC

We operate as an ILEC that provides both regulated and competitive communications services to residential, business and wholesale customers. Our ILEC services consist of local network services, network access services, long distance services, directory advertising, Centrex, custom calling, voice mail and conference calling and caller ID services. In addition, we offer limited paging, cellular, Internet access and cable television services.

Strategy

Our strategy is to focus our efforts and resources toward transforming ourselves into a pure telecommunication provider. As a result, in 1999 and 2000 we announced our intention to acquire telephone access lines from Verizon Communications, formerly GTE Corp. (Verizon); Qwest Communications, formerly US West (Qwest); and 100% of the stock of Frontier Corp. (Frontier), a subsidiary of Global Crossing Ltd. (Global). If all announced acquisitions are finalized, we will be among the largest independent wireline telephone operators in the United States with approximately three million local (network) access lines located in 27 states as follows:

ILEC Pro-Forma Access lines as of December 31, 2000

State	Citizens(1)	Verizon(2) Acquisition	Qwest(2) Acquisition	Frontier(2) Acquisition	Total
New York	339,100	-	-	698,200	1,037,300
Minnesota	142,400	-	187,100	129,600	459,100
Arizona	163,000	8,600	171,500	-	343,100
California	145,600	55,100	-	-	200,700
West Virginia	153,200	-	-	-	153,200
Illinois	112,200	-	-	20,100	132,300
Iowa	-	-	53,200	60,400	113,600
Tennessee	102,500	-	-	-	102,500
Nebraska	62,200	-	14,900	-	77,100
Wisconsin	27,800	-	-	44,800	72,600
Idaho	21,700	-	33,900	-	55,600
Colorado	-	-	51,400	-	51,400
Pennsylvania	1,500	-	-	42,900	44,400
Georgia	-	-	-	29,000	29,000
Nevada	28,300	-	-	-	28,300
Alabama	-	-	-	27,700	27,700
Michigan	-	-	-	27,200	27,200
Utah	23,700	-	-	-	23,700
Montana	9,000	-	11,900	-	20,900
North Dakota	17,000	-	-	-	17,000
Oregon	15,100	-	-	-	15,100
Washington	-	-	10,000	-	10,000
New Mexico	6,900	-	-	-	6,900
Mississippi	-	-	-	6,500	6,500
Wyoming	-	-	5,900	-	5,900
Indiana	-	-	-	5,700	5,700
Florida	-	-	-	4,600	4,600

Total	1,371,200	63,700	539,800	1,096,700	3,071,400

(1) Represents our prior telephone access lines plus telephone access lines acquired through December 31, 2000 from Verizon (Nebraska, Minnesota and Illinois/Wisconsin) and Qwest (North Dakota).
(2) Represents telephone access line acquisitions pending as of December 31, 2000.

We intend to fully integrate our acquisitions with existing core telephone access line holdings by the end of the first fiscal quarter of 2002. We are acquiring telephone access lines on a state by state basis from each of Verizon and Qwest. As of December 31, 2000, we have closed on several Verizon states, including Nebraska (62,200 access lines), Minnesota (142,400 access lines), Illinois/Wisconsin (112,900 access lines), and one Qwest state, North Dakota (17,000 access lines). We expect the Frontier acquisition to close as a single transaction during the second half of 2001.

As each acquisition becomes fully integrated into our operations, we will seek to increase the penetration of value added services such as second lines and enhanced services (such as call forwarding, conference calling, caller identification, Internet, voicemail, call waiting, etc.). Currently, the penetration rates for enhanced services in these markets are below industry averages. If we are successful in increasing the penetration of these value-added services, in addition to increasing our revenue, we may be able to achieve higher operating margins due to the relatively low levels of operating costs necessary to maintain such services.

We intend to market these value-added services through direct mail and telemarketing programs. We recently introduced "Citizens Select" and "Citizens Select Plus" as a branded bundle of telecommunications services directed at our retail customer base in a majority of the states in which we operate. For one flat rate, customers can bundle their residential line with Custom Local Area Signaling Services (CLASS) and custom calling features. Citizens Select allows customers to choose up to seven features with their residential line while Citizens Select Plus allows customers to bundle as many features as desired plus voicemail. We believe that our ability to integrate value added services with our core Local Exchange Carrier (LEC) service would provide us with the opportunity to capture an increasing percentage of our customers' telecommunications expenditures.

In addition, as we upgrade and extend our physical plant and operations over the next several years, the installation of digital switches and related software will continue to be an important component of our strategy. In December 1999 we entered into a three-year agreement to outsource elements of central office engineering and commissioning of our network. This agreement provides for the immediate provisioning of current technology and continuing upgrade of software for our core network platform, deploying the latest switch software throughout our network, provisioning of switch capacity to support network growth, integrating acquired properties onto a common network platform and providing other project management and service support resources. These improvements to our network will allow us to continue to offer enhanced services and other high-speed premium-priced data services to our existing and future customer base.

Regulatory Environment

The Telecommunications Act of 1996 (the 1996 Act) dramatically changed the landscape of the telecommunications industry. The main thrust of the 1996 Act was to open local telecommunications marketplaces to competition while enhancing universal service. We expect the 1996 Act, subsequent state and federal regulatory rulings and technological changes to lead to reductions in the level of regulation for the telecommunications industry. Though the majority of our operations continue to be regulated extensively by various state regulatory agencies (often called public service commissions) and the Federal Communications Commission (FCC), we expect reductions in the level of regulation for some of our operations in the future. However, we are currently unable to determine the ultimate degree of change in regulation in our operating territories.

State Regulation

Many of our properties continue to be regulated under a rate of return regime

which sets prices for a specific property based on its level of earnings. However, in recent years, state legislatures have passed statutes enabling state regulators to reduce the degree of regulation. As a result, in certain states and at the federal level we have entered incentive regulation plans under which prices are capped in return for elimination or relaxation of earnings oversight. Some states also allow us more flexibility in price changes for optional services and relaxed reporting requirements. The goal of these incentive regulation plans is to provide incentives to improve efficiencies and increase pricing flexibility for non-monopoly services while ensuring that customers receive reasonable rates for basic services that continued to be deemed monopoly while still allowing us to continue to recover our costs in rates.

Approximately 85% of our ILEC sector revenue is regulated. The FCC regulates approximately 34% of our revenue while the various state regulatory agencies regulate approximately 51%. We expect state lawmakers to continue to review the statutes governing the level and type of regulation for ILEC services. Over the next few years, legislative and regulatory actions are expected to provide opportunities to restructure rates, introduce more flexible incentive regulation programs and possibly reduce the overall level of regulation. While we still

believe that any actions will nonetheless allow us to recover our costs in rates, we expect the election of incentive regulation plans and the expected reduction in the overall level of regulation to allow us to introduce new services more expeditiously than in the past.

Interstate Regulation - CALLs Plan

For interstate services regulated by the FCC, we have elected a form of incentive regulation known as price caps. Under price caps, interstate access rates are capped and adjusted annually by the difference between the level of inflation and a productivity factor. Most recently the productivity factor was set at 6.5%. Given the relatively low inflation rate in recent years, interstate access rates have been adjusted downward annually. In May 2000, the FCC adopted a revised methodology for regulating the interstate access rates of price cap companies for the next five years. The new program, known as the Coalition for Affordable Local and Long Distance Services (CALLs) plan, establishes a price floor for interstate-switched access services and phases out many of the subsidies in interstate access rates. Though end-user charges and an expanded universal service program will continue to benefit rural service providers such as our ILEC, they will also offset much of the reduction in interstate access rates. Annual adjustments based on the difference between inflation and the 6.5% productivity factor will continue for several years until the price floor for interstate switched access services is reached.

The CALLs plan has significant benefits for us in the long term. Though some of the required rate reductions are front loaded, the price floor provides a degree of certainty that rate reductions will be curtailed in the future. We were successful in negotiating a price floor that recognized the unique cost characteristics of rural telecommunications providers as opposed to being forced into a one-size-fits-all program designed for larger companies. Under the CALLs plan, for many of our properties, the price floor is higher than the rate level that would have been required over time under the previous rate programs. In addition, shifting revenue from interstate access services to end user customers and universal service programs provides us more control over future revenue as access customers seek alternatives to switched access services.

Federal Universal Service

In 1998, the FCC determined that the federal universal service fund (USF) for non-rural companies would be based on a forward looking cost methodology, but chartered a Rural Task Force (RTF) to develop a recommendation for the funding methodology for rural companies. Since our properties are classified as rural, our federal USF will be driven by the rural methodology that is still under development. In October 2000, the RTF recommended the use of embedded cost instead of forward-looking costs to determine the USF for rural companies. In addition, the RTF suggested the FCC should adjust the caps on the USF to recognize inflation and allow rural companies the opportunity to recover some of the costs associated with incremental investment. In December 2000, the Federal/State Universal Service Joint Board (Joint Board) recommended that the FCC adopt the RTF recommendations. Although, the final FCC decision is still uncertain, if the FCC agrees with the Joint Board, the combination of the

embedded cost methodology and some relief on the caps should provide rural providers like us with a more stable source of USF money over the next several years.

Access Charge Reform

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 to maintain reasonable basic local rates. In Tennessee, for example, as a result of such legislation, we will be reducing intrastate access rates by $1 million per year for three years beginning in 2001. We anticipate additional state legislative and regulatory pressure to lower intrastate access rates in the near future. However, regulators are cognizant of the potential impact on basic local rates and are moving cautiously. Many states are embracing the need for state universal service funds to ensure protection for customers while ensuring that local telecommunications companies continue to have the incentive to recover in rates their investment in their networks and new services.

Unserved Areas

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 may be required to expand our service territory into some of these areas. Given the start-up costs involved with territory expansion, we expect legislatures and regulators to continue to move cautiously and provide some method of recovery for the costs associated with serving these new areas.

Competition

In each of our markets there is the potential for competition from a variety of sources. However, the geographic and demographic characteristics of the small to mid-size communities that we serve make the entrance of competitors difficult because of the significant capital investment required, the limited market size and the lack of brand recognition. Accordingly, it is our goal to provide a level of products and services that continue to position us as the preferred provider of communications in our markets.

As previously mentioned, one of the primary goals of the 1996 Act was to open local telecommunications markets to competition. The 1996 Act and subsequent FCC interconnection decisions have established the relationships between ILECs such as us, and CLECs such as ELI, and the mechanisms for competitive market entry. Though carriers like us, who serve predominantly rural markets, did receive a qualified exemption from some of the technical requirements imposed upon all ILECs for interconnection arrangements, we did not receive an exemption from interconnection or local exchange competition in general.

Under the 1996 Act and subsequent FCC and state rules, competitors can compete using one or more of three mechanisms:

- Construction of its own local exchange facilities, in which case the ILEC's sole obligation is interconnection for purposes of traffic interchange;

- Purchase unbundled network elements(UNEs)at cost from the ILEC and assemble them into local exchange services and/or supplement the facilities it already owns;

- Resale of the ILEC's retail services purchased at wholesale rates from the ILEC.

Some competitors have taken advantage of the ILEC's requirement to pay the CLEC reciprocal compensation for traffic delivered to the CLEC. The increase of traffic over the Internet has provided CLECs with an immediate mechanism to build traffic and reciprocal compensation revenues. It is important to note that while we are a reciprocal compensation payor, ELI is a reciprocal compensation receiver. We expect the spread of Digital Subscriber Line (DSL) and other high

speed network services that give customers a dedicated link to the internet and expected actions by the FCC and/or the United States Congress to limit the future growth of reciprocal compensation.

Under the 1996 Act the Regional Bell Operating Companies (RBOCs) were precluded from competing in most long distance markets until they satisfied the state regulatory authority and the FCC that their markets had been sufficiently opened to local exchange competition. Beginning in 1999, state regulators and the FCC began to allow the RBOCs to enter the long distance market in some states. By the end of 2000, RBOC long distance entry was only allowed in New York and Texas. However, we expect additional states to follow suit in the near future. Since we currently offer long distance service in New York and other states, it is possible that the entry of the RBOCs into this market could adversely impact our operations.

Though much of the initial competition in local telecommunications has been in more densely populated urban areas, we have begun to experience competition in some of our suburban markets. As of December 31, 2000, we had entered into eighty-eight interconnection agreements. These competitors are mainly serving internet service providers and a few large business customers. Competition for residential customers is present in isolated areas.

ELECTRIC LIGHTWAVE, INC.

ELI is a facilities-based CLEC that provides a broad range of communications services to businesses. ELI provides the full range of wireline telecommunications products and services, including switched local and long distance voice services, data communications services and dedicated point-to-point services, in the western United States. ELI markets to retail business customers regionally and nationally to wholesale communications customers.

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

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

The major cities include a network of approximately 2,065 route miles of fiber optic cable installed to create a series of Synchronous Optical Network (SONET) rings, which provide a higher degree of stability and dependability. Switched service, including local dial tone, is provided from 8 Nortel DMS 500 switches in the primary major cities. ELI also has transmission equipment collocated with switches of the ILEC at 55 locations.

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

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

ELI has developed an Internet backbone network with 65 routers providing Internet connectivity in each of its markets, including presence at all major network access points and include "peering arrangements" with other Internet backbone service providers. A peering arrangement is an agreement where Internet backbone service providers agree to allow each other direct access to Internet data contained on their networks. In addition, ELI's broadband network consists of frame relay switches, Asynchronous Transfer Mode (ATM) switches and network-to-network interfaces. National and international coverage is provided through strategic relationships with other communications providers.

ELI owns or leases broadband long-haul fiber optic network connections between its major cities in the west and its strategic markets across the nation. To the extent that traffic is carried on ELI's own facilities, ELI is able to maximize the utilization of its network facilities and minimize network access and

certain interconnection costs. During 2000, ELI completed construction of a SONET ring in the western United States. This self-healing ring connects Portland, Sacramento, San Francisco, Los Angeles, Las Vegas, Salt Lake City and Boise.

In the development of ELI's long-haul facilities, ELI has formed strategic relationships with utility companies that enable ELI to:

- Utilize existing rights-of-way and fiber optic facilities;
- Utilize their construction expertise and local permitting experience;
- Minimize near term cash requirements in order for ELI to extend its network infrastructure more quickly and economically.

During 1999, ELI entered into a fiber-swap agreement, that exchanges unused fiber on its network for unused fiber on another carrier's network. This exchange will provide ELI with a fiber route from Salt Lake City to Denver and continuing on to Dallas. ELI anticipates the fiber network and the exchange to be completed in 2001.

The following table represents certain operating information relating to ELI:

	2000	1999	1998
Route miles*	5,924	4,052	3,091
Fiber miles*	297,284	214,864	181,368
Buildings connected	851	824	766
Access line equivalents	200,231	161,555	74,924
Switches and routers installed:			
Voice	8	8	7
Frame Relay	32	32	23
Internet	65	42	24
ATM	23	23	14
Customers	2,401	2,147	1,644

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

Regulatory Environment

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

Telecommunications Act of 1996

Since the passage of the 1996 Act, ELI has substantially expanded the breadth of its product offering and its geographic reach. It has expanded the number of its local fiber networks from two to seven cities in the west and developed its data and Internet network across the nation (see additional information related to the 1996 Act in the ILEC section above).

ELI has various interconnection agreements in the states in which it operates. These agreements govern reciprocal compensation relating to the transport and termination of traffic between the ILEC's and ELI's networks. On February 25, 1999, the FCC issued a Declaratory Ruling and Notice of Proposed Rulemaking that categorized calls terminated to Internet Service Providers (ISPs) as "largely" interstate in nature, which could have the effect of precluding these calls from reciprocal compensation charges. However, the ruling stated that the existing interconnection agreements and the state decisions that have defined them bind ILECs. The FCC gave the states authority to interpret existing interconnection agreements. Since this FCC order, Oregon, Washington, California, Utah and Arizona have ruled that calls terminated to ISPs should be included in the calculation to determine reciprocal compensation.

State Regulation

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

Competition

ILEC Competition

ELI's operations are designed to significantly compete with the ILECs in each of its facilities-based markets. The ILECs currently dominate the local exchange market and have historically been a de facto monopoly provider of local switched voice services. Primary ILEC competitors include Qwest, PacBell and Verizon.

CLEC Competition

In each of the markets where ELI operates, at least one and in some cases several, other CLECs offer many of the same local communications services, generally at prices similar to those offered by ELI. Facility and non-facility based operational CLEC competitors in ELI's markets include AT&T Local Services, Time Warner Telecom, WorldCom, Inc. and XO Communications.

Competition From Others

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

Network Services

Competition for network services is based on price, quality, network reliability, customer service, service features and responsiveness to the customer's needs. As a point of differentiation from the ILECs, ELI's fiber optic networks provide both diverse access routing and redundant electronics, design features not widely deployed within the ILEC's networks.

High-Speed Data Service

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

Internet Services

The market for Internet access and related services in the United States is extremely competitive, with barriers to entry related to capital costs, bandwidth capacity and internal provisioning and operations processes. We expect that competition will intensify as existing services and network providers and new entrants compete for customers. In addition, new enhanced Internet services such as managed router service and web hosting are constantly under development in the market, and we expect additional innovation in this market by a range of competitors. ELI's current and future competitors include the RBOCs, IXCs, CLECs and CATVs, and other Internet access providers.

In general, many of the competitors listed above have resources substantially greater than those available to ELI.

PUBLIC SERVICES

We provide public services including natural gas transmission and distribution, electric transmission and distribution and water distribution and wastewater treatment services to primarily rural and suburban customers throughout the United States.

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public services properties. In 1999, we initially accounted for the planned divestiture of public services as discontinued operations. As of December 31, 2000, we do not have agreements to sell our entire gas and electric segments. Consequently, in the third and fourth quarters of 2000, we reclassified all gas and electric assets and their related liabilities to "assets held for sale" and "liabilities related to assets held for sale", respectively. As a result, our discontinued operations only reflect the assets and related liabilities of the water and wastewater businesses.

Natural Gas

Our natural gas operating divisions provide natural gas transmission and distribution services (including synthetic natural gas and propane to our customers in Hawaii) in four states primarily to residential customers, as set forth below:

State	Number of Customers
Louisiana	278,200
Arizona	115,200
Hawaii	66,300
Colorado	13,800
Total	473,500

The provision of services and/or rates charged are subject to the jurisdiction of federal and state regulatory agencies, except for the non-regulated propane rates charged to customers in Hawaii. We purchase all needed gas supply (except for our production of synthetic natural gas in Hawaii). We believe our supply is adequate to meet current demands and to provide for additional sales to new customers. The gas industry is subject to seasonal demand (except in Hawaii), with the peak demand occurring during the heating season of November 1 through March 31. Our gas sector experiences third party competition from fuel oil, propane and other gas suppliers for most of our large consumption customers (of which there are few) and from electric suppliers for all of our customer base. The competitive position of gas at any given time depends primarily on the relative prices of gas and these other energy sources.

On April 13, 2000, we announced an agreement to sell our Louisiana Gas operations to Atmos Energy Corporation for $365,000,000 in cash plus the assumption of certain liabilities. This transaction is expected to close in the first half of 2001 following regulatory approvals (see Acquisitions and Divestitures below).

In the fourth quarter of 2000, we settled a proceeding with the Louisiana Public Service Commission. As a result, our Louisiana Gas Service subsidiary refunded approximately $27 million to ratepayers during the month of January 2001. The refund was effected as a credit on customers' bills. The entire refund represents amounts that had been collected by us through our purchase adjustment clause, plus interest, for the period 1992-1997 and was recorded by us in the fourth quarter of 2000 as a reduction to revenue. Related legal fees of

approximately $2.7 million were also recorded in that period.

Electric

Our operating divisions provide electric transmission and distribution services in three states primarily to residential customers, as set forth below:

State	Number of Customers

Arizona	72,100
Hawaii	30,700
Vermont	20,700
Total	123,500

The provision of services and/or rates charged is subject to the jurisdiction of federal and state regulatory agencies. We purchase approximately 81% of needed electric energy. We believe our supply is adequate to meet current demands and to provide for additional sales to new customers. The majority of our generating facilities are on Kauai, Hawaii. We have smaller generating facilities in Arizona and Vermont, which are used mainly for back-up power supply. Generally, our electric sector does not experience material seasonal fluctuations.

The electric utility industry in the United States is undergoing fundamental changes. For many years, electric utilities have been vertically integrated entities responsible for the generation, transmission and distribution of electric power in a franchise territory. In return for monopoly status, electric utilities have been subject to comprehensive regulation at the state and federal level. The industry is now shifting toward electric customers being able to choose their energy provider much like telephone customers are able to choose their long distance provider. Generally, this involves splitting apart the generation and transmission of power from the remainder of the business, and having generators compete with one another in the sale of power directly to retail customers. The interconnected regional transmission grids will be operated independently, continuing as a federally regulated monopoly. Local transmission and distribution facilities would continue as state-regulated monopolies. This change in the industry is in various stages of development around the United States.

During the past year the decrease in the availability of power has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, we are currently disputing excessive power costs charged by our power supplier in the amount of approximately $57 million through December 31, 2000. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we have requested that this deferred amount, plus interest, be recovered over a three-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering certain amounts either through renegotiations or through the regulatory process.

On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. Cap Rock Energy Corp. has failed to raise the required financing and obtain the required regulatory approval necessary to meet its obligations under the contract for sale. The agreement with Cap Rock Energy Corp. was terminated on March 7, 2001. The Kauai electric division is under contract to be sold to Kauai Island Electric Co-Op (see Acquisitions and Divestitures below).

In Kauai, historically, we received approximately 13% of our power from a third party provider. As of January 2001, this third party provider will no longer provide power due to the closure of their sugar operations. In order to avoid power outages, we have completed negotiations with a new third party provider for a new purchase power agreement. This agreement is subject to approval by the Hawaii Public Utility Commission (HPUC). Current forecasts report that Kauai will require additional electrical generating capacity in 2002. As a result, we have entered into a 25-year purchase power agreement with Kauai Power Partners (KPP), an independent power producer, to provide firm power by July 2002. This agreement was recently approved by the HPUC.

ACQUISITIONS AND DIVESTITURES

Acquisitions

From May 27, 1999 through July 12, 2000 we entered into several agreements to acquire approximately 2,034,700 telephone access lines (as of December 31, 2000) for approximately $6.5 billion in cash. These transactions have been and will be accounted for using the purchase method of accounting. The results of operations of the acquired properties have been and will be included in our financial statements from the date of acquisition of each property. These agreements and the status of each transaction are described as follows:

On May 27, September 21, and December 16, 1999, we announced definitive agreements to purchase from Verizon approximately 381,200 telephone access lines (as of December 31, 2000) in Arizona, California, Illinois/Wisconsin, Minnesota and Nebraska for approximately $1,171,000,000 in cash. These acquisitions are subject to various state and federal regulatory approvals. On June 30, 2000, we closed on the Nebraska purchase of approximately 62,200 telephone access lines for approximately $205,000,000 in cash. On August 31, 2000, we closed on the Minnesota purchase of approximately 142,400 telephone access lines for approximately $439,000,000 in cash. On November 30, 2000, we closed on the Illinois/Wisconsin purchase of approximately 112,900 telephone access lines for approximately $304,000,000 in cash. We expect that the remainder of the Verizon transactions will close on a state-by-state basis in the first half of 2001.

On June 16, 1999, we announced a series of definitive agreements to purchase from Qwest approximately 556,800 telephone access lines (as of December 31, 2000) in Arizona, Colorado, Idaho/Washington, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately $1,650,000,000 in cash and the assumption of certain liabilities. On October 31, 2000, we closed on the North Dakota purchase of approximately 17,000 telephone access lines for approximately $38,000,000 in cash. We expect that the remainder of the Qwest acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis by the end of the first quarter of 2002.

On July 12, 2000, we announced a definitive agreement to purchase from Global 100% of the stock of Frontier Corp., which owns approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately $3,650,000,000 in cash. We expect that this transaction, which is subject to various state and federal regulatory approvals, will be completed in the second half of 2001.

We have and/or expect to temporarily fund these telephone access line purchases with cash and investment balances, proceeds from commercial paper issuances backed by the credit commitments, and borrowings under lines of credit, as described in Management's Discussion and Analysis of Financial Condition and Results of Operations (Liquidity and Capital Resource section) below. Permanent funding is expected to include, but not be limited to, cash and investment balances, the proceeds from the divestiture of our public services businesses, direct drawdowns from certain of the credit facilities and issuances of debt and equity securities, or other financing arrangements.

Divestitures

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public services businesses, which include gas, electric and water and wastewater businesses. The proceeds from the sales of these public services businesses will be used to partially fund the telephone access line purchases discussed above.

Currently, we have agreements to sell all our water and wastewater operations, one of our electric operations and one of our natural gas operations. The proceeds from these agreements will include approximately $1,470,000,000 in cash plus the assumption of certain liabilities. These agreements and the status of each transaction are described as follows:

On October 18, 1999, we announced the agreement to sell our water and wastewater operations to American Water Works, Inc. for $745,000,000 in cash and $90,000,000 of assumed debt. This transaction is currently expected to close in the second half of 2001 following regulatory approvals.

On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. (Cap Rock). Cap Rock has

failed to raise the required financing and obtain the required regulatory approval necessary to meet its obligations under the contract for sale. The agreement with Cap Rock was terminated on March 7, 2001. It is our intention to pursue the disposition of the Vermont and Arizona electric divisions with alternative buyers. In August 2000, the HPUC denied the initial application requesting approval of the purchase of our Kauai electric division by the Kauai Island Electric Co-Op for $270,000,000 in cash including the assumption of certain liabilities. We are considering a variety of options, including the filing of a request for reconsideration of the decision, which may include the filing of a new application.

On April 13, 2000, we announced the agreement to sell our Louisiana Gas operations to Atmos Energy Corporation for $365,000,000 in cash plus the assumption of certain liabilities. This transaction is expected to close in the first half of 2001 following regulatory approvals.

GENERAL

Order backlog is not a significant consideration in our businesses and we have no contracts or subcontracts, which may be subject to renegotiations of profits or termination at the election of the Federal government. We hold franchises from local governmental bodies, which are of varying duration. We also hold Certificates granted by various state commissions, which are generally of indefinite duration. We have no special working capital practices, and our research and development activities are not material. We hold no patents, trademarks, licenses or concessions that are material. We had approximately 7,191 employees, of whom 6,840 were associated with continuing operations and 351 were associated with discontinued operations, at December 31, 2000. We consider our relations with our employees to be good.

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

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

At December 31, 2000, we own approximately 19 % of the HTCC shares presently outstanding. Our investment in HTCC is classified as an available for sale security and accounted for using the cost method of accounting. Additionally, we have exercised our right to nominate one member of the Board of Directors of HTCC.

Item 2. Properties

We lease our Administrative Office located at 3 High Ridge Park, Stamford, CT 06905.

The operations support office for the ILEC is located in Legacy Park at 5600 Headquarters Drive, Plano, TX 75024. This owned facility accommodates approximately 1,100 employees in approximately 250,000 square feet. In addition, the ILEC has leased and owned office space in various markets throughout the United States.

The operations support office for ELI is located at 4400 NE 77th Avenue, Vancouver, WA 98662. This building is owned by ELI and accommodates approximately 700 employees in 98,000 square feet. In addition, ELI has leased

local office space in various markets throughout the United States, and also maintains a warehouse facility in Portland, Oregon. ELI also leases network hub and network equipment installation sites in various locations throughout the areas in which ELI provides services.

The ILEC and ELI own property including, but not limited to: telecommunications outside plant, central office, fiber-optic and microwave radio facilities. (See description of business for listing of locations). We believe that substantially all of our existing properties are in good condition and are suitable for the conduct of our business.

Item 3. Legal Proceedings

In November 1995, our Vermont electric division was permitted an 8.5% rate increase. Subsequently, the Vermont Public Service Board (VPSB) called into question the level of rates awarded us in connection with its formal review of allegations made by the Department of Public Service (the DPS), the consumer advocate in Vermont and a former Citizens employee. The major issues in this proceeding involved classification of certain costs to property, plant and equipment accounts and our Demand Side Management program. In addition, the DPS believed that we should have sought and received regulatory approvals prior to construction of certain facilities in prior years. On June 16, 1997, the VPSB ordered us to reduce our rates for Vermont electric service by 14.65% retroactive to November 1, 1995 and to refund to customers, with interest, all amounts collected since that time in excess of the rates then authorized by the VPSB. In addition, the VPSB assessed statutory penalties totaling $60,000 and placed us on regulatory probation for a period of at least five years. During this probationary period, we could lose our franchise to operate in Vermont if we violate the terms of probation prescribed by the VPSB. The VPSB prescribed final terms of probation in its final order issued September 15, 1998. In October 1998, we filed an appeal in the Vermont Supreme Court challenging certain of the penalties imposed by the VPSB. On December 15, 2000, the Vermont Supreme Court denied our appeal and affirmed all penalties imposed by the VPSB.

In August 1997, a lawsuit was filed in the United States District Court for the District of Connecticut (Leventhal vs. Tow, et al.) against us and five of our then existing officers, one of whom is also a director, on behalf of all persons who purchased or otherwise acquired Series A and Series B shares of our Common Stock between September 5, 1996 and July 11, 1997, inclusive. On February 9, 1998, the plaintiffs filed an amended complaint. The complaint alleged that we and the individual defendants, during such period, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based upon certain public statements made by us, which are alleged to be materially false or misleading, or are alleged to have failed to disclose information necessary to make the statements made not false or misleading. The plaintiffs sought to recover unspecified compensatory damages. We and the individual defendants believe the allegations are unfounded and filed a motion to dismiss on March 27, 1998 and on March 30, 1999 the Court dismissed the action. On April 29, 1999 the plaintiffs filed a notice of appeal with the Court of Appeals for the Second Circuit. The parties have entered into a settlement stipulation, which was approved by the District Court on January 31, 2001. Under the terms of the settlement, we have agreed, without any admission of guilt or responsibility, to pay $2.5 million to injured class members in full and final settlement of all claims. The entire amount of the settlement is covered by one or more of our insurance policies.

In March 1998, a lawsuit was filed in the United States District Court for the District of Connecticut (Ganino vs. Citizens Utilities Company, et al.), against us and three of our then existing officers, one of whom is also a director, on behalf of all purchasers of our Common Stock between May 6, 1996 and August 7, 1997, inclusive. The complaint alleges that we and the individual defendants, during such period, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by making materially false and misleading public statements concerning our relationship with a purported affiliate, Hungarian Telephone and Cable Corp. (HTCC), and by failing to disclose material information necessary to render prior statements not misleading. The plaintiff seeks to recover unspecified compensatory damages. We and the individual defendants believe that the allegations are unfounded and filed a motion to dismiss. The plaintiff requested leave to file an amended complaint and an amended complaint was served on us on July 24, 1998. Our motion to dismiss the amended complaint was filed on

October 13, 1998 and the Court dismissed the action with prejudice on June 28, 1999. The plaintiffs filed a notice of appeal with the Court of Appeals for the Second Circuit, briefing has been completed and oral argument took place April 10, 2000. The parties have entered into a settlement stipulation, which is subject to the District Court's approval. Under the terms of the proposed settlement, we have agreed, without any admission of guilt or responsibility, to pay $2.5 million to injured class members in full and final settlement of all claims. The entire amount of the proposed settlement is covered by one or more of our insurance policies.

In November 1998, a class action lawsuit was filed in state District Court for Jefferson Parish, Louisiana, against our subsidiary, LGS Natural Gas Company, and us. The lawsuit alleged that we and the other named defendants passed through in rates charged to Louisiana customers certain costs that plaintiffs contend were unlawful. The lawsuit sought compensatory damages in the amount of the alleged overcharges and punitive damages equal to three times the amount of any compensatory damages, as allowed under Louisiana law. In addition, the Louisiana Public Service Commission had opened an investigation into the allegations raised in the lawsuit. Without admitting any wrongdoing, we agreed to refund customers a total of $27 million, which represents amounts collected through our purchase gas adjustment clause, including interest for the period 1992-1997. In addition, we agreed to pay attorneys' fees to counsel representing the class action plaintiffs in both the lawsuit and the Commission investigation. The Louisiana Public Service Commission approved an agreement to settle both the Commission investigation and the class action lawsuit and concluded its investigation by order dated December 13, 2000. The District Court

approved the settlement agreement and entered its order dismissing the class action on January 4, 2001.

In addition, we are party to other proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, including those discussed above, 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 Vote of Security Holders

None in fourth quarter 2000.

Executive Officers

Information as to Executive Officers of the Company as of March 1, 2001 follows:

Name	Age	Current Position and Office
Leonard Tow	72	Chairman of the Board and Chief Executive Officer
Rudy J. Graf	52	Vice Chairman of the Board, President and Chief Operating Officer, and Director
Scott N. Schneider	43	Vice Chairman of the Board, Executive Vice President, Chairman of Citizens Capital Ventures and Director
Donald B. Armour	53	Vice President, Finance and Treasurer
Robert Braden	55	Vice President and Chief Operating Officer, Electric Lightwave Sector
John H. Casey, III	44	Vice President and Chief Operating Officer, ILEC Sector
Michael G. Harris	54	Vice President, Engineering and New Technology
Edward O. Kipperman	49	Vice President, Tax
Robert J. Larson	41	Vice President and Chief Accounting Officer
L. Russell Mitten	49	Vice President, General Counsel and Secretary
Richard Reice	41	Vice President, Human Resources, Labor and Employment Law
Livingston E. Ross	52	Vice President, Reporting and Audit
Steven D. Ward	34	Vice President, Information Technology
Michael Zarella	41	Vice President, Corporate Development

There is no family relationship between any of the officers of Citizens. 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.

LEONARD TOW has been associated with Citizens since April 1989 as a Director. In June 1990, he was elected Chairman of the Board and Chief Executive Officer. He was also Chief Financial Officer from October 1991 through November 1997. He was a Director and Chief Executive Officer of Century Communications Corp. from its

incorporation in 1973 and Chairman of its Board of Directors from October 1989 until October 1999. He is Director of Hungarian Telephone and Cable Corp., Chairman of the Board of Electric Lightwave, Inc. and is a Director of the United States Telephone Association.

RUDY J. GRAF has been associated with Citizens since September 1999. In February 2001, he was elected Vice Chairman of the Board. In July 2000, he was elected Director of Citizens. He is currently Vice Chairman of the Board, Director, President and Chief Operating Officer of Citizens. He is also Director and Chief Executive Officer of Electric Lightwave, Inc. Prior to joining Citizens, he was Director, President and Chief Operating Officer of Centennial Cellular Corp. and Chief Executive Officer of Centennial DE Puerto Rico from November 1990 to August 1999.

SCOTT N. SCHNEIDER has been associated with Citizens since October 1999. In February 2001, he was elected Vice Chairman of the Board. In July 2000, he was elected Director of Citizens. He is currently Vice Chairman of the Board, Director and Executive Vice President of Citizens and Chairman of Citizens Capital Ventures, a wholly owned subsidiary of Citizens. He is currently Director and Executive Vice President of Electric Lightwave, Inc. Prior to joining Citizens, he was Director (from October 1994 to October 1999), Chief Financial Officer (from December 1996 to October 1999), Senior Vice President and Treasurer (from June 1991 to October 1999) of Century Communications Corp. He also served as Director, Chief Financial Officer, Senior Vice President and Treasurer of Centennial Cellular from August 1991 to October 1999.

DONALD ARMOUR has been associated with Citizens since October 2000. He is currently Vice President, Finance and Treasurer. He also currently serves as Vice President and Treasurer of Electric Lightwave, Inc. Prior to joining Citizens, he was the Treasurer of the cable television division of Time Warner Inc. from January 1994 to September 2000. He was also Assistant Treasurer from August 1992 to January 1994. From August 1991 to March 1992, he was a consultant to the health care industry.

ROBERT BRADEN has been associated with Citizens since November 1999. In January 2001, he was elected President, Chief Operating Officer and Director of Electric Lightwave, Inc. He was also Vice President Business Development of Citizens from February 2000 to January 2001. Prior to joining Citizens, he was Vice President, Business Development at Century Communications Corp. from January 1999 to October 1999. He was Senior Vice President, Business Development at Centennial Cellular Corp. from June 1996 to January 1999 and held other officer positions with Centennial since November 1993.

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

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

EDWARD O. KIPPERMAN has been associated with Citizens since February 1985. He is currently Vice President, Tax. He was Assistant Treasurer from June 1989 to September 1991.

ROBERT J. LARSON has been associated with Citizens since July 2000. He is currently Vice President and Chief Accounting Officer of Citizens and of Electric Lightwave, Inc. Prior to joining Citizens, he was Vice President and Controller of Century Communications Corp. from October 1994 to October 1999. He was also Vice President, Accounting and Administration of Centennial Cellular from March 1995 to October 1999.

L. RUSSELL MITTEN has been associated with Citizens since June 1990. He is currently Vice President, General Counsel and Secretary. He was Vice President, General Counsel and Assistant Secretary from June 1991 to September 2000. He was General Counsel until June 1991.

RICHARD REICE was elected Citizens Vice President, Human Resources, Labor and

Employment Law in June 2000. Previously, he had been a shareholder in the law firm of Greenberg Traurig in its New York City office since June 1999. Prior to joining Greenberg Traurig, he worked for Citizens as the Associate General Counsel for Labor and Employment Law.

LIVINGSTON E. ROSS has been associated with Citizens since August 1977. He is currently Vice President, Reporting and Audit. He was Vice President and Chief Accounting Officer from December 1999 to July 2000 and Vice President and Controller from December 1991 to December 1999.

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

MICHAEL ZARELLA has been associated with Citizens since December 1999. He was elected Vice President, Corporate Development in October 2000. Prior to joining Citizens, he was Group Vice President of Finance for Century Communications Corp. from June 1996 to December 1999 and Director, Financial Analysis from October 1990 to June 1996.

PART II

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

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 as taken from the daily quotations published in The Wall Street Journal during the periods indicated.

	2000		1999	
	High	Low	High	Low
First quarter	$ 17.06	$ 13.75	$ 8.50	$ 7.25
Second quarter	$ 18.00	$ 14.31	$ 11.50	$ 7.69
Third quarter	$ 19.00	$ 13.00	$ 12.44	$ 10.88
Fourth quarter	$ 15.31	$ 12.50	$ 14.31	$ 10.94

As of February 28, 2001, the approximate number of record security holders of our Common Stock was 37,753. This information was obtained from our transfer agent.

DIVIDENDS

The amount and timing of dividends payable on Common Stock are within the sole discretion of our Board of Directors. Our Board of Directors discontinued the payment of dividends after the payment of the December 1998 stock dividend.

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

None

Item 6. Selected Financial Data

($ in thousands, except per share amounts)	Year Ended December 31,				
	2000	1999	1998	1997	1996
Revenue (1)	$ 1,802,358	$ 1,598,236	$ 1,448,588	$ 1,303,901	$ 1,218,222
Income (loss) from continuing operations before cumulative effect of change in accounting principle	$ (40,071)	$ 136,599	$ 46,444	$ 2,066	$ 160,483
Net income (loss)	$ (28,394)	$ 144,486	$ 57,060	$ 10,100	$ 178,660
Basic income (loss) per share of Common Stock from continuing operations before cumulative					

effect of change in accounting principle	$ (0.15)	$ 0.52	$ 0.18	$ 0.01	$ 0.61
Basic net income (loss) per common share (2)	$ (0.11)	$ 0.55	$ 0.22	$ 0.04	$ 0.68
Stock dividends declared on Common Stock (3)	-	-	3.03%	5.30%	6.56%

	As of December 31,				
	2000	1999	1998	1997	1996
Total assets	$ 6,955,006	$ 5,771,745	$ 5,292,932	$ 4,872,852	$ 4,523,148
Long-term debt	$ 3,062,289	$ 2,107,460	$ 1,819,555	$ 1,627,388	$ 1,454,421
Shareholders' equity	$ 1,720,001	$ 1,919,935	$ 1,792,771	$ 1,679,211	$ 1,678,183

(1) Represents revenue from continuing operations.
(2) 1997 and 1996 are adjusted for subsequent stock dividends.
(3) Compounded annual rate of quarterly stock dividends.

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

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 Litigation Reform Act of 1995. In addition, words such as "believes", "anticipates", "expects" and similar expressions are intended to identify "forward-looking statements". Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, any of the following possibilities:

- Our ability to timely consummate our pending acquisitions and effectively manage our growth including, but not limited to, the integration of newly acquired operations into our operations and otherwise monitor our operations, costs, regulatory compliance and service quality;

- Our ability to divest our public services businesses;

- Our ability to successfully introduce new product offerings on a timely and cost effective basis including, but not limited to, our ability to offer bundled service packages on terms attractive to our customers and our ability to offer second lines and enhanced services to markets currently under-penetrated;

- Our ability to expand through attractively priced acquisitions;

- Our ability to identify future markets and successfully expand existing ones;

- Our ability to obtain new financing on favorable terms;

- 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;

- ELI's ability to complete a public or private financing that would provide the funds necessary to finance its cash requirements;

- The effects of rapid technological changes including, but not limited to, 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 changes in regulation in the telecommunications industry as a result of the 1996 Act and other similar federal and state legislation and regulation;

- The future applicability of Statement of Financial Accounting Standard No. 71, "Accounting for Certain Types of Regulation" to certain of our ILEC subsidiaries;

- The effects of more general factors including, but not limited to, changes in economic conditions; changes in the capital markets; changes in industry

conditions; changes in our credit rating; and changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles.

You should consider these important factors in evaluating any statement in this Form 10-K or otherwise made by us or on our behalf. The following information 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.

(a) Liquidity and Capital Resources

For the year ended December 31, 2000, we used cash flow from operations and proceeds from net financings to fund capital expenditures and acquisitions.

We have available lines of credit with financial institutions in the amounts of $5.7 billion, with associated facility fees of 0.10% per annum and $450 million with no associated facility fees. These lines of credit expire on October 26, 2001 and provide us with one-year term-out options. These credit facilities are in addition to credit commitments under which we may borrow up to $200 million, with associated facility fees of 0.12% per annum, which expire on December 16, 2003. As of December 31, 2000, there was $765 million outstanding under the $5.7 billion credit facility, as well as $109 million in commercial paper backed by the $5.7 billion credit facility. We intend to raise capital through public or private debt or equity financings, or other financing arrangements to replace a portion of this indebtedness.

ELI has $400 million of committed revolving lines of credit with commercial banks, which expire November 21, 2002, under which it has borrowed $400 million at December 31, 2000. The ELI credit facility has an associated facility fee of 0.08% per annum. We have guaranteed all of ELI's obligations under these revolving lines of credit.

We have committed to continue to finance ELI's cash requirements until the earlier of the completion of a public or private financing which would provide the funds necessary to support their cash requirements. We extended a revolving credit facility to ELI for $450 million with an interest rate of 15% and a final maturity of October 30, 2005. Funds of $260 million for general corporate purposes are available to be drawn until March 31, 2002. The remaining balance may be drawn by ELI to pay interest expense due under the facility. In 2000, we advanced $38 million to ELI.

In June, August and November 2000, we completed the purchase of approximately 62,200, 142,400 and 112,900 telephone access lines (as of December 31, 2000) in Nebraska, Minnesota, and Illinois/Wisconsin, respectively, from Verizon. These transactions totaled approximately $205 million, $439 million and $304 million, respectively, and were funded from direct drawdowns on our credit line, commercial paper issuances and proceeds from sales of investments.

In October 2000, we completed the purchase of approximately 17,000 telephone access lines (as of December 31, 2000) in North Dakota from Qwest. This transaction totaled approximately $38 million and was funded from commercial paper issuances.

In June 2000, we arranged for the issuance of $19.6 million of 2000 Series special purpose revenue bonds as money market bonds with an initial interest rate of 4.6% and a maturity date of December 1, 2020. The proceeds were used to fund and/or pre-fund expenditures for construction, extension, improvement and purchase of facilities of the gas division in Hawaii.

In August and October 2000, one of our subsidiaries, Citizens Utilities Rural Company, was advanced $.3 million and $2.7 million, respectively, under its Rural Utilities Services Loan Contract. The initial interest rate on the advances was 5.78% with an ultimate maturity date of November 1, 2016.

At December 31, 2000, we have classified $150 million of debentures as long term debt due within one year on our balance sheet. Of this amount, $50 million will mature on September 1, 2001 and $100 million is redeemable at par at the option

of the holders on October 1, 2001.

We have budgeted approximately $750 million for our 2001 capital projects, including approximately $654 million for ILEC and ELI and approximately $96 million for public services. We anticipate that the funds necessary for our 2001 capital expenditures will be provided from operations and from advances of Rural Utilities Service loan contracts. If required, we may use funding from additional sources: commercial paper notes payable, debt, equity and other financing at appropriate times and borrowings under bank credit facilities. Capital expenditures for discontinued operations and assets held for sale will also be funded through requisitions of Industrial Development Revenue Bond construction fund trust accounts and from parties desiring utility service. Upon disposition, we will receive reimbursement of certain 1999 and 2000 actual capital expenditures and certain 2001 budgeted capital expenditures pursuant to the terms of each respective sales agreement.

Acquisitions

From May 27, 1999 through July 12, 2000 we entered into several agreements to acquire approximately 2,034,700 telephone access lines (as of December 31, 2000) for approximately $6,471,000,000 in cash. These transactions have been and will be accounted for using the purchase method of accounting. The results of operations of the acquired properties have been and will be included in our financial statements from the dates of acquisition of each property. These agreements and the status of each transaction are described as follows:

On May 27, September 21, and December 16, 1999, we announced definitive agreements to purchase from Verizon approximately 381,200 telephone access lines (as of December 31, 2000) in Arizona, California, Illinois/Wisconsin, Minnesota and Nebraska for approximately $1,171,000,000 in cash. These acquisitions are subject to various state and federal regulatory approvals. On June 30, 2000, we closed on the Nebraska purchase of approximately 62,200 telephone access lines for approximately $205,000,000 in cash. On August 31, 2000, we closed on the Minnesota purchase of approximately 142,400 telephone access lines for approximately $439,000,000 in cash. On November 30, 2000, we closed on the Illinois/Wisconsin purchase of approximately 112,900 telephone access lines for approximately $304,000,000 in cash. We expect that the remainder of the Verizon transactions will close on a state-by-state basis in the first half of 2001.

On June 16, 1999, we announced a series of definitive agreements to purchase from Qwest approximately 556,800 telephone access lines (as of December 31, 2000) in Arizona, Colorado, Idaho/Washington, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately $1,650,000,000 in cash and the assumption of certain liabilities. On October 31, 2000, we closed on the North Dakota purchase of approximately 17,000 telephone access lines for approximately $38,000,000 in cash. We expect that the remainder of the Qwest acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis by the end of the first quarter of 2002.

On July 12, 2000, we announced a definitive agreement to purchase from Global 100% of the stock of Frontier Corp., which owns approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately $3,650,000,000 in cash. We expect that this transaction, which is subject to various state and federal regulatory approvals, will be completed in the second half of 2001.

We have and/or expect to temporarily fund these telephone access line purchases with cash and investment balances, proceeds from commercial paper issuances, backed by the credit commitments, and borrowings under lines of credit, as described in the Liquidity and Capital Resource section above. Permanent funding is expected to include, but not be limited to, cash and investment balances, the proceeds from the divestiture of our public services businesses, direct drawdowns from certain of the credit facilities and issuances of debt and equity securities, or other financing arrangements.

Divestitures

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public services businesses, which include gas, electric and water and wastewater businesses. The proceeds from the sales of these public services businesses will be used to partially fund the telephone access line purchases discussed above.

Currently, we have agreements to sell all our water and wastewater operations, one of our electric operations and one of our natural gas operations. The proceeds from these agreements will include approximately $1,470,000,000 in cash plus the assumption of certain liabilities. These agreements and the status of each transaction are described as follows:

On October 18, 1999, we announced the agreement to sell our water and wastewater operations to American Water Works, Inc. for $745,000,000 in cash and $90,000,000 of assumed debt. These transactions are currently expected to close in the second half of 2001 following regulatory approvals.

On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. (Cap Rock). Cap Rock has failed to raise the required financing and obtain the required regulatory approval necessary to meet its obligations under the contract for sale. The agreement with Cap Rock was terminated on March 7, 2001. It is our intention to pursue the disposition of the Vermont and Arizona electric divisions with alternative buyers. In August 2000, the HPUC denied the initial application requesting approval of the purchase of our Kauai electric division by the Kauai Island Electric Co-Op for $270,000,000 in cash including the assumption of certain liabilities. We are considering a variety of options, including filing a request for reconsideration of the decision, which may include filing a new application.

On April 13, 2000, we announced the agreement to sell our Louisiana Gas operations to Atmos Energy Corporation for $365,000,000 in cash plus the assumption of certain liabilities. This transaction is expected to close in the first half of 2001 following regulatory approvals.

Discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss) reflect the results of operations of the water and wastewater properties including allocated interest expense for the periods presented. Interest expense was allocated to the discontinued operations based on the outstanding debt specifically identified with these businesses. The long-term debt presented in liabilities of discontinued operations represents the only liability to be assumed by the buyer pursuant to the water and wastewater asset sale agreements.

In 1999, we initially accounted for the planned divestiture of all the public services properties as discontinued operations. As of December 31, 2000, we do not have agreements to sell our entire gas and electric segments. Consequently, in the third and fourth quarters of 2000, we reclassified all of our gas and electric assets and their related liabilities to "assets held for sale" and "liabilities related to assets held for sale", respectively, we also reclassified the results of these operations from discontinued operations to their original income statement captions as part of continuing operations and restated the 1999 balance sheet to conform to the current presentation. Additionally, because both our gas and electric operations are expected to be sold at a profit, we ceased to record depreciation expense on the gas assets effective October 1, 2000 and on the electric assets effective January 1, 2001. We are continuing to actively pursue buyers for our remaining gas and electric businesses.

Share Purchase Program

In December 1999, our Board of Directors authorized the purchase of up to $100,000,000 worth of shares of our common stock. This share purchase program was completed in early April 2000 and resulted in the acquisition or contract to acquire approximately 6,165,000 shares of our common stock. Of those shares, 2,500,000 shares were purchased for approximately $40,959,000 in cash and we entered into equity forward contracts for the acquisition of the remaining 3,665,000 shares.

In April 2000, our Board of Directors authorized the purchase of up to an additional $100,000,000 worth of shares of our common stock. This share purchase program was completed in July 2000 and resulted in the acquisition or contract to acquire approximately 5,927,000 shares of our common stock. Of these shares, 452,000 shares were purchased for approximately $8,250,000 in cash and we entered into equity forward contracts for the acquisition of the remaining 5,475,000 shares.

In addition to our share purchase programs described above, in April 2000, our Board of Directors authorized the purchase of up to $25,000,000 worth of shares of Class A common stock of ELI, our 85% owned subsidiary, on the open market or in negotiated transactions. This ELI share purchase program was completed in August 2000 and resulted in the acquisition of approximately 1,288,000 shares of ELI common stock for approximately $25,000,000 in cash. In August 2000, our Board of Directors authorized the purchase of up to an additional 1,000,000 shares of ELI on the open market or in negotiated transactions. The second ELI share purchase program was completed in September 2000 and resulted in the acquisition of approximately 1,000,000 shares of ELI common stock for approximately $13,748,000 in cash.

Regulatory Environment

On October 19, 1999, we entered into an agreement with the Staff and Consumer Advocate Division of the West Virginia Public Service Commission to continue our incentive regulation plan through 2002. Under this agreement, we agreed to reduce access rates beginning July 1, 2000 and other service rates beginning February 28, 2000 by a total of $2.9 million annually. In return, we will be free of earnings regulation for three years, commencing January 1, 2000, and have some pricing flexibility for non-basic services.

During the past year the decrease in the availability of power in certain areas of the country has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, we are currently disputing excessive power costs charged by our power supplier in the amount of approximately $57 million through December 31, 2000. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we have requested that this deferred amount, plus interest, be recovered over a three-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering certain amounts either through renegotiations or through the regulatory process.

In the fourth quarter of 2000, we settled a proceeding with the Louisiana Public Service Commission. As a result, our Louisiana Gas Service subsidiary refunded approximately $27 million to ratepayers during the month of January 2001. The refund was effected as a credit on customers' bills. The entire refund represents amounts that had been collected by us through our purchase adjustment clause, plus interest, for the period 1992 - 1997 and was recorded by us in the fourth quarter of 2000 as a reduction to revenue. Related legal fees of approximately $2.7 million were also recorded in that period. The Louisiana Gas Service business is to be sold to Atmos Energy Co. and the sale is expected to close in the first half of 2001 following regulatory approval.

For interstate services regulated by the FCC, we have elected a form of incentive regulation known as price caps. Under price caps, interstate access rates are capped and adjusted annually by the difference between the level of inflation and a productivity factor. Most recently the productivity factor was set at 6.5%. Given the relatively low inflation rate in recent years, interstate access rates have been adjusted downward annually. In May 2000, the FCC adopted a revised methodology for regulating the interstate access rates of price cap companies for the next five years. The new program, known as the CALLs plan, establishes a price floor for interstate-switched access services and phases out many of the subsidies in interstate access rates. Though end-user charges and an expanded universal service program will continue to benefit rural service providers such as our ILEC, they will also offset much of the reduction in interstate access rates. Annual adjustments based on the difference between inflation and the 6.5% productivity factor will continue for several years until the price floor for interstate switched access services is reached.

Certain of our ILEC operations and all of our public services operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". For these entities, the actions of a regulator can provide reasonable assurance of the existence of an asset or impose a regulatory liability. These regulatory assets and liabilities are required to be reflected in the balance sheet in anticipation of future recovery through the ratemaking process.

Our consolidated balance sheet as of December 31, 2000 included regulatory assets of approximately $62.0 million and regulatory liabilities of approximately $4.1 million associated with our local exchange telephone operations. The remainder of the regulatory assets and regulatory liabilities on the balance sheet are associated with assets and liabilities held for sale and discontinued operations. In addition, property, plant and equipment for the properties subject to SFAS 71 have been depreciated using the straight-line method over plant lives approved by regulators. Such depreciable lives may exceed the lives that would have been used if we did not operate in a regulated environment.

SFAS No. 101 "Regulated Enterprises Accounting for the Discontinuance of Application of SFAS No. 71" specifies the accounting required when the regulated operations of an enterprise are no longer expected to meet the provisions of SFAS 71 in the future due to changes in regulations, competition and the operations of regulated entities. SFAS 101 would require the write-off of a portion of our regulatory assets and liabilities as a net non-cash charge or credit to income, if it were determined that the conditions requiring the use of SFAS 71 no longer apply in the future. SFAS 101 further provides that the carrying amount of property, plant and equipment would be adjusted to reflect the use of shorter depreciation lives only to the extent that the net book value of these assets are impaired.

The ongoing applicability of SFAS 71 to our regulated telephone operations is continually monitored due to the changing regulatory, competitive and legislative environment and the changes that may occur in our future operations as we acquire and consolidate our local exchange telephone operations. It is possible that future environmental changes, or changes in the demand for our products and services could result in our telephone operations no longer being subject to the provisions of SFAS 71. If discontinuation of SFAS 71 becomes appropriate, the accounting may result in a material non-cash effect on our results of operations and financial position that can not be estimated at this time.

New Accounting Pronouncements

In September 2000, the Emerging Issues Task Force (EITF) issued EITF Issue 00-19, "Determination of Whether Share Settlement Is within the Control of the Issuer for Purposes of Applying Issue No. 96-13, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The EITF clarifies when financial instruments that are indexed to or potentially settled in a company's own stock are to be classified as an asset or liability and when they are to be classified as equity or temporary equity. The EITF allows for a transition period for contracts existing at the date of the consensus and remaining outstanding at June 30, 2001 in order to allow time for contracts to be modified in order for a company to continue to account for certain contracts as equity after June 30, 2001.

The equity forward contracts do not meet the requirements for presentation within the stockholders' equity section at December 31, 2000. As a result, they have been reflected as a reduction of Stockholders' equity and a component of temporary equity for the gross settlement amount of the contracts. Current accounting rules permit a transition period until June 30, 2001 to amend the contracts to comply with the requirements for permanent equity presentation. If an agreement with the counterparty to the contracts can be reached by June 30, 2001, the current impact of the classification to temporary equity will be reversed and the gross settlement amount will again be presented in permanent equity with no adjustment until final settlement. If an agreement with the counterparty cannot be reached by June 30, 2001, not only will the current impact be reversed as noted above, but we will be required to record the change in fair value of the equity forward from inception to that date as an asset or a liability with the offset recorded as a cumulative effect of change in

accounting principle with future changes to the fair value recorded in earnings.

If we were required to apply the guidance required at June 30, 2001, in the accompanying financial statements based on the fair value of the contracts as of December 31, 2000, it would have reflected a charge as a cumulative effect of a change in accounting principle and an offsetting liability of approximately $30 million.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The statement requires balance sheet recognition of derivatives as assets or liabilities measured at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. The adoption of SFAS 133 could increase the volatility of reported earnings and other comprehensive income in the future. In general, the amount of volatility will vary with the level of derivative activities during any period. As of January 1, 2001, we have adopted SFAS 133 and have not identified any derivative instruments subject to the provisions of SFAS 133. Therefore, SFAS 133 will not have any impact on our 2001 financial statements upon adoption.

(b) Results of Operations

REVENUE

Consolidated revenue increased $204.1 million, or 13%, in 2000 and $149.6 million, or 10%, in 1999. The increase in 2000 was primarily due to the pass-through to customers of the increased cost of gas, electric energy and fuel oil purchased as well as ILEC acquisitions and increased ELI revenue. The increase in 1999 was primarily due to increased ILEC network access services revenue and ELI revenue.

ILEC REVENUE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Network access services	$ 513,431	2%	$ 503,634	17%	$ 432,018
Local network services	314,343	14%	276,468	4%	266,558
Long distance and data services	83,703	9%	76,495	-21%	96,584
Directory services	32,266	15%	27,939	4%	26,934
Other	62,626	-3%	64,732	43%	45,352
Eliminations(1)	(42,626)	-7%	(46,031)	42%	(32,407)
	$ 963,743	7%	$ 903,237	8%	$ 835,039

(1) Eliminations represent network access revenue received by our local exchange operations from our long distance operations.

We acquired the Verizon Nebraska access lines on June 30, 2000, the Verizon Minnesota access lines on August 31, 2000, the Qwest North Dakota access lines on October 31, 2000 and the Verizon Illinois/Wisconsin access lines on November 30, 2000 (collectively referred to as the Acquisitions). These Acquisitions contributed $49.5 million of revenue in 2000.

Network access services revenue increased $9.8 million, or 2%, in 2000 primarily due to the $23.9 million impact of the Acquisitions and $15.4 million related to growth in minutes of use and special access revenue. These increases were partially offset by a non-recurring $10.4 million interstate universal service fund (USF) settlement received in the first quarter of 1999, the effect of CALLS (see Regulatory Environment) of $14.8 million, settlements with long distance carriers of $2.3 million in 1999, and the price effect of a July 1999 FCC tariff

adjustment of $1.8 million. Network access services revenue increased $71.6 million, or 17%, in 1999, primarily due to increased minutes of use, increased special access revenue, a non-recurring $10.4 million interstate USF settlement and a full year of revenue from the acquisition of Rhinelander Telecommunications, Inc. (RTI) in November 1998.

Local network services revenue increased $37.9 million, or 14%, in 2000. The Acquisitions contributed $23.8 million, enhanced services increased $6.3 million due to increased demand for these services, access line growth of 26,000 contributed $5.0 million and frame relay, data and ISDN increased $4.0 million. These increases were partially offset by an Extended Area Service revenue phase-out in New York of $3.1 million. Local network services revenue increased $9.9 million, or 4%, in 1999 primarily due to business and residential access line growth, increased custom calling features and private line sales and the acquisition of RTI.

Long distance and data services revenue increased $7.2 million, or 9%, in 2000 primarily due to increased Internet revenue of $4.0 million and increased remote call forwarding of $2.7 million. Long distance and data services revenue decreased $20.1 million, or 21%, in 1999 primarily due to the elimination of long distance product offerings to out-of-territory customers, partially offset by increased long distance minutes of use by in-territory customers.

Directory services revenue increased $4.3 million, or 15%, in 2000 primarily due to increased directory advertising and listing sales. The Acquisitions contributed $1.0 million to the increase in 2000. Directory services revenue increased $1.0 million, or 4%, in 1999 primarily due to the acquisition of RTI and increased advertising revenue.

Other revenue decreased $2.1 million, or 3%, in 2000 resulting from a decrease in billing and collections revenue of $6.4 million and an increase in the reserve for uncollectibles. These decreases were partially offset by increased revenue from the Acquisitions of $0.8 million, an increase of $2.8 million in conference call revenue and an increase of $0.3 million in cable revenue. Other revenue increased $19.4 million, or 43%, in 1999 primarily due to increased billing and collections revenue, partially offset by the phasing out of certain surcharges resulting from rate case decisions in California and New York.

ELI REVENUE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Network services	$ 77,437	45%	$ 53,249	46%	$ 36,589
Local telephone services	98,643	27%	77,591	103%	38,169
Long distance services	16,318	-39%	26,698	117%	12,309
Data services	51,579	75%	29,470	113%	13,813
	243,977	30%	187,008	85%	100,880
Intersegment revenue(1)	(3,185)	13%	(2,817)	-8%	(3,061)
	$ 240,792	31%	$ 184,191	88%	$ 97,819

(1) Intersegment revenue reflects revenue received by ELI from our ILEC operations.

Network services revenue increased $24.2 million, or 45%, in 2000 primarily due to continued growth in our network and sales of additional high bandwidth, DS-3 and OC level circuits to new and existing customers. Network services revenue increased $16.7 million, or 46%, in 1999 primarily due to the expansion of our network and the sale of additional circuits to new and existing customers.

Local telephone services revenue increased $21.0 million, or 27%, in 2000 and $39.4 million, or 103%, in 1999. Local telephone services include dial tone, ISDN PRI, Carrier Access Billings and reciprocal compensation.

ISDN PRI revenue increased $11.5 million, or 52%, in 2000 and $12.7 million, or 135%, in 1999. Dial tone revenue increased $5.6 million, or 41%, in 2000 and $6.9 million, or 101%, in 1999. Increases in revenue for both ISDN PRI and dial tone is the result of an increase in the average access line equivalents of 64,206, or 46%, in 2000 and 86,631, or 115%, in 1999.

Carrier Access Billings revenue decreased $0.3 million, or 4% in 2000 and increased $3.7 million, or 113%, in 1999. The change is due to an increase in average monthly minutes processed of 15.0 million, or 77%, in 2000 and 11.2 million, or 133%, in 1999. For 2000, the increase in minutes processed were offset by the effects of lower average rates per minute primarily due to competitive pressures in the markets in which we operate. For 1999, the increase in minutes processed was only partially offset by lower average rates per minute due to competitive pressures in the markets in which we operate.

Reciprocal compensation revenue increased $4.2 million, or 12%, in 2000 and $16.1 million, or 87%, in 1999. The increase for 2000 is due to interconnection agreements being in place with Verizon and PacBell during all of 2000 that were not in place for all twelve months in 1999, partially offset by lower rates applicable to new interconnection agreements effective January 1, 2000. The increase for 1999 is due to new interconnection agreements being in place with Qwest, Verizon and PacBell during parts of 1999 that were not in place at all in 1998.

Long distance services revenue decreased $10.4 million, or 39%, in 2000 and increased $14.4 million, or 117%, in 1999. Long distance services include retail long distance, wholesale long distance and prepaid services.

Retail long distance revenue increased $2.3 million, or 35%, in 2000 and $3.6 million, or 117%, in 1999. The increase is due to an increase in average monthly minutes processed of 3.1 million, or 47%, in 2000 and 3.6 million, or 118%, in 1999, partially offset by lower average rates per minute.

Wholesale long distance revenue increased $0.1 million, or 2%, in 2000 and $2.9 million, or 86%, in 1999. The increase is due to an increase in average monthly minutes processed of 0.9 million, or 6%, in 2000 and 10.3 million, or 174%, in 1999, partially offset by lower average rates per minute.

Prepaid services revenue decreased $12.8 million, or 93%, in 2000 and increased $7.9 million, or 134%, in 1999. The decrease in 2000 is due to our decision to exit the prepaid services market in the third quarter of 1999. The increase in 1999 is primarily due to an increase in minutes processed.

Data services revenue increased $22.1 million, or 75%, in 2000 and $15.6 million, or 113%, in 1999. Data services include Internet, RSVP and other services.

Revenue from our Internet services product increased $6.1 million, or 53%, in 2000 and $6.4 million, or 93%, in 1999. Revenue from our RSVP products increased $2.5 million, or 227%, in 2000 and $1.0 million, or 684%, in 1999.

Data services revenue also increased $13.2 million, or 200%, in 2000 and $6.6 million, or 100%, in 1999, as the result of an 18-month take-or-pay contract with a significant customer that expired on February 28, 2001 and which was not renewed. This take-or-pay contract provided $19.8 million in 2000 and $3.3 million in revenue for 2001.

GAS REVENUE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount

Gas revenue	$ 374,751	22%	$ 306,986	-6%	$ 325,423

Gas revenue increased $67.8 million, or 22%, in 2000 primarily due to higher purchased gas costs passed on to customers, partially offset by a $27 million settlement of a proceeding with the Louisiana Public Service Commission during the fourth quarter of 2000. Gas revenue decreased $18.4 million, or 6%, in 1999 primarily due to lower purchased gas costs passed on to customers and decreased unit sales due to warmer weather conditions. Under tariff provisions, increases in our costs of gas purchased are largely passed on to customers.

ELECTRIC REVENUUE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Electric revenue	$ 223,072	9%	$ 203,822	7%	$ 190,307

Electric revenue increased $19.3 million, or 9%, in 2000 primarily due to higher supplier prices passed on to customers and increased consumption. Electric revenue increased $13.5 million, or 7%, in 1999 primarily due to increased consumption and customer growth. Under tariff provisions, increases in our costs of electric energy and fuel oil purchased are largely passed on to customers.

During the past year the decrease in the availability of power in certain areas of the country has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, we are currently disputing excessive power costs charged by our power supplier in the amount of approximately $57 million through December 31, 2000. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we have requested that this deferred amount, plus interest, be recovered over a three-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering certain amounts either through renegotiations or through the regulatory process.

COST OF SERVICES

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Gas purchased	$ 229,538	50%	$ 152,667	-8%	$ 166,829
Electric energy and fuel oil purchased	113,965	16%	98,533	12%	87,930
Network access	151,239	-5%	159,454	14%	140,471
Eliminations(1)	(45,621)	-7%	(48,848)	38%	(35,468)
	$ 449,121	24%	$ 361,806	1%	$ 359,762

(1)Eliminations represent expenses incurred by our long distance operations related to network access services provided by our local exchange operations and expenses incurred by our ILEC operations related to network services provided by ELI.

Gas purchased increased $76.9 million, or 50%, in 2000 primarily due to higher

purchased gas costs. Gas purchased decreased $14.2 million, or 8%, in 1999 primarily due to lower purchased gas costs. Under tariff provisions, increases in our costs of gas purchased are largely passed on to customers.

Electric energy and fuel oil purchased increased $15.4 million, or 16%, in 2000 primarily due to higher supplier prices and increased consumption. Electric energy and fuel oil purchased increased $10.6 million, or 12%, in 1999 primarily due to increased consumption and customer growth. Under tariff provisions, increases in our costs of electric energy and fuel oil purchased are largely passed on to customers. Gas, electric energy and fuel oil purchased excludes amounts deferred for future recovery in rates.

Network access expenses decreased $8.2 million, or 5%, in 2000 primarily due to a reduction in costs related to the 1999 exit of ELI's prepaid services business, partially offset by increased costs related to increased revenue growth and network expansion at ELI. Network access expense increased $19.0 million, or 14%, in 1999 primarily due to expenses related to the ELI national data expansion, partially offset by decreased ILEC sector long distance minutes of use from out-of-territory long distance customers.

DEPRECIATION AND AMORTIZATION EXPENSE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Depreciation expense	$ 369,930	20%	$ 307,428	27%	$ 242,791
Amortization expense	17,677	541%	2,757	3%	2,684
	$ 387,607	25%	$ 310,185	26%	$ 245,475

Depreciation expense increased $62.5 million, or 20%, in 2000 primarily due to higher plant in service balances for newly completed communications network facilities and electronics at ELI, increased property, plant and equipment, the impact of the Acquisitions of $14.6 million and an increase of $12.6 million in accelerated depreciation related to the change in useful life of an operating system in the ILEC sector. Depreciation expense was partially offset by $6.8 million of decreased depreciation expense resulting from the classification of our gas sector as "assets held for sale." Depreciation on gross gas property, plant and equipment was discontinued effective October 1, 2000. Depreciation expense increased $64.7 million, or 27%, in 1999 primarily due to increased property, plant and equipment and the acquisition of RTI in November 1998. The increase also includes $4.8 million of accelerated depreciation related to the change in useful life of an operating system in the ILEC sector.

Amortization expense increased $14.9 million, or 541%, in 2000 primarily due to amortization of goodwill related to the Acquisitions of $13.6 million.

OTHER OPERATING EXPENSES

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Operating expenses	$ 645,731	-6%	$ 683,322	23%	$ 556,804
Taxes other than income taxes	100,101	-2%	102,357	15%	89,181
Sales and marketing	60,382	-10%	67,298	42%	47,325
Eliminations(1)	(2,314)	130%	(1,008)	9%	(921)
	$ 803,900	-6%	$ 851,969	23%	$ 692,389

(1)Eliminations represent the elimination of intercompany administrative fees charged to ELI.

Operating expenses decreased $37.6 million, or 6%, in 2000 primarily due to the following items which were incurred in 1999: asset impairment charges of $36.1 million related to the discontinuation of the development of certain operational systems and certain regulatory assets deemed to be no longer recoverable, Y2K expenses of $17.3 million, restructuring charges related to our corporate office of $5.2 million, costs associated with an executive retirement agreement of $6.0 million and separation costs of $4.6 million. The 2000 amount also decreased due to $5.1 million of various expense reductions in the ILEC sector resulting from outsourcing and productivity enhancements. The decreases were partially offset by $15.1 million of increased operating expenses in 2000 related to the Acquisitions, increased operating costs of $11.0 million at ELI to support the expanded delivery of services and legal fees in the gas sector of $2.7 million associated with the settlement of a proceeding with the Louisiana Public Service Commission during the fourth quarter of 2000. Operating expenses increased $126.5 million, or 23%, in 1999 primarily due to asset impairment charges of $36.1 million related to the discontinuation of the development of certain operational systems and certain regulatory assets deemed to be no longer recoverable, Y2K expenses of $17.3 million, restructuring charges related to our corporate office of $5.2 million, costs associated with an executive retirement agreement of $6.0 million and separation costs of $4.6 million, the full year impact of RTI and ELI expenses relating to the expansion of data services and product exit costs.

Taxes other than income taxes decreased $2.3 million, or 2%, in 2000 primarily due to decreased payroll taxes resulting from a reduction in headcount in the gas and electric sectors, a payroll tax adjustment in the gas sector in 1999 and a reduction in property taxes. Taxes other than income increased $13.2 million, or 15%, in 1999 primarily due to increases in payroll and property taxes.

Sales and marketing expenses decreased $6.9 million, or 10%, in 2000 primarily due to headcount reductions resulting from exiting ELI's prepaid services business in 1999. Sales and marketing expenses increased $20.0 million, or 42%, in 1999 primarily due to increased personnel and product advertising to support the delivery of services in existing and new markets including the expansion of ELI data services and products.

ACQUISITION ASSIMILATION EXPENSE

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Acquisition assimilation expense	$ 39,929	920%	$ 3,916	N/A	$ -

Acquisition assimilation expense of $39.9 million and $3.9 million, in 2000 and 1999, respectively, is related to the completed and pending acquisitions of over 2 million telephone access lines. As we complete the acquisitions currently under contracts, we will continue to incur additional assimilation costs into 2001.

INCOME FROM OPERATIONS

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount

Income from operations	$ 121,801	73%	$ 70,360	-53%	$ 150,962

Income from operations increased $51.4 million, or 73%, in 2000 primarily due to the Acquisitions, decreased ELI operating losses and decreased operating expenses, partially offset by increased acquisition assimilation expense, the settlement of a proceeding with the Louisiana Public Service Commission and increased depreciation expense. Income from operations for 1999 included the $10.4 million USF settlement recorded. Income from operations decreased $80.6 million, or 53%, in 1999 primarily due to increased ELI losses and increased operating expenses.

INVESTMENT AND OTHER LOSS, NET/MINORITY INTEREST/INTEREST EXPENSE/INCOME TAXES

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Investment income, net	$ 4,736	-98%	$ 243,885	654%	$ 32,352
Other loss, net	$ (1,386)	-1475%	$ (88)	100%	$ (26,236)
Minority interest	$ 12,222	-47%	$ 23,227	66%	$ 14,032
Interest expense	$187,366	57%	$ 119,675	18%	$ 101,796
Income taxes (benefit)	$(16,132)	-122%	$ 74,900	350%	$ 16,660

Investment income decreased $239.1 million, or 98%, in 2000 primarily due to the $69.5 million gain on the sale of our investment in Centennial Cellular Corp. in January 1999, the $67.6 million gain on the sale of our investment in Century Communication Corp. in October 1999 and the $83.9 million gain on the sale of our investment in the cable joint venture in October 1999. The remaining decrease is primarily due to realized losses of $18.3 million on sales of available for sale securities to fund acquisitions. Investment income increased $211.5 million, or 654%, in 1999 primarily due to the $69.5 million gain on the sale of our investment in Centennial Cellular Corp. in January 1999, the $67.6 million gain on the sale of our investment in Century Communication Corp. in October 1999 and the $83.9 million gain on the sale of our investment in the cable joint venture in October 1999.

Other loss, net decreased $1.3 million, or 1,475%, in 2000 primarily due to a decrease in the equity component of the allowance for funds used during construction (AFUDC). Other loss, net increased $26.1 million, or 100%, in 1999 primarily due to the recognition of a $31.9 million loss resulting from the decline in value of the HTCC investment in 1998.

Minority interest represents the minority's share of ELI's net loss (minority interest in subsidiary, as presented on the balance sheet at December 31, 1999, represents the minority's share of ELI's equity capital). Since ELI's public offering, we recorded minority interest on our income statement and reduced minority interest on our balance sheet by the amount of the minority interests' share of ELI's losses. As of June 30, 2000, the minority interest on the balance sheet had been reduced to zero, therefore, from that point going forward, we discontinued recording minority interest income on our income statement as there is no obligation for the minority interests to provide additional funding for ELI. Therefore, we are recording ELI's entire loss in our consolidated results.

Interest expense increased $67.7 million, or 57%, in 2000 primarily due to a $24.8 million increase in ELI's interest expense related to increased borrowings and higher interest rates, $17.8 million increase due to an increase in our commercial paper outstanding used to fund acquisitions, and $14.9 million for amortization of costs associated with our committed bank credit facilities. A reduction in capitalized interest of $4.0 million due to lower average capital work in process balances at ELI also contributed to the increase. During the year ended December 31, 2000, we had average long-term debt outstanding of $2.6 billion compared to $2.0 billion during the year ended December 31, 1999. Interest expense increased $17.9 million, or 18%, in 1999 primarily due to increased ELI net borrowings, partially offset by decreased short-term debt balances. During the year ended December 31, 1999, we had average long-term debt outstanding of $2.0 billion compared to $1.7 billion during the year ended December 31, 1998.

Income taxes (benefit) decreased $91.0 million, or 122%, in 2000 primarily due to changes in taxable income and taxes on the gains on the sales of our investments in 1999. The estimated annual effective tax benefit rate for 2000 is 32.3% as compared with an effective tax rate of 34.4% for 1999. Income taxes increased $58.2 million, or 350%, in 1999 primarily due to increased taxable income and an increase in the effective tax rate. The effective tax rate for 1999 reflects the impact of increased pre-tax income resulting from the sales of investments included in Investment income in 1999.

DISCONTINUED OPERATIONS

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Revenue	$ 105,202	3%	$ 102,408	9%	$ 93,784
Operating income	$ 27,415	38%	$ 19,887	-27%	$ 27,207
Net income	$ 11,677	48%	$ 7,887	-39%	$ 12,950

Discontinued operations represents the operations of our water/wastewater businesses.

Revenue from discontinued operations increased $2.8 million, or 3%, in 2000 and $8.6 million, or 9%, in 1999 primarily due to increased consumption and customer growth.

Operating income from discontinued operations increased $7.5 million, or 38%, in 2000 primarily due to increased revenue, decreased Y2K expenses, decreased corporate overhead charges and lower payroll costs due to a reduction in the staffing levels of support functions, partially offset by increased depreciation expense due to increased property, plant and equipment. Operating income from discontinued operations decreased $7.3 million, or 27%, in 1999 primarily due to restructuring charges, separation costs, costs associated with an executive retirement agreement and increased Y2K costs.

Net income from discontinued operations increased $3.8 million, or 48%, in 2000 and decreased $5.1 million, or 39%, in 1999, primarily due to the respective changes in operating income.

NET INCOME (LOSS) / NET INCOME (LOSS) PER COMMON SHARE / OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX AND RECLASSIFICATION ADJUSTMENTS

($ in thousands)	2000		1999		1998
	Amount	% Change	Amount	% Change	Amount
Net income (loss)	$ (28,394)	-120%	$ 144,486	153%	$ 57,060
Net income (loss) per common share	$ (0.11)	-120%	$ 0.55	150%	$ 0.22
Other comprehensive income (loss), net of tax and reclassification adjustments	$ (14,505)	N/A	$ (41,769)	N/A	$ 52,872

Net loss and net loss per share for 2000 were impacted by the following after tax items: assimilation expenses of $24.6 million, or 9 cents per share, the settlement of a proceeding with the Louisiana Public Service Commission of $18.4 million, or 7 cents per share, accelerated depreciation to change the useful life of an operating system in the ILEC sector of $7.8 million, or 3 cents per share, and the impact of the acquisitions of $6.9 million, or 3 cents per share.

Net income and net income per share for 1999 were impacted by the following after tax items: gains on the sales of investments of $136.4 million, or 52

cents per share, asset impairment charges of $22.3 million, or 9 cents per share, an executive retirement agreement of $4.1 million, or 2 cents per share, restructuring charges of $3.6 million, or 1 cents per share, separation costs of $3.1 million, or 1 cents per share, accelerated depreciation of $3 million, or 1 cents per share, and pre-acquisition integration costs of $2.4 million, or 1 cents per share. 1999 net income and net income per share were also impacted by after tax net losses from ELI of $54.1 million, or 21 cents per share and after tax Y2K costs of $12.2 million, or 5 cents per share.

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

Other comprehensive loss, net of tax and reclassification adjustments during 2000 is primarily the result of higher unrealized losses on our investment portfolio. Other comprehensive loss, net of tax and reclassification adjustments during 1999 is primarily the result of the realization of the gain on the sale of our investment in Centennial Cellular Corp. in January 1999, partially offset by higher unrealized gains on our investment portfolio during the first quarter 1999.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the normal course of our business operations due to our ongoing investing and funding activities. Market risk refers to the risk of loss that may result from the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity and commodity prices. We manage our exposure to these risks by entering into long term debt obligations with appropriate price and term characteristics and by utilizing derivative financial instruments when they make business sense as follows:

Interest Rate Exposure

Our objectives in managing our interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we maintain fixed rate debt on a majority of our borrowings and refinance debt when advantageous by entering into long term debt obligations, including but not limited to, debenture and industrial development revenue bonds, which usually possess better than prime interest rates. We have $5.7 billion in committed credit facilities for the purpose of funding our pending acquisitions and supporting general corporate activities. As of December 31, 2000 there was $765 million outstanding under these facilities and $109 million in commercial paper backed by these facilities. Once funds are drawn down on these facilities it is our intention to permanently fund these amounts through cash and investment balances, proceeds from the divestiture of our public services businesses and other debt and equity instruments. Based upon our overall interest rate exposure at December 31, 2000 a near term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

Equity Price Exposure

In December 1999, our Board of Directors authorized the purchase of up to $100 million worth of shares of our common stock. In April 2000, our Board of Directors authorized the purchase of up to an additional $100 million worth of shares of our common stock. We purchased approximately $49.2 million worth of our shares on the open market for cash and approximately $150 million worth of our shares using equity forward contracts. These types of contracts are exposed to equity price risk as these contracts are indexed to our common stock, which is traded on stock exchanges. Based upon our overall equity price exposure at December 31, 2000 a material near term change in the price of our common stock could materially affect our consolidated financial position, results of operations or cash flows.

Commodity Price Exposure

During 2000, we purchased monthly gas future contracts to manage well defined commodity price fluctuations, caused by weather and other unpredictable factors, associated with our commitments to deliver natural gas to customers at fixed prices. This commodity activity relates to our gas businesses and is not material to our consolidated financial position, results of operations or cash flows. As of December 31, 2000 we did not have any outstanding gas future contracts. In addition, we purchase fixed and variable priced gas supply contracts that are considered derivative instruments as defined by SFAS 133, however such contracts are excluded from the provisions of SFAS 133 as they are purchases made in the normal course of business and not for speculative purposes.

During the past year the decrease in the availability of power in certain areas of the country has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, we are currently disputing excessive power costs charged by our power supplier in the amount of approximately $57 million through December 31, 2000. We are allowed to recover from ratepayers these charges through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we have requested that this deferred amount, plus interest, be recovered over a three-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering certain amounts either through renegotiations or through the regulatory process.

We do not hold or issue derivative or other financial instruments for trading purposes.

Finally, the carrying amount of cash, accounts receivable, current maturities of long-term debt, accounts payable and other accrued liabilities approximate fair value because of the short maturity of these instruments.

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

PART III

We intend to file with the Commission a definitive proxy statement for the 2001 Annual Meeting of Stockholders pursuant to Regulation 14A not later than 120 days after December 31, 2000. The information called for by this Part III is incorporated by reference to that proxy statement.

PART IV

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

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

Exhibit

No.	Description
3.200.1	Restated Certificate of Incorporation of Citizens Communications Company, as restated May 19, 2000, (incorporated by reference to Exhibit 3.200.1 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 2000, File No. 001-11001).
3.200.2	By-laws of Citizens Communications Company, with all amendments to July 18, 2000, (incorporated by reference to Exhibit 3.200.2 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2000, File No. 001-11001).
4.100.1	Indenture of Securities, dated as of August 15, 1991, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.2	First Supplemental Indenture, dated August 15, 1991, (incorporated by reference to Exhibit 4.100.2 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.3	Letter of Representations, dated August 20, 1991, from Citizens Utilities Company and Chemical Bank, as Trustee, to Depository Trust Company (DTC) for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.3 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.4	Second Supplemental Indenture, dated January 15, 1992, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.5	Letter of Representations, dated January 29, 1992, from Citizens Utilities Company and Chemical Bank, as Trustee, to DTC, for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.6	Third Supplemental Indenture, dated April 15, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.6 to the Registrant's Form 8-K Current Report filed July 5, 1994, File No. 001-11001).
4.100.7	Fourth Supplemental Indenture, dated October 1, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.7 to Registrant's Form 8-K Current Report filed January 3, 1995, File No. 001-11001).
4.100.8	Fifth Supplemental Indenture, dated as of June 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.8 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-11001).
4.100.9	Sixth Supplemental Indenture, dated as of October 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.9 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-11001).
4.100.11	Seventh Supplemental Indenture, dated as of June 1, 1996, (incorporated by reference to Exhibit 4.100.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-11001).
4.100.12	Eighth Supplemental Indenture, dated as of December 1, 1996, (incorporated by reference to Exhibit 4.100.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-11001).
4.200.1	Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee (incorporated by reference to Exhibit 4.200.1 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.2	First Supplemental Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee, (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.3	5% Convertible Subordinated Debenture due 2036, (contained as Exhibit A to Exhibit 4.200.2), (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.4	Amended and Restated Declaration of Trust dated as of January 15, 1996, of Citizens Utilities Trust, (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.5	Convertible Preferred Security Certificate, (contained as Exhibit A-1 to Exhibit 4.200.4), (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.6	Amended and Restated Limited Partnership Agreement dated as of January 15, 1996 of Citizens Utilities Capital L.P., (incorporated by reference to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.7	Partnership Preferred Security Certificate (contained as Annex A to Exhibit 4.200.6), (incorporated by reference to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.8	Convertible Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.8 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.9	Partnership Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.9 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.10	Letter of Representations, dated January 18, 1996, from Citizens Utilities Company and Chemical Bank, as trustee, to DTC, for deposit of Convertible Preferred Securities with DTC, (incorporated by reference to Exhibit 4.200.10 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.300.1	Basic Equity Acquisition Contract between Citibank, N.A. and Citizens Utilities Company.
10.5	Participation Agreement between ELI, Shawmut Bank Connecticut, National Association, the Certificate Purchasers named therein, the Lenders named therein, BA Leasing & Capital Corporation and Citizens Utilities Company dated as of April 28, 1995, and the related operating documents (incorporated by reference to Exhibit 10.5 of ELI's Registration Statement on Form S-1 effective on November 21, 1997, File No. 333-35227).
10.6	Deferred Compensation Plans for Directors, dated November 26, 1984 and December 10, 1984, (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1984, File No. 001-11001).
10.6.2	Non-Employee Directors' Deferred Fee Equity Plan dated as of June 28, 1994, with all amendments to May 5, 1997, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated April 4, 1995 and Exhibit A to the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.16.1	Employment Agreement between Citizens Utilities Company and Leonard Tow, effective July 11, 1996, (incorporated by reference to Exhibit 10.16.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1996, File No. 001-11001).
10.16.2	Employment Agreement between Citizens Communications Company and Leonard Tow, effective October 1, 2000.
10.17	1992 Employee Stock Purchase Plan, (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 001-11001).
10.18	Amendments dated May 21, 1993 and May 5, 1997, to the 1992 Employee Stock Purchase Plan, (incorporated by reference to the Registrant's Proxy Statement dated March 31, 1993 and the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.19	Citizens Executive Deferred Savings Plan dated January 1, 1996, (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
10.20	Citizens Incentive Plan restated as of March 21, 2000, (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
10.21	1996 Equity Incentive Plan and amendment dated May 5, 1997 to 1996 Equity Incentive Plan, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated March 29, 1996 and Exhibit B to Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.22	Competitive Advance and Revolving Credit Facility Agreement between Citizens Utilities Company and Chase Manhattan Bank dated October 29, 1999, (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
10.23	Credit Facility Agreement between Citizens Communications Company and Chase Manhattan Bank dated October 27, 2000.
10.24.1	Indenture from ELI to Citibank, N.A., dated April 15, 1999, with respect to ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.1 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.24.2	First Supplemental Indenture from ELI, Citizens Utilities Company and Citizens Newco Company to Citibank, N.A. dated April 15, 1999, with respect to the 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.2 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.24.3	Form of ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.3 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.24.4	Letter of Representations to the Depository Trust Company dated April 28, 1999, with respect to ELI's 6.05% Senior Unsecured Notes due 2004, (incorporated by reference to Exhibit 10.24.4 of ELI's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 0-23393).
10.25	Asset Purchase Agreements between Citizens Utilities Company and GTE Corporation dated May 27 and September 21, 1999, (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
10.26	Asset Purchase Agreements between Citizens Utilities Company and US West Communications, Inc. dated June 16, 1999, (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year

	ended December 31, 1999, File No. 001-11001).
10.27	Asset Purchase Agreements between Citizens Utilities Company and American Water Works dated October 15, 1999, (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-11001).
10.28	Asset Purchase Agreement between Citizens Utilities Company and GTE Incorporated dated December 16, 1999, (incorporated by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2000, File No. 001-11001).
10.29	Asset Purchase Agreement between Citizens Utilities Company and Cap Rock Energy Corp. dated February 11, 2000, (incorporated by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2000, File No. 001-11001).
10.30	Asset Purchase Agreement between Citizens Utilities Company and Kauai Island Utility CO-OP dated February 11, 2000, (incorporated by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2000, File No. 001-11001).
10.31	Asset Purchase Agreement between Citizens Utilities Company and Atmos Energy Corporation dated April 13, 2000, (incorporated by reference to Exhibit 10.31 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 2000, File No. 001-11001).
10.32	Stock Purchase Agreement among Citizens Communications Company, Global Crossing Ltd. and Global Crossing North America, Inc. dated July 11, 2000, (incorporated by reference to Exhibit 10.32 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 2000, File No. 001-11001).
10.33	2000 Equity Incentive Plan dated May 18, 2000.
10.34	Basic Equity Acquisition Contract dated February 24, 2000.
10.35	Intercompany Agreement between Citizens Communications Company and Electric Lightwave, Inc. dated September 11, 2000 (incorporated by reference to Exhibit 10.28 of ELI's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 0-23393).
10.36	Loan Agreement between Citizens Communications Company and Electric Lightwave, Inc. dated October 30, 2000 (incorporated by reference to Exhibit 10.29 of ELI's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 0-23393).
12	Computation of ratio of earnings to fixed charges (this item is included herein for the sole purpose of incorporation by reference).
21	Subsidiaries of the Registrant
23	Auditors' Consent

Exhibits 10.6, 10.6.2, 10.16.1, 10.16.2, 10.17, 10.18, 10.19, 10.20, 10.21 and 10.33 are management contracts or compensatory plans or arrangements.

We agree to furnish to the Commission upon request copies of the Realty and Chattel Mortgage, dated as of March 1, 1965, made by Citizens Utilities Rural Company, Inc., to the United States of America (the Rural Utilities Services and Rural Telephone Bank) and the Mortgage Notes which that mortgage secures; and the several subsequent supplemental Mortgages and Mortgage Notes; copies of the instruments governing the long-term debt of Louisiana General Services, Inc.; copies of separate loan agreements and indentures governing various Industrial Development Revenue Bonds; copies of documents relating to indebtedness of subsidiaries acquired during 1996, 1997 and 1998, and copies of the credit agreement between Electric Lightwave, Inc. and Citibank, N. A. dated November 21, 1997. We agree to furnish to the Commission upon request copies of schedules and exhibits to items 10.25, 10.26, 10.27, 10.28, 10.29, 10.30, 10.31, and 10.32.

(b) Reports on Form 8-K: We filed on Form 8-K dated August 31, 2000, under Item 7 "Financial Statements, Exhibits," financial statements of businesses acquired and pro forma financial information.

We filed on Form 8-K dated November 13, 2000, under Item 7 "Exhibits," a press release announcing financial results for third quarter ended September 30, 2000 and operating data.

We filed on Form 8-K dated December 15, 2000, under Item 5 "Other Events" and Item 7 "Exhibits," a press release announcing the settlement of a rate proceeding with the Louisiana Public Service Commission.

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/ Leonard Tow

Leonard Tow

Chairman of the Board; Chief Executive Officer;
Chairman of Executive Committee and Director

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 8th day of March 2001.

Signature	Title
/s/ Robert J. Larson (Robert J. Larson)	Vice President and Chief Accounting Officer
/s/ Norman I. Botwinik (Norman I. Botwinik)	Director
/s/ Rudy J. Graf (Rudy J. Graf)	Vice Chairman of the Board, President and Chief Operating Officer, and Director
/s/ Aaron I. Fleischman (Aaron I. Fleischman)	Member, Executive Committee and Director
/s/ Stanley Harfenist (Stanley Harfenist)	Member, Executive Committee and Director
/s/ Andrew N. Heine (Andrew N. Heine)	Director
/s/ John L. Schroeder (John L. Schroeder)	Director
/s/ Robert D. Siff (Robert D. Siff)	Director
/s/ Scott N. Schneider (Scott N. Schneider)	Vice Chairman of the Board, Executive Vice President, Chairman of Citizens Capital Ventures and Director
/s/ Robert A. Stanger (Robert A. Stanger)	Member, Executive Committee and Director
/s/ Charles H. Symington, Jr. (Charles H. Symington, Jr.)	Director
/s/ Edwin Tornberg (Edwin Tornberg)	Director
/s/ Claire L. Tow (Claire L. Tow)	Director

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
Index to Consolidated Financial Statements

Independent Auditors' Report

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, 2000 and 1999 and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
March 8, 2001

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999
($ in thousands)

	2000	1999
ASSETS		
Current assets:		
Cash	$ 31,223	$ 37,141
Accounts receivable, net	243,304	241,519
Materials and supplies	10,945	12,624

Short-term investments	38,863	-
Other current assets	52,545	17,340
Assets held for sale	1,212,307	1,060,704
Assets of discontinued operations	673,515	595,710
Total current assets	2,262,702	1,965,038
Property, plant and equipment, net	3,509,767	2,888,718
Investments	214,359	591,386
Goodwill and customer base, net	633,268	30,187
Regulatory assets	175,949	184,942
Other assets	158,961	111,474
Total assets	$6,955,006	$ 5,771,745
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 181,014	$ 31,156
Accounts payable	171,002	187,984
Income taxes accrued	3,429	75,161
Other taxes accrued	31,135	27,823
Interest accrued	36,583	30,788
Customer deposits	18,683	32,842
Other current liabilities	69,551	81,258
Liabilities related to assets held for sale	290,575	139,157
Liabilities of discontinued operations	190,496	171,112
Total current liabilities	992,468	777,281
Deferred income taxes	490,487	460,208
Customer advances for construction and contributions in aid of construction	205,604	179,831
Other liabilities	108,321	87,668
Regulatory liabilities	24,573	27,000
Long-term debt	3,062,289	2,107,460
Minority interest in subsidiary	-	11,112
Equity forward contracts	150,013	-
Company Obligated Mandatorily Redeemable Convertible Preferred Securities*	201,250	201,250
Shareholders' equity	1,720,001	1,919,935
Total liabilities and shareholders' equity	$6,955,006	$ 5,771,745

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

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 and 1998
($ in thousands, except for per-share amounts)

	2000	1999	1998
Revenue	$1,802,358	$1,598,236	$1,448,588
Operating expenses:			
Cost of services	449,121	361,806	359,762
Depreciation and amortization	387,607	310,185	245,475
Other operating expenses	803,900	851,969	692,389
Acquisition assimilation expense	39,929	3,916	-
Total operating expenses	1,680,557	1,527,876	1,297,626
Operating income	121,801	70,360	150,962
Investment income, net	4,736	243,885	32,352
Other loss, net	(1,386)	(88)	(26,236)
Minority interest	12,222	23,227	14,032
Interest expense	187,366	119,675	101,796
Income (loss) from continuing operations before income taxes, dividends on convertible preferred securities and cumulative effect of change in accounting principle	(49,993)	217,709	69,314
Income tax expense (benefit)	(16,132)	74,900	16,660
Income (loss) from continuing operations before dividends on convertible preferred securities and cumulative effect of change in accounting principle	(33,861)	142,809	52,654
Dividends on convertible preferred securities, net of income tax benefit	6,210	6,210	6,210
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(40,071)	136,599	46,444
Income from discontinued operations, net of tax	11,677	7,887	12,950

Income (loss) before cumulative effect of change in accounting principle	(28,394)	144,486	59,394
Cumulative effect of change in accounting principle, net of income tax and related minority interest	-	-	2,334
Net income (loss)	$ (28,394)	$ 144,486	$ 57,060
Other comprehensive income (loss), net of income tax and reclassification adjustments	(14,505)	(41,769)	52,872
Total comprehensive income (loss)	$ (42,899)	$ 102,717	$ 109,932
Income (loss) from continuing operations before cumulative effect of change in accounting principle per common share:			
Basic	$ (0.15)	$ 0.52	$ 0.18
Diluted	$ (0.15)	$ 0.52	$ 0.18
Income from discontinued operations per common share:			
Basic	$ 0.04	$ 0.03	$ 0.05
Diluted	$ 0.04	$ 0.03	$ 0.05
Income (loss) before cumulative effect of change in accounting principle per common share:			
Basic	$ (0.11)	$ 0.55	$ 0.23
Diluted	$ (0.11)	$ 0.55	$ 0.23
Net income (loss) per common share:			
Basic	$ (0.11)	$ 0.55	$ 0.22
Diluted	$ (0.11)	$ 0.55	$ 0.22

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, 2000, 1999 and 1998
($ in thousands, except for per-share amounts)

	Common Stock ($0.25)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance January 1, 1998	$ 62,749	$ 1,480,425	$ 132,217	$ 3,820	$ -	$ 1,679,211
Acquisitions	133	2,150	-	-	-	2,283
Common stock buybacks to fund dividends	(453)	(14,370)	-	-	-	(14,823)
Stock plans	171	5,935	-	-	-	6,106
Stock issuances to fund EPPICS dividends	273	9,789	-	-	-	10,062
Net income	-	-	57,060	-	-	57,060
Other comprehensive income, net of tax and reclassification adjustment	-	-	-	52,872	-	52,872
Stock dividends in shares of Common Stock	1,914	70,259	(72,173)	-	-	-
Balance December 31, 1998	64,787	1,554,188	117,104	56,692	-	1,792,771
Common stock buybacks to fund EPPICS dividends	(157)	(6,468)	-	-	-	(6,625)
Stock plans	638	20,475	-	-	-	21,113
Stock issuances to fund EPPICS dividends	251	9,708	-	-	-	9,959
Net income	-	-	144,486	-	-	144,486
Other comprehensive loss, net of tax and reclassification adjustment	-	-	-	(41,769)	-	(41,769)
Balance December 31, 1999	65,519	1,577,903	261,590	14,923	-	1,919,935
Acquisitions	28	1,770	-	-	1,861	3,659
Treasury stock acquisitions	-	-	-	-	(49,209)	(49,209)
Stock plans	895	42,156	-	-	(4,523)	38,528
Equity forward contracts	-	(150,013)	-	-	-	(150,013)
Net loss	-	-	(28,394)	-	-	(28,394)
Other comprehensive loss, net of tax and reclassification adjustment	-	-	-	(14,505)	-	(14,505)
Balance December 31, 2000	$ 66,442	$ 1,471,816	$ 233,196	$ 418	$ (51,871)	$ 1,720,001

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, 2000, 1999 and 1998

($ in thousands)

	2000	1999	1998
Net cash provided by continuing operating activities	$ 308,144	$ 370,289	$ 249,899
Cash flows from investing activities:			
Capital expenditures	(536,639)	(573,330)	(477,976)
Securities purchased	(101,427)	(1,068,451)	(952,628)
Securities sold	381,699	1,084,239	992,769
Securities matured	16,072	7,435	2,000
Acquisitions	(986,133)	-	(88,863)
ELI share purchases	(38,748)	-	-
Other	(8,454)	(2,833)	(6,398)
Net cash used by investing activities	(1,273,630)	(552,940)	(531,096)
Cash flows from financing activities:			
Short-term debt borrowings (repayments)	-	(110,000)	42,000
Long-term debt borrowings	1,063,158	340,503	240,485
Long-term debt principal payments	(46,972)	(46,619)	(7,302)
Issuance of common stock	19,773	21,113	7,101
Common stock buybacks	(49,209)	(6,625)	(14,823)
Other	30,684	(6,363)	40,232
Net cash provided by financing activities	1,017,434	192,009	307,693
Cash used by discontinued operations	(57,866)	(4,139)	(29,737)
Increase (decrease) in cash	(5,918)	5,219	(3,241)
Cash at January 1,	37,141	31,922	35,163
Cash at December 31,	$ 31,223	$ 31,922	$ 31,922
Non-cash investing and financing activities:			
Increase in capital lease asset	$ 102,192	$ 60,321	$ 7,987
Equity forward contracts	150,013	-	-
Issuance of shares for acquisitions	3,659	-	2,283
Issuance of shares for dividends	-	9,959	82,235
Debt assumed from acquisitions	-	-	13,800

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

CITIZENS COMMUNICATIONS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

(a) Description of Business:

Citizens Communications Company and its subsidiaries are referred to as "we", "us" or "our" in this report. We provide wireline communications services primarily to customers in rural areas and small and medium sized cities and towns throughout the United States as an incumbent local exchange carrier (ILEC). In addition, we provide competitive local exchange carrier (CLEC) services to business customers and to other communications carriers in the western United States through our 85% owned subsidiary, Electric Lightwave Inc. (ELI). We also provide public services including natural gas transmission and distribution, electric transmission and distribution and water distribution and wastewater treatment services to primarily rural and suburban customers throughout the United States. We are not dependent upon any single geographic area or single customer for our revenue.

In recent years, we have focused our efforts and resources toward

transforming ourselves into a telecommunications provider. In order to execute this strategy, we announced our intention to acquire telephone access lines and to partially fund our future expansion into the telecommunications business through the divestiture of our public utility operations. During 1999, opportunities became available to acquire a significant number of telephone access lines that met our investment criteria. These acquisitions are consistent with our strategy to broaden our geographic profile and to acquire and operate ILEC businesses in small and medium sized cities and towns. They provide us with the opportunity to further achieve critical mass as well as economies of scale throughout the United States and will enable us to improve operating efficiencies. Between May 1999 and July 2000, we announced that we had entered into agreements to purchase approximately 2,034,700 telephone access lines (as of December 31, 2000) for approximately $6,471,000,000 in cash (see Note 4). Also, we have agreements to sell all of our water and wastewater treatment businesses, one of our electric businesses and one of our gas businesses for approximately $1,470,000,000 in cash plus the assumption of certain liabilities (see Note 5).

(b) Principles of Consolidation and Use of Estimates:

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Certain reclassifications of balances previously reported have been made to conform to current presentation.

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

(c) Revenue Recognition:

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101 (SAB 101), "Revenue Recognition in Financial Statements," which provides additional guidance in applying generally accepted accounting principles for revenue recognition in consolidated financial statements. SAB 101 was effective beginning in the fourth quarter of 2000 and did not have a material impact on our financial statements.

ILEC

Network access services - Monthly recurring network access service charges are billed in advance with any portion that is billed but unearned recorded as deferred revenue on the balance sheet as part of accrued expenses which are then recognized as revenue over the period that services are provided. Non-recurring network access services are billed in arrears and recognized as revenue in the period services are provided. Earned but unbilled network access service revenue is accrued for and included in accounts receivable and revenue in the period services are provided. Network access revenue primarily consists of switched access revenue billed to other carriers. Switched access revenue is billed in arrears and recognized as revenue in the period services are provided based on originating and terminating minutes of use. Network access revenue also contains special access revenue. Special access revenue is billed in arrears and recognized in revenue in the period services are provided.

Local services - Monthly recurring local line charges are billed to end users in advance and recognized as revenue in the period of billing with any portion that is billed but unearned recorded as deferred revenue on the balance sheet as part of accrued expenses. Non-recurring local services are billed in arrears and recognized as revenue in the period services are provided. Earned but unbilled local service revenue is accrued for and included in accounts receivable and revenue in the period services are provided.

Long distance services - Long distance services are billed in arrears and recognized as revenue in the period services are provided. Earned but unbilled long distance revenue is accrued for and included in accounts receivable and revenue in the period services are provided.

Directory services and Other - Revenue is recognized when services are provided or when products are delivered to customers. 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.

ELI - Revenue is recognized when the services are provided. Certain revenue are deferred and recognized on a straight-line basis over the terms of the related agreements. 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.

Public Services - Revenue is recognized when services are provided for public services. Certain revenue is based upon consumption while other revenue is based upon a flat fee. Earned but unbilled public services revenue is accrued for and included in accounts receivable and revenue.

(d) Construction Costs and Maintenance Expense:

Property, plant and equipment are stated at original cost, including general overhead and an allowance for funds used during construction (AFUDC) for regulated businesses and capitalized interest for unregulated businesses. Maintenance and repairs are charged to operating expenses as incurred. The book value, net of salvage, of routine property, plant and equipment dispositions is charged against accumulated depreciation for regulated operations.

AFUDC represents the borrowing costs and a return on common equity of funds used to finance construction of regulated assets. AFUDC is capitalized as a component of additions to property, plant and equipment and is credited to income. AFUDC does not represent current cash earnings; however, under established regulatory rate-making practices, after the related plant is placed in service, we are permitted to include in the rates charged for regulated services a fair return on and depreciation of such AFUDC included in plant in service. The amount of AFUDC relating to equity is included in other loss, net ($3,257,000, $4,586,000 and $3,869,000 for 2000, 1999 and 1998, respectively) and the amount relating to borrowings is included as a reduction of interest expense ($3,504,000, $4,206,000 and $3,010,000 for 2000, 1999 and 1998, respectively). Capitalized interest for unregulated construction activities amounted to $4,766,000, $8,681,000 and $10,444,000 for 2000, 1999 and 1998, respectively.

(e) Regulatory Assets and Liabilities:

Certain of our local exchange telephone operations and all of our public services operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". For these entities, regulators can establish regulatory assets and liabilities that are required to be reflected in the balance sheet in anticipation of future recovery through the ratemaking process.

Our consolidated balance sheet as of December 31, 2000 included regulatory assets of approximately $62.0 million and regulatory liabilities of approximately $4.1 million associated with our local exchange telephone operations. The remainder of the regulatory assets and regulatory liabilities on the balance sheet are associated with assets and liabilities held for sale and discontinued operations. In addition, property, plant and equipment for the properties subject to SFAS 71 have been depreciated using the straight-line method over plant lives approved by regulators. Such depreciable lives may exceed the lives that would have been used if we did not operate in a regulated environment.

SFAS No. 101 "Regulated Enterprises Accounting for the Discontinuance of Application of SFAS No. 71" specifies the accounting required when the regulated operations of an enterprise are no longer expected to meet the provisions of SFAS 71 in the future due to changes in regulations, competition and the operations of regulated entities. SFAS

101 would require the write-off of a portion of our regulatory assets and liabilities, as a net non-cash charge or credit to income, if it were determined that the conditions requiring the use of SFAS 71 no longer apply in the future. SFAS 101 further provides that the carrying amount of property, plant and equipment would be adjusted to reflect the use of shorter depreciation lives only to the extent that the net book value of these assets are impaired and that impairment shall be measured as described in Note 1(f) below.

The ongoing applicability of SFAS 71 to our regulated telephone operations is continually monitored due to the changing regulatory, competitive and legislative environment and the changes that may occur in our future operations as we acquire and consolidate our local exchange telephone operations. It is possible that future environmental changes, or changes in the demand for our products and services could result in our telephone operations no longer being subject to the provisions of SFAS 71. If discontinuation of SFAS 71 becomes appropriate, the accounting may result in a material non-cash effect on our results of operations and financial position that can not be estimated at this time.

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

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

(g) Investments:

We classify our investments at purchase as available-for-sale or held-to-maturity. We do not maintain a trading portfolio.

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

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

(h) Income Taxes, Deferred Income Taxes and Investment Tax Credits:

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 and the tax bases of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to turn around. Regulatory assets and liabilities (see Note 1(e)) include income tax

benefits previously flowed through to customers and from the AFUDC, the effects of tax law changes and the tax benefit associated with unamortized deferred investment tax credits. These regulatory assets and liabilities represent the probable net increase in revenue that will be reflected through future ratemaking proceedings. The investment tax credits relating to regulated operations, as defined by applicable regulatory authorities, have been deferred and are being amortized to income over the lives of the related properties.

(i) Employee Stock Plans:

We have various employee stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees and non-management employees. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock or other stock based awards. As permitted by current accounting rules, we recognize compensation expense in the financial statements only if the market price of the underlying stock exceeds the exercise price on the date of grant. We provide pro forma net income (loss) and pro forma net income (loss) per common share disclosures for employee stock option grants made in 1995 and thereafter based on the fair value of the options at the date of grant (see Note 11). Fair value of options granted is computed using the Black Scholes option pricing model.

(j) Minority Interest and Minority Interest in Subsidiary:

Minority interest represents the minority's share of ELI's net loss (minority interest in subsidiary, as presented on the balance sheet at December 31, 1999, represents the minority's share of ELI's equity capital). Since ELI's initial public offering, we recorded minority interest on our income statement and reduced minority interest on our balance sheet by the amount of the minority interests' share of ELI's losses. As of June 30, 2000, the minority interest on the balance sheet had been reduced to zero, therefore, from that point going forward, we discontinued recording minority interest income on our income statement as there is no obligation for the minority interests to provide additional funding for ELI. Therefore, we are recording ELI's entire loss in our consolidated results.

(k) Net Income Per Common Share:

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period being reported on. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock at the beginning of the period being reported on.

(l) Goodwill and Customer Base:

Goodwill and customer base represents the excess of purchase price over the fair value of identifiable assets acquired. We undertake studies to determine the fair values of assets acquired and allocate purchase prices to property, plant and equipment, goodwill and customer base, accordingly. We depreciate the assets over their respective depreciable lives and amortize goodwill and customer base by use of the straight-line method (see Note 4 for current acquisitions). We regularly examine the carrying value of our goodwill and customer base to determine whether there is any impairment losses. See Note 1(f) above related to our impairment policy.

(m) Changes in Accounting Principles:

In September 2000, the Emerging Issues Task Force (EITF) issued EITF Issue 00-19, "Determination of Whether Share Settlement Is within the Control of the Issuer for Purposes of Applying Issue No. 96-13, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The EITF clarifies when financial instruments that are indexed to or potentially settled in a company's own stock are to be classified as an asset or liability and

when they are to be classified as equity. The EITF allows for a transition period for contracts existing at the date of the consensus and remaining outstanding at June 30, 2001 to allow time for contracts to be modified in order for a company to continue to account for certain contracts as equity after June 30, 2001. (see Note 10)

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 requires balance sheet recognition of derivatives as assets or liabilities measured at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. We expect the adoption of SFAS 133 could increase the volatility of operating results in the future. In general, the amount of volatility will vary with the level of derivative activities during any period. We have adopted SFAS 133 as of January 1, 2001. Based on our analysis of the statement, we have not identified any derivative instruments subject to its provisions and therefore, SFAS 133, upon adoption, will not have any impact on our financial statements.

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

(2) Accounts Receivable

The components of accounts receivable, net at December 31, 2000 and 1999 are as follows:

($ in thousands)	2000	1999
Customers	$ 229,911	$ 213,457
Other	37,306	56,340
Less: Allowance for doubtful accounts	(23,913)	(28,278)
Accounts receivable, net	$ 243,304	$ 241,519

(3) Property, Plant and Equipment:

The components of property, plant and equipment at December 31, 2000 and 1999 are as follows:

($ in thousands)	Estimated Useful Lives	2000	1999

Telephone outside plant	4 to 56 years	$ 2,721,425	$ 2,244,808
Telephone central office equipment	5 to 20 years	1,644,302	1,272,647
Information systems and other administrative assets	4 to 58 years	635,752	619,865
Other		52,531	34,498
Construction work in progress		242,472	286,836
		5,296,482	4,458,654
Less: accumulated depreciation		(1,786,715)	(1,569,936)
		$ 3,509,767	$ 2,888,718

Depreciation expense, calculated using the straight-line method, is based upon the estimated service lives of various classifications of property, plant and equipment. Depreciation expense was $369,930,000, $307,428,000 and $242,791,000 for the years ended December 31, 2000, 1999 and 1998, respectively. We ceased to record depreciation expense on the gas assets effective October 1, 2000 and on the electric assets effective January 1, 2001 (see Note 5).

(4) Mergers and Acquisitions:

From May 27, 1999 through July 12, 2000, we entered into several agreements to acquire approximately 2,034,700 telephone access lines (as of December 31, 2000) for approximately $6,471,000,000 in cash. These transactions have been and will be accounted for using the purchase method of accounting. As a result, the results of operations of the acquired properties have been and will be included in our financial statements from the dates of acquisition of each property. These agreements and the status of each transaction are described as follows:

On May 27, September 21, and December 16, 1999, we announced definitive agreements to purchase from Verizon Communications, formerly GTE Corp. (Verizon), approximately 381,200 telephone access lines (as of December 31, 2000) in Arizona, California, Illinois/Wisconsin, Minnesota and Nebraska for approximately $1,171,000,000 in cash. These acquisitions are subject to various state and federal regulatory approvals. On June 30, 2000, we closed on the Nebraska purchase of approximately 62,200 access lines for approximately $205,000,000 in cash. On August 31, 2000, we closed on the Minnesota purchase of approximately 142,400 access lines for approximately $439,000,000 in cash. On November 30, 2000, we closed on the Illinois/Wisconsin purchase of approximately 112,900 access lines for approximately $304,000,000 in cash. We expect that the remainder of the Verizon transactions will close on a state-by-state basis in the first half of 2001.

On June 16, 1999, we announced a series of definitive agreements to purchase from Qwest Communications, formerly US West (Qwest), approximately 556,800 telephone access lines (as of December 31, 2000) in Arizona, Colorado, Idaho/Washington, Iowa, Minnesota, Montana, Nebraska, North Dakota and Wyoming for approximately $1,650,000,000 in cash and the assumption of certain liabilities. On October 31, 2000, we closed on the North Dakota purchase of approximately 17,000 access lines for approximately $38,000,000 in cash. We expect that the remainder of the Qwest acquisitions, which are subject to various state and federal regulatory approvals, will occur on a state-by-state basis by the end of the first quarter of 2002.

On July 12, 2000, we announced a definitive agreement to purchase from Global Crossing Ltd. (Global) 100% of the stock of Frontier Corp., which owns approximately 1,096,700 telephone access lines (as of December 31, 2000) in Alabama/Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania and Wisconsin, for approximately $3,650,000,000 in cash. We expect that this transaction, which is subject to various state and federal regulatory approvals, will be completed in the second half of 2001.

In November 1998, we acquired all of the stock of Rhinelander Telecommunication, Inc. (RTI) for approximately $84,000,000 in cash. RTI is a diversified telecommunications company engaged in providing local

exchange, long distance, Internet access, wireless and cable television services to rural markets in Wisconsin. This transaction was accounted for using the purchase method of accounting and the results of operations of RTI have been included in the accompanying financial statements from the date of acquisition.

In October 1998, we acquired all of the stock of St. Charles Natural Gas Company for approximately $5,000,000 in cash. St. Charles Natural Gas Company was a natural gas distribution company serving 5,000 customers in Louisiana and became part of our Louisiana Gas Services operations. This transaction was accounted for using the purchase method of accounting and the results of operations of St. Charles Natural Gas Company have been included in the accompanying financial statements from the date of acquisition.

The following summarizes the allocation of purchase prices for 2000, 1999 and 1998.

($ in thousands)

Year	Purchase Price	Number of Properties Acquired	Allocated to: Plant	Goodwill	Net Other	Total
2000	$986,133	4	$401,004	$584,306	$823	$986,133
1999	-	-	-	-	-	-
1998	88,863	2	97,981	8,351	(17,469)	88,863

The following pro forma financial information for 2000 and 1999 presents the combined results of our operations, the Verizon Nebraska, Minnesota and Illinois/Wisconsin properties acquired on June 30, 2000, August 31, 2000 and November 30, 2000, respectively and the Qwest North Dakota property acquired on October 31, 2000. The pro forma financial information for 1998 presents the combined results of our operations and RTI. The effect of St. Charles Natural Gas Company is not material. The pro forma information presents the combined results as if the acquisitions had occurred at the beginning of the year prior to its acquisition. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had we constituted a single entity during such periods.

($ in thousands, except per share amounts)

	2000	1999	1998
Revenue	$ 1,947,522	$ 1,795,222	$ 1,465,948
Net income (loss)	$ (39,542)	$ 116,665	$ 55,940
Net income (loss) per share	$ (0.15)	$ 0.45	$ 0.22

(5) Discontinued Operations and Assets Held for Sale:

On August 24, 1999, our Board of Directors approved a plan of divestiture for our public services businesses, which include gas, electric and water and wastewater businesses. The proceeds from the sales of these public services businesses will be used to partially fund the telephone access line purchases (see Note 4).

Currently, we have agreements to sell all our water and wastewater

operations, one of our electric operations and one of our natural gas operations. The proceeds from these agreements will include approximately $1,470,000,000 in cash plus the assumption of certain liabilities. These agreements and the status of each transaction are described as follows:

On October 18, 1999, we announced the agreement to sell our water and wastewater operations to American Water Works, Inc. for $745,000,000 in cash and $90,000,000 of assumed debt. These transactions are currently expected to close in the second half of 2001 following regulatory approvals.

On February 15, 2000, we announced that we had agreed to sell our electric utility operations. The Arizona and Vermont electric divisions were under contract to be sold to Cap Rock Energy Corp. (Cap Rock). Cap Rock has failed to raise the required financing and obtain the required regulatory approval necessary to meet its obligations under the contract for sale. The agreement with Cap Rock was terminated on March 7, 2001. It is our intention to pursue the disposition of the Vermont and Arizona electric divisions with alternative buyers. In August 2000, the HPUC denied the initial application requesting approval of the purchase of our Kauai electric division by the Kauai Island Electric Co-Op for $270,000,000 in cash including the assumption of certain liabilities. We are considering a variety of options, including filing a request for reconsideration of the decision, which may include filing a new application.

On April 13, 2000, we announced the agreement to sell our Louisiana Gas operations to Atmos Energy Corporation for $365,000,000 in cash plus the assumption of certain liabilities. This transaction is expected to close in the first half of 2001 following regulatory approvals.

Discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss) reflect the results of operations of the water/wastewater properties including allocated interest expense for the periods presented. Interest expense was allocated to the discontinued operations based on the outstanding debt specifically identified with these businesses. The long-term debt presented in liabilities of discontinued operations represents the only liability to be assumed by the buyer pursuant to the water and wastewater asset sale agreements.

In 1999, we initially accounted for the planned divestiture of all the public services properties as discontinued operations. As of December 31, 2000, we did not have agreements to sell our entire gas and electric segments. Consequently, in the third and fourth quarters of 2000, we reclassified all of our gas and electric assets and their related liabilities to "assets held for sale" and "liabilities related to assets held for sale", respectively, we also reclassified the results of these operations from discontinued operations to their original income statement captions as part of continuing operations and restated the 1999 balance sheet to conform to the current presentation. Additionally, because both our gas and electric operations are expected to be sold at a profit, we ceased to record depreciation expense on the gas assets effective October 1, 2000 and on the electric assets effective January 1, 2001. Such depreciation expense would have been $6.8 million for the three months ended December 31, 2000. We are continuing to actively pursue buyers for our remaining gas and electric businesses.

Summarized financial information for the water/wastewater operations (discontinued operations) is set forth below:

($ in thousands)	2000	1999
Current assets	$ 18,578	$ 18,074
Net property, plant and equipment	639,994	550,187
Other assets	14,943	27,449
Total assets	$ 673,515	$ 595,710
Current liabilities	$ 21,062	$ 60

Long-term debt	90,546	89,826
Other liabilities	78,888	81,226
Total liabilities	$ 190,496	171,112

	For the years ended December 31,		
	2000	1999	1998
Revenue	$ 105,202	$ 102,408	$ 93,784
Operating income	27,415	19,887	27,207
Income taxes	5,721	3,917	5,677
Net income	11,677	7,887	12,950

Summarized financial information for the gas and electric operations (assets held for sale) is set forth below:

($ in thousands)	2000	1999
Current assets	$ 127,495	$ 91,176
Net property, plant and equipment	953,328	909,771
Other assets	131,484	59,757
Total assets held for sale	$ 1,212,307	$ 1,060,704
Current liabilities	$ 169,066	$ 17,980
Long-term debt	43,980	43,992
Other liabilities	77,529	77,185
Total liabilities related to assets held for sale	$ 290,575	$ 139,157

(6) Investments:

The components of investments at December 31, 2000 and 1999 are as follows:

($ in thousands)	2000	1999
Marketable equity securities	$ 211,086	$ 243,591
Other fixed income securities	3,055	114,774
State and municipal securities	218	233,021
	$ 214,359	$ 591,386

During 2000, we realized approximately $1,100,000 of gross gains and $19,400,000 of gross losses resulting in approximately $397,800,000 of proceeds associated with the sales of state and municipal securities and other fixed income securities.

In January 1999, Centennial was merged with CCW Acquisition Corp., a company organized at the direction of Welsh, Carson, Anderson & Stowe. We were a holder of 1,982,294 shares of Centennial Class B Common Stock. In addition, as a holder of 102,187 shares of Mandatorily Redeemable Convertible Preferred Stock of Centennial, we were required to convert the preferred stock into approximately 2,972,000 shares of Class B Common Stock. We received approximately $205,600,000 in cash for all of our Common Stock interests and approximately $17,500,000 related to accrued dividends

on the preferred stock. As a result of the merger, we realized and reported a pre-tax gain of approximately $69,500,000 in the first quarter 1999 in Investment income.

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

One of our subsidiaries, in a joint venture with a subsidiary of Century, owned and operated four cable television systems in southern California serving over 90,000 basic subscribers. In July 1999, we entered into a separate agreement with Adelphia to sell our interest in the joint venture. Pursuant to this agreement on October 1, 1999, we received approximately $27,700,000 in cash and 1,852,302 shares of Adelphia Class A Common Stock (for a total market value of $133,300,000 based on Adelphia's October 1, 1999 closing price of $57.00). As a result of the sales, we realized and reported a pre-tax gain of approximately $83,900,000 in the fourth quarter of 1999 in Investment income.

Our Chairman and Chief Executive Officer was also Chairman and Chief Executive Officer of Century prior to its merger with Adelphia. Centennial was a majority-owned subsidiary of Century until it was sold. Our Chairman and Chief Executive Officer is a significant holder of Adelphia shares.

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

Investment Classification	Amortized Cost	Unrealized Holding Gains	Unrealized Holding (Losses)	Aggregate Fair Market Value
As of December 31, 2000				
Available-for-Sale	$ 213,681	$ 17,853	$ (17,175)	$ 214,359
As of December 31, 1999				
Available-for-Sale	$ 567,208	$ 37,025	$ (12,847)	$ 591,386

Marketable equity securities for 2000 and 1999 include an investment of 19% of the equity in Hungarian Telephone and Cable Corp., a company of which our Chairman and Chief Executive Officer is a member of the Board of Directors. This investment declined in value during 1998 and in the fourth quarter of 1998 management determined that the decline was other than temporary. As a result, we recognized an impairment loss on this investment of $31,900,000 in 1998.

In May 1999, in connection with a debt restructuring, we cancelled a note obligation from this investment and a seven-year consulting services agreement in exchange for the issuance to us of 1,300,000 shares of common stock and 30,000 shares of convertible preferred stock. Each share of convertible preferred stock has a liquidation value of $70 and is convertible at our option into 10 shares of common stock.

(7) 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, 2000 and 1999. 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.

($ in thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$ 214,359	$ 214,359	$ 591,386	$ 591,386
Long-term debt	$ 3,062,289	$ 2,815,850	$ 2,107,460	$ 2,046,541
EPPICS	$ 201,250	$ 213,325	$ 201,250	$ 226,909

The fair value of the above financial instruments are based on quoted prices at the reporting date for those financial instruments.

(8) Long-term Debt:

($ in thousands)	Weighted average interest rate at December 31, 2000	Maturities	December 31, 2000	1999
Debentures	7.23%	2001-2046	$ 1,000,000	$ 1,000,000
Industrial development revenue bonds	5.63%	2015-2033	385,483	353,494
Senior unsecured notes	6.25%	2004-2012	361,000	361,000
Citizens bank credit facility	7.19%	2002	765,000	-
ELI bank credit facility	6.93%	2002	400,000	260,000
Rural Utilities Service Loan Contracts	5.84%	2001-2027	90,129	91,106
Other long-term debt and capital leases	10.26%	2001-2027	132,546	73,016
Commercial paper notes payable			109,145	-
Total long-term debt			3,243,303	2,138,616
Less: long-term debt due within one year			181,014	31,156
Total debt			$ 3,062,289	$ 2,107,460

The total principal amounts of industrial development revenue bonds were $389,535,000 in 2000 and $369,935,000 in 1999. Funds from industrial development revenue bond issuances are held by a trustee until qualifying construction expenditures are made at which time the funds are released. The amounts presented in the table above represent funds that have been used for construction through December 31, 2000 and 1999, respectively.

At December 31, 2000, the commercial paper notes payable were classified as long-term debt because the obligations are expected to be refinanced with long-term debt securities.

We have available lines of credit with financial institutions in the amounts of $5.7 billion, with associated facility fees of 0.10% per annum and $450,000,000 with no associated facility fees. These lines of credit expire on October 26, 2001 and provide us with one-year term-out options. These credit facilities are in addition to credit commitments, under which we may borrow up to $200,000,000, with associated facility fees of 0.12% per annum, which expire on December 16, 2003. As of December 31, 2000, there was $765,000,000 outstanding under the $5.7 billion credit facility, as well as $109,000,000 in commercial paper backed by the $5.7 billion credit facility. ELI has $400,000,000 of committed revolving lines of credit with commercial banks, which expire November 21, 2002, under which it has borrowed $400,000,000 at December 31, 2000. The ELI credit facility has an associated facility fee of 0.08% per annum. We have guaranteed all of ELI's obligations under these revolving lines of credit.

In June 2000, we arranged for the issuance of $19,600,000 of 2000 Series special purpose revenue bonds as money market bonds with an initial interest rate of 4.6% and a maturity date of December 1, 2020.

In April 1999, ELI completed an offering of $325,000,000 million of five-year senior unsecured notes. The notes carry an interest rate of 6.05% and mature on May 15, 2004. We have guaranteed the payment of principal and

any premium and interest on the notes when due.

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

($ in thousands)	2001	2002	2003	2004	2005
Installment principal payments	$ 2,024	$ 4,688	$ 4,802	$ 4,876	$ 5,135
Capital leases	28,990	4,721	2,353	2,599	2,872
Maturities	150,000	1,274,145	-	425,000	-
	$ 181,014	$ 1,283,554	$ 7,155	$ 432,475	$ 8,007

Our $100,000,000, 7.68% debentures are included in the 2001 maturities since the debentures are redeemable at par at the option of the holders on October 1, 2001.

Holders of certain industrial development revenue bonds may tender at par prior to maturity. The next tender date is April 1, 2001 for $14,400,000 of principal amount of bonds. We expect to remarket all such bonds which are tendered. In the years 2000, 1999 and 1998, interest payments on short- and long-term debt were $188,955,000, $127,757,000 and $111,038,000, respectively.

(9) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

During the first quarter of 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 $201,250,000). The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase $207,475,000 aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly owned consolidated subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from us $211,756,050 aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust are the Partnership Convertible Preferred Securities and 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 5% interest on the Convertible Subordinated Debentures in 2000, 1999 and 1998. During 2000, only cash was paid 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. During 1999, 1,004,961 shares of Common Stock were issued to the Partnership in payment of interest of which 976,464 shares were sold by the Partnership to satisfy cash dividend payment elections by the holders of the EPPICS. The sales proceeds and the remaining 28,497 shares of Common Stock were distributed by the Partnership to the Trust. During 1998, 1,093,274 shares of Common Stock were issued to the Partnership in payment of interest of which 1,009,231 shares were sold by the Partnership to satisfy cash dividend payment elections by the holders of the EPPICS. The sales proceeds and the remaining 84,043 shares of Common Stock were distributed by the Partnership to the Trust. The Trust distributed the cash

and shares as dividends to the holders of the EPPICS in 1999 and 1998.

(10) Capital Stock:

We are authorized to issue up to 600,000,000 shares of Common Stock. Prior to 1999, quarterly stock dividends had been declared and issued on Common Stock and shareholders had the option of enrolling in the "Common Stock Dividend Sale Plan." The plan offered shareholders the opportunity to have their stock dividends sold by the plan broker and the net cash proceeds of the sale distributed to them quarterly.

The amount and timing of dividends payable on Common Stock are within the sole discretion of our Board of Directors. Our Board of Directors discontinued the payment of dividends after the payment of the December 1998 stock dividend. Quarterly stock dividends declared and issued on Common Stock were .75% for each quarter of 1998 for a compounded annual total of 3.03% and an annual stock dividend cash equivalent of 28 5/16(cent) (rounded to the nearest 1/16th).

In December 1999, our Board of Directors authorized the purchase, from time to time, of up to $100,000,000 worth of shares of our common stock. This share purchase program was completed in April 2000 and resulted in the acquisition or contract to acquire approximately 6,165,000 shares of our common stock. Of those shares, 2,500,000 shares were purchased for approximately $40,959,000 in cash and we entered into an equity forward contract for the acquisition of the remaining 3,665,000 shares.

In April 2000, our Board of Directors authorized the purchase, from time to time, of up to an additional $100,000,000 worth of shares of our common stock. This share purchase program was completed in July 2000 and resulted in the acquisition or contract to acquire approximately 5,927,000 shares of our common stock. Of these shares, 452,000 shares were purchased for approximately $8,250,000 in cash and we entered into an equity forward contract for the acquisition of the remaining 5,475,000 shares.

The equity forward contracts do not meet the requirements for presentation within the stockholders' equity section at December 31, 2000. As a result, they have been reflected as a reduction of Stockholders' equity and a component of temporary equity for the gross settlement amount of the contracts. Current accounting rules permit a transition period until June 30, 2001 to amend the contracts to comply with the requirements for permanent equity presentation. If an agreement with the counterparty to the contracts can be reached by June 30, 2001, the current impact of the classification to temporary equity will be reversed and the gross settlement amount will again be presented in permanent equity with no adjustment until final settlement. If an agreement with the counterparty cannot be reached by June 30, 2001, not only will the current impact be reversed as noted above, but we will be required to record the change in fair value of the equity forward from inception to that date as an asset or a liability with the offset recorded as a cumulative effect of change in accounting principle with future changes to the fair value recorded in earnings.

If we were required to apply the guidance required at June 30, 2001, in the accompanying financial statements based on the fair value of the contracts as of December 31, 2000, we would have reflected a charge as a cumulative effect of a change in accounting principle and an offsetting liability of approximately $30 million.

We also purchased 631,000 shares at a cost of $6,625,000 in 1999 to fund EPPICS dividends and 1,811,000 shares at a cost of $14,823,000 in 1998 to fund EPPICS dividends and pay common stock dividends.

In addition to our share purchase programs described above, in April 2000, our Board of Directors authorized the purchase, from time to time, of up to $25,000,000 worth of shares of Class A common stock of ELI, our 85% owned subsidiary, on the open market or in negotiated transactions. This ELI share purchase program was completed in August 2000 and resulted in the acquisition of approximately 1,288,000 shares of ELI common stock for

approximately $25,000,000 in cash. In August 2000, our Board of Directors authorized the purchase, from time to time, of up to an additional 1,000,000 shares of ELI on the open market or in negotiated transactions. The second ELI share purchase program was completed in September 2000 and resulted in the acquisition of approximately 1,000,000 shares of ELI common stock for approximately $13,748,000 in cash.

The activity in shares of outstanding common stock during 2000, 1999, and 1998 is summarized as follows:

	Number of Shares
Balance at January 1, 1998	250,994,000
Acquisitions	532,000
Common stock dividends	7,657,000
Common stock buybacks	(1,811,000)
Common stock issued to fund dividends	1,093,000
Stock plans	684,000
Balance at December 31, 1998	259,149,000
Common stock buybacks	(631,000)
Common stock issued to fund EPPICS dividends	1,005,000
Stock plans	2,553,000
Balance at December 31, 1999	262,076,000
Acquisitions	111,000
Stock plans	3,581,000
Balance at December 31, 2000	265,768,000

As of December 31, 2000, we had 268,875,000 shares issued of which 3,107,000 shares were held as Treasury Stock. We have 50,000,000 authorized but unissued shares of preferred stock ($.01 par).

(11) Stock Plans:

At December 31, 2000, we have four stock based compensation plans and ELI has two stock based plans which are described below. We apply APB Opinion No. 25 and related interpretations in accounting for the employee stock plans. No compensation cost has been recognized in the financial statements for options issued pursuant to the Management Equity Incentive Plan (MEIP), Equity Incentive Plan (EIP), or ELI Equity Incentive Plan (ELI EIP) as the exercise price for such options was equal to the market price of the stock at the time of grant and no transactions or modifications which would require a compensation charge have occurred subsequent to the grant. No compensation cost has been recognized in the financial statements related to the Employee Stock Purchase Plan (ESPP) and ELI Employee Stock Purchase Plan (ELI ESPP) because the purchase price is 85% of the fair value. Compensation cost recognized for our Directors' Deferred Fee Equity Plan was $691,956, $481,540 and $463,798 in 2000, 1999 and 1998, respectively.

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 2000, 1999 and 1998 were 3,120,000, 901,200 and 464,000, 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. The restrictions are both time and performance based. At December 31, 2000, 4,262,000 shares of restricted stock were outstanding. Compensation expense of $9,084,000, $2,574,000 and $2,096,000 for the years ended December 31, 2000, 1999 and 1998, respectively, has been recorded in connection with these grants.

Had we determined compensation cost based on the fair value at the grant date for its MEIP, EIP, ESPP, ELI ESPP and ELI EIP, our pro forma Net income (loss) and Net income (loss) per common share would have been as follows:

($ in thousands)		2000	1999	1998
Net income (loss)	As reported	$(28,394)	$144,486	$57,060
	Pro forma	(51,270)	130,613	46,005
Net income (loss) per common share	As reported:			
	Basic	$ (.11)	$.55	$.22
	Diluted	(.11)	.55	.22
	Pro forma:			
	Basic	$ (.20)	$.50	$.18
	Diluted	(.20)	.50	.18

The full impact of calculating compensation cost for stock options is not reflected in the pro forma amounts above because pro forma compensation cost only includes costs associated with the vested portion of options granted pursuant to the MEIP, EIP, ESPP, ELI ESPP and ELI EIP on or after January 1, 1995.

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

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

Both ELI and us repriced these employee stock options on August 7, 1998 and December 11, 1998, respectively, in an effort to retain employees at a time when a significant percentage of employee stock options had exercise prices that were above fair market value. No compensation costs have been recognized in the financial statements as the exercise price was equal to the market value of the stock at the date of the repricing. Under accounting rules promulgated subsequent to December 15, 1998, any future repricings could be considered compensable and therefore would result in compensation cost in the statement of income.

Management Equity Incentive Plan

Under the MEIP, 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, stock appreciation rights (SARs), restricted stock or other stock-based awards. The Compensation Committee of the Board of Directors administers the MEIP.

The maximum number of shares of common stock which may be issued pursuant to awards at any time is 5% (13,133,029 as of December 31, 2000) of our common stock outstanding. Since the expiration date of the MEIP plan, no awards can be granted under the MEIP. The exercise price of stock options

and SARs issued were equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are generally not exercisable on the date of grant but vest over a period of time. Under the terms of the MEIP, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decreases the average exercise price of outstanding options.

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

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1998	11,704,000	$ 10.72
Options granted	1,869,000	7.75
Options exercised	(29,000)	10.56
Options canceled, forfeited or lapsed	(4,109,000)	11.09
Balance at December 31, 1998	9,435,000	9.91
Options granted	1,844,000	8.00
Options exercised	(602,000)	8.20
Options canceled, forfeited or lapsed	(396,000)	8.08
Balance at December 31, 1999	10,281,000	9.73
Options granted	26,000	16.26
Options exercised	(3,103,000)	9.96
Options canceled, forfeited or lapsed	(283,000)	7.79
Balance at December 31, 2000	6,921,000	$ 9.72

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

The following table summarizes information about shares subject to options under the MEIP at December 31, 2000.

Options Outstanding				Options Exercisable	
Number Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number Exercisable	Weighted Average Exercise Price
14,000	$ 4 - 5	$ 4	4	14,000	$ 4
2,590,000	7 - 8	8	5	1,679,000	8
944,000	8 - 10	9	7	944,000	9
1,919,000	10 - 11	11	4	1,805,000	11
894,000	11 - 14	12	4	741,000	13
535,000	14 - 15	14	3	535,000	14
25,000	15 - 17	17	9	-	-
6,921,000	$ 4 - 17	$ 10	5	5,718,000	$ 10

The weighted average fair value of options granted during 2000, 1999 and 1998 were $7.09, $3.17 and $2.27, respectively. For purposes of the pro forma calculation, the fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998:

	2000	1999	1998
Dividend yield	-	-	-
Expected volatility	30%	29%	26%
Risk-free interest rate	6.27%	5.32%	4.43%

Expected life	6 years	6 years	4 years

Equity Incentive Plan

In May 1996, our shareholders approved the EIP. Under the 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, stock appreciation rights (SARs), restricted stock or other stock-based awards. The Compensation Committee of the Board of Directors administers the EIP.

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

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

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

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1998	2,194,000	$ 8.55
Options granted	4,683,000	9.34
Options canceled, forfeited or lapsed	(2,745,000)	10.14
Balance at December 31, 1998	4,132,000	8.51
Options granted	3,487,000	8.64
Options exercised	(361,000)	8.46
Options canceled, forfeited or lapsed	(679,000)	8.40
Balance at December 31, 1999	6,579,000	8.59
Options granted	5,758,000	13.31
Options exercised	(1,023,000)	8.21
Options canceled, forfeited or lapsed	(614,000)	10.27
Balance at December 31, 2000	10,700,000	11.37

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

The following table summarizes information about shares subject to options under the EIP at December 31, 2000.

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
2,838,000	$ 7 - 8	$ 8	8	1,212,000	$ 8
1,091,000	8 - 9	9	7	1,079,000	9
102,000	9 - 10	9	7	48,000	9
289,000	10 - 11	10	7	178,000	10

6,240,000	11 - 15	14	10	604,000	13
140,000	15 - 19	18	10	-	-
10,700,000	$ 7 - 19	$ 11	8	3,121,000	$ 9

The weighted average fair value of options granted during 2000, 1999 and 1998 was $6.31, $3.46 and $3.54, respectively. For purposes of the pro forma calculation, the fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998:

	2000	1999	1998
Dividend yield	-	-	-
Expected volatility	30%	29%	26%
Risk-free interest rate	5.82%	5.47%	5.15%
Expected life	6 years	6 years	6 years

Employee Stock Purchase Plan

Our ESPP was approved by shareholders on June 12, 1992 and amended on May 22, 1997. Under the ESPP, eligible employees have the right to subscribe to purchase shares of our Common Stock at the lesser of 85% of the mean between the high and low market prices on the first day of the purchase period or on the last day of the purchase period. An employee may elect to have up to 20% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of an employee's subscription may not exceed $25,000 in any one calendar year. An employee may not participate in the ESPP if such employee owns stock possessing 5% or more of the total combined voting power or value of our capital stock. As of December 31, 2000, there were 6,407,195 shares of Common Stock reserved for issuance under the ESPP. These shares may be adjusted for any future stock dividends or stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The Compensation Committee of the Board of Directors administers the ESPP. As of December 31, 2000, the number of employees enrolled and participating in the ESPP was 2,172 and the total number of shares purchased under the ESPP was 3,620,272. For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 2000, 1999 and 1998:

	2000	1999	1998
Dividend yield	-	-	-
Expected volatility	30%	29%	26%
Risk-free interest rate	6.23%	5.24%	4.91%
Expected life	6 months	6 months	6 months

The weighted average fair value of those purchase rights granted in 2000, 1999 and 1998 was $3.26, $2.47 and $2.05, respectively.

ELI Employee Stock Purchase Plan

The ELI ESPP was approved by shareholders on May 21, 1998. Under the ELI ESPP, eligible employees of ELI may subscribe to purchase shares of ELI Class A Common Stock at the lesser of 85% of the average of the high and low market prices on the first day of the purchase period or on the last day of the purchase period. An employee may elect to have up to 20% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of an employee's subscription may not exceed $25,000 in any one calendar year. An employee may not participate in the ELI ESPP if such employee owns stock possessing 5% or more of the total combined voting power or value of all classes of capital stock of ELI. As of December 31, 2000, there were 1,950,000 shares of ELI Class A Common Stock reserved for issuance under the ELI ESPP. These shares may be adjusted for any future stock dividends or stock splits. The ELI ESPP will terminate when all shares reserved have

been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The ELI ESPP is administered by the Compensation Committee of ELI's Board of Directors. As of December 31, 2000, the number of employees enrolled and participating in the ELI ESPP was 652 and the total number of shares purchased under the ELI ESPP was 585,813. For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 2000, 1999 and 1998:

	2000	1999	1998
Dividend yield	-	-	-
Expected volatility	87%	66%	71%
Risk-free interest rate	6.29%	5.25%	4.92%
Expected life	6 months	6 months	6 months

The weighted average fair value of those purchase rights granted in 2000, 1999 and 1998 was $4.59, $4.97 and $3.82, respectively.

ELI Equity Incentive Plan

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

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

	Shares Subject to Option	Weighted Average Option Price Per Share
Balance at January 1, 1998	2,326,000	$ 16.00
Options granted	1,654,000	10.77
Options canceled, forfeited or lapsed	(1,649,000)	16.21
Balance at December 31, 1998	2,331,000	12.14
Options granted	1,989,000	9.51
Options exercised	(116,000)	9.73
Options canceled, forfeited or lapsed	(680,000)	10.12
Balance at December 31, 1999	3,524,000	10.96
Options granted	2,720,000	19.08
Options exercised	(456,000)	11.00
Options canceled, forfeited or lapsed	(1,017,000)	13.63
Balance at December 31, 2000	4,771,000	15.05

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

The following table summarizes information about shares subject to options under the ELI EIP at December 31, 2000.

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
29,000	$ 3 - 8	$ 6	9	3,000	$ 7
1,611,000	8 - 12	9	8	990,000	9
856,000	12 - 19	16	8	651,000	16
2,275,000	19 - 23	19	10	1,000	22
4,771,000	$ 3 - 23	$ 15	9	1,645,000	$ 12

For purposes of the pro forma calculation, compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in 2000, 1999 and 1998:

	2000	1999	1998
Dividend yield	-	-	-
Expected volatility	87%	66%	71%
Risk-free interest rate	7.23%	5.34%	5.44%
Expected life	6 years	6 years	6 years

The weighted-average fair value of those options granted in 2000, 1999 and 1998 were $14.75, $6.16 and $6.94, respectively.

ELI has granted 725,000 restricted stock awards to key employees in the form of Class A Common Stock since its IPO. These restrictions lapse based on meeting specific performance targets. At December 31, 2000, 606,000 shares of this stock were outstanding, of which 396,000 shares are no longer restricted. Compensation expense was recorded in connection with these grants in the amounts of $1,422,000, $2,559,000 and $4,666,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Directors' Deferred Fee Equity Plan

Effective June 30, 2000, the annual retainer paid to non-employee directors was eliminated. In replacement, each non-employee director elected, by August 1, 2000, to receive either 2,500 stock units or 10,000 stock options. Starting in 2001, each non-employee director will elect, by December 1 of the prior year, to receive either 5,000 stock units or 20,000 stock options. Directors making a stock unit election must also elect to receive payment in either stock or cash upon retirement from the Board of Directors. Stock options have an exercise price of the fair market value on the date of grant, are exercisable six months after the date of grant and have a 10-year term. Options granted pursuant to the June 30, 2000 plan are subject to shareholder approval in 2001. The Formula Plan described below also remains in effect until its expiration in 2002.

From January 1, 2000 through June 30, 2000, the non-employee directors had the choice to receive 50% or 100% of their fees paid in either stock or stock units. If stock was elected, the stock was granted at the average of the high and low on the first trading date of the year (Initial Market Value). If stock units were elected, they were purchased at 85% of the Initial Market Value. Stock units (except in an event of hardship) are held by us until retirement or death.

Our original Non-Employee Directors' Deferred Fee Equity Plan (the Directors' Plan) was approved by shareholders on May 19, 1995 and subsequently amended. The Directors' Plan included an Option Plan, a Stock Plan and a Formula Plan. On December 31, 1999, the Option Plan and the Stock Plan expired in accordance with the Plan's terms.

Through the Option Plan, an eligible director could have elected to receive up to $30,000 per annum of his or her director's fee retainer, for a period of up to five years, in the form of options to purchase our common stock. The number of options granted was calculated by dividing the dollar amount elected by 20% of the fair market value of our common stock on the effective date of the options. The options are exercisable at 90% of the fair market value of our common stock on the effective date of the options.

Through the Stock Plan, an eligible director elected to receive all or a portion of his or her director's fees in the form of Plan Units, the number of such Plan Units being equal to such fees divided by the fair market value of our common stock on certain specified dates. In the event of termination of Directorship, a Stock Plan participant will receive the value of such Plan Units in either stock or cash or installments of cash as selected by the Participant at the time of the related Stock Plan election.

The Formula Plan provides each Director options to purchase 5,000 shares of common stock on the first day of each year beginning in 1997 and continuing through 2002 regardless of whether the Director is participating in the Option Plan or Stock Plan. In addition, on September 1, 1996, options to purchase 2,500 shares of common stock were granted to each Director. The exercise price of the options are 100% of the fair market value on the date of grant and the options are exercisable six months after the grant date and remain exercisable for ten years after the grant date.

As of any date, the maximum number of shares of common stock which the Plan was obligated to deliver pursuant to the Directors' Plan shall not be more than one percent (1%) of the total outstanding shares of our Common Stock as of such date, subject to adjustment in the event of changes in our corporate structure affecting capital stock. There were 10 directors participating in the Directors' Plan in 2000. In 2000, the total Options, Plan Units and stock earned were 203,969, 52,521, and 2,860, respectively. In 1999, the total Options and Plan Units earned were 153,969 and 15,027, respectively. In 1998, the total Options and Plan Units earned were 185,090 and 16,661, respectively. At December 31, 2000, 825,446 options were exercisable at a weighted average exercise price of $11.41.

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 their retirement, death or termination of directorship of each individual director. In 1999, we terminated this Plan. In connection with the termination, the value as of May 31, 1999, of the vested benefit of each non-employee director was credited to him/her in the form of stock units. Such benefit will be payable upon retirement, death or termination of the directorship. Each participant had until July 15, 1999 to elect whether the value of the stock units awarded would be payable in our common stock (convertible on a one for one basis) or in cash. As of December 31, 2000, the liability for such payments was $3.4 million of which $1.6 million will be payable in stock (based on the July 15, 1999 stock price) and $1.8 million will be payable in cash. While the number of shares of stock payable to those directors electing to be paid in stock was fixed, the amount of cash payable to those directors electing to be paid in cash will be based on the number of stock units awarded times the stock price at the payment date.

(12) 1999 Restructuring Charges:

In the fourth quarter of 1999, we approved a plan to restructure our corporate office activities. In connection with this plan, we recorded a pre-tax charge of $5,760,000 in other operating expenses in the fourth quarter of 1999. The restructuring resulted in the reduction of 49 corporate employees. All affected employees were communicated with in the early part of November 1999.

As of December 31, 2000, approximately $4,214,000 has been paid, 42 employees were terminated and 5 employees who were expected to be terminated took other positions within the company. The remaining 2 employees will be terminated during 2001. At December 31, 2000, we adjusted our original accrual down by $1,008,000 and the remaining accrual of $538,000 is included in other current liabilities. These costs are expected to be paid in the first quarter of 2001.

(13) Income Taxes:

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

($ in thousands)	2000	1999	1998
Consolidated tax provision at federal statutory rate	35.0%	35.0%	35.0%
State income tax provisions (benefit), net of federal income tax	-6.4%	1.1%	1.0%
Allowance for funds used during construction	2.8%	-0.8%	-2.5%
Nontaxable investment income	5.4%	-1.2%	-4.4%
Amortization of investment tax credits	1.9%	-0.6%	-1.9%
Flow through depreciation	-8.5%	2.8%	7.5%
Tax reserve adjustment	-5.6%	0.6%	-6.9%
Company owned life insurance	-2.2%	1.2%	0.8%
Minority interest	8.7%	-3.8%	-3.5%
All other, net	1.2%	0.1%	-1.1%
	32.3%	34.4%	24.0%

As of December 31, 2000 and 1999, accumulated deferred income taxes amounted to $482,278,000 and $450,903,000, respectively, and the unamortized deferred investment tax credits amounted to $8,209,000 and $9,305,000, respectively. Income taxes paid during the year were $37,935,000, $885,000 and $5,434,000 for 2000, 1999 and 1998, respectively.

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

($ in thousands)	2000	1999
Deferred income tax liabilities:		
Property, plant and equipment basis differences	$ 424,378	$ 381,278
Regulatory assets	65,977	69,757
Other, net	10,597	20,523
	500,952	471,558
Deferred income tax assets:		
Regulatory liabilities	7,308	7,663
Deferred investment tax credits	3,157	3,687
	10,465	11,350
Net deferred income tax liability	$ 490,487	$ 460,208

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

($ in thousands)	2000	1999	1998
Income taxes charged (credited) to the income statement for continuing operations:			
Current:			
Federal	$ (66,759)	$ 45,922	$ (5,284)
State	(2,588)	2,334	(259)
Total current	(69,347)	48,256	(5,543)
Deferred:			
Federal	46,647	26,584	22,217
Investment tax credits	(931)	(1,366)	(1,312)
State	7,499	1,426	1,298
Total deferred	53,215	26,644	22,203
Subtotal	(16,132)	74,900	16,660
Income taxes charged (credited) to the income statement for discontinued operations:			
Current:			

Federal	2,749	(17)	3,640
State	418	(3)	553
Total current	3,167	(20)	4,193
Deferred:			
Federal	2,260	3,595	1,583
Investment tax credits	(326)	(320)	(315)
State	620	662	216
Total deferred	2,554	3,937	1,484
Subtotal	5,721	3,917	5,677
Income tax benefit on dividends on convertible preferred securities:			
Current:			
Federal	(3,344)	(3,344)	(3,344)
State	(508)	(508)	(508)
Subtotal	(3,852)	(3,852)	(3,852)
Income tax benefit on cumulative effect of change in accounting principle:			
Current:			
Federal	-	-	(478)
State	-	-	-
Subtotal	-	-	(478)
Total income taxes charged to the income statement (a)	(14,263)	74,965	18,007
Income taxes charged (credited) to shareholders' equity:			
Deferred income taxes (benefits) on unrealized gains or losses on securities classified as available-for-sale	(8,997)	(25,906)	32,792
Current benefit arising from stock options exercised	(7,392)	(1,262)	(35)
Income taxes charged (credited) to shareholders' equity (b)	(16,389)	(27,168)	32,757
Total income taxes: (a) plus (b)	$ (30,652)	$ 47,797	$ 50,764

Our alternative minimum tax credit as of December 31, 2000 is $91,370,000, which can be carried forward indefinitely to reduce future regular tax liability. This benefit is presented as a reduction of accrued income taxes.

(14) Net Income (loss) Per Common Share:

The reconciliation of the net income (loss) per common share calculation for the years ended December 31, 2000, 1999 and 1998 is as follows:

($ in thousands, except per share amounts)

	2000			1999			1998		
	Loss	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
Basic	$ (28,394)	261,744	$ (0.11)	$ 144,486	260,481	$ 0.55	$ 57,060	258,879	$ 0.22
Effect of dilutive options	-	5,187	-	-	1,779	-	-	742	-
Diluted	$ (28,394)	266,931	$ (0.11)	$ 144,486	262,260	$ 0.55	$ 57,060	259,621	$ 0.22

All share amounts represent weighted average shares outstanding for each respective period. The diluted net income (loss) per common share calculation excludes the effect of potentially dilutive shares when their exercise price exceeds the average market price over the period. We have 4,025,000 shares of potentially dilutive Mandatorily Redeemable Convertible Preferred Securities which are convertible into common stock at a 3.76 to 1 ratio at an exercise price of $13.30 per share and 161,250 potentially dilutive stock options at a range of $16.69 to $18.53 per share. These items were not included in the diluted net income (loss) per common share calculation for any of the above periods as their effect was antidilutive.

(15) Comprehensive Income (Loss):

Our other comprehensive income (loss) for the years ended December 31, 2000, 1999 and 1998 is as follows:

($ in thousands)	2000 Before-Tax Amount	2000 Tax Expense/ (Benefit)	2000 Net-of-Tax Amount
Net unrealized losses on securities:			
Net unrealized holding losses arising during period	$ (40,377)	$ (15,457)	$ (24,920)
Add: Reclassification adjustments for net losses realized in net loss	16,875	6,460	10,415
Other comprehensive loss	$ (23,502)	$ (8,997)	$ (14,505)

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

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

(16) Segment Information:

We operate in four segments, ILEC, ELI, gas and electric. The ILEC segment provides both regulated and competitive communications services to residential, business and wholesale customers. ELI is a facilities based integrated communications provider offering a broad range of communications services in the western United States. We own 85% of ELI and guarantee all of ELI's long-term debt, one of its capital leases and one of its operating leases. Our gas and electric segments, which are intended to be sold and are classified as "assets held for sale" and "liabilities related to assets held for sale," were previously reported as discontinued operations (see Note 5).

Adjusted EBITDA is operating income (loss) plus depreciation and amortization. EBITDA is a measure commonly used to analyze companies on the basis of operating performance. It is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity and may not be comparable to similarly titled measures of other companies.

($ in thousands)	For the year ended December 31, 2000					
	ILEC	ELI	Gas	Electric	Eliminations	Total Segments
Revenue	$ 963,743	$ 243,977	$ 374,751	$ 223,072	$ (3,185)1	$ 1,802,358
Depreciation	276,250	61,663	19,228	28,629	1,837 2	387,607
Operating Income (Loss)	157,896	(59,876)	8,268	15,226	287 2,3	121,801
Adjusted EBITDA	434,146	1,787	27,496	43,855	2,124 3	509,408
Capital Expenditures, net	350,209	112,285 4	51,456	29,483	-	543,433
Assets	3,558,562	949,774	667,651	544,656	-	5,720,643

($ in thousands)	For the year ended December 31, 1999					
	ILEC	ELI	Gas	Electric	Eliminations	Total Segments
Revenue	$ 903,237	$ 187,008	$ 306,986	$ 203,822	$ (2,817)1	$ 1,598,236
Depreciation	226,141	36,505	22,203	25,552	(216)	310,185
Operating Income (Loss)	100,910	(94,066)	32,024	30,268	1,224 3	70,360
Adjusted EBITDA	327,051	(57,561)	54,227	55,820	1,008 3	380,545
Capital Expenditures, net	227,176	185,395 4	66,951	43,540	-	523,062
Assets	2,422,572	775,234	590,713	469,991	-	4,258,510

($ in thousands)	For the year ended December 31, 1998					
	ILEC	ELI	Gas	Electric	Eliminations	Total Segments
Revenue	$ 835,039	$ 100,880	$ 325,423	$ 190,307	$ (3,061)1	$ 1,448,588
Depreciation	181,656	17,002	24,084	22,733	- 2	245,475
Operating Income (Loss)	154,506	(73,783)	42,225	27,093	921 2,3	150,962
Adjusted EBITDA	336,162	(56,781)	66,309	49,826	921 3	396,437
Capital Expenditures, net	201,453	200,000	45,768	18,895	-	466,116

(1) Represents revenue received by ELI from our ILEC operations.
(2) Represents amortization of the capitalized portion of intercompany interest related to our guarantees of ELI debt and leases and amortization of goodwill related to our purchase of ELI stock (see Note 10).
(3) Represents the administrative services fee charged to ELI pursuant to the management services agreement between ELI and us.
(4) Does not include approximately $102,000,000 and $60,000,000 of non-cash capital lease additions in 2000 and 1999, respectively.

In the fourth quarter of 2000, we settled a proceeding with the Louisiana Public Service Commission. Louisiana Gas Service, our subsidiary, refunded approximately $27 million to ratepayers during the month of January 2001, effected as a credit on customers' bills. As a result, we recorded approximately $29.7 million of charges to earnings in the fourth quarter of 2000. This amount included a reduction to revenue for the refund to customers of approximately $27 million and legal fees of approximately $2.7 million. The Louisiana Gas Service business is to be sold to Atmos Energy Co. and the sale is expected to close in the first half of 2001 following regulatory approval (see Note 5).

The following tables are reconciliations of certain sector items to the total consolidated amount.

($ in thousands)	For the year ended December 31, 2000	1999	1998
Adjusted EBITDA			
Total Segment Adjusted EBITDA	$ 509,408	$ 380,545	$ 396,437
Discontinued Operations Adjusted EBITDA	45,640	36,218	39,576
Consolidated Adjusted EBITDA	$ 555,048	$ 416,763	$ 436,013
Capital Expenditures			
Total segment capital expenditures	$ 543,433	$ 523,062	$ 466,116
General capital expenditures	1,396	6,599	25,122
Change in accrued construction work in progress	(8,190)	43,669	(13,262)

Consolidated reported capital expenditures	$ 536,639	$ 573,330	$ 477,976

Assets	December 31, 2000	1999
Total segment assets	$ 5,720,643	$ 4,258,510
General assets	560,848	917,525
Discontinued operations assets	673,515	595,710
Consolidated reported assets	$ 6,955,006	$ 5,771,745

($ in thousands)	For the year ended December 31, 2000						
	ILEC	ELI	Gas	Electric	Discontinued Operations	Eliminations	Consolidated Total
Revenue	$ 963,743	$243,977	$ 374,751	$ 223,072	$ -	$ (3,185)	$1,802,358
Operating expenses:							
Cost of services	34,508	74,105	229,538	113,965	-	(2,995)	449,121
Depreciation and amortization	276,250	61,663	19,228	28,629	-	1,837	387,607
Other operating expenses	455,160	168,085	117,717	65,252	-	(2,314)	803,900
Acquisition assimilation expense	39,929	-	-	-	-	-	39,929
Total operating expenses	805,847	303,853	366,483	207,846	-	(3,472)	1,680,557
Operating income (loss)	157,896	(59,876)	8,268	15,226	-	287	121,801
Investment income, net	4,423	-	-	313	-	-	4,736
Other income (loss), net	(5,744)	(402)	4,419	341	-	-	(1,386)
Minority interest	12,222	-	-	-	-	-	12,222
Interest expense	103,979	75,784	18,097	17,959	-	(28,453)	187,366
Income (loss) from continuing operations before income taxes and dividends on convertible preferred securities	64,818	(136,062)	(5,410)	(2,079)	-	28,740	(49,993)
Income tax expense (benefit)	(14,115)	400	(1,746)	(671)	-	-	(16,132)
Income (loss) from continuing operations before dividends on convertible preferred securities	78,933	(136,462)	(3,664)	(1,408)	-	28,740	(33,861)
Dividends on convertible preferred securities, net of income tax benefit	6,210	-	-	-	-	-	6,210
Income (loss) from continuing operations	72,723	(136,462)	(3,664)	(1,408)	-	28,740	(40,071)
Income from discontinued operations, net of tax	-	-	-	-	11,677	-	11,677
Net income (loss)	$ 72,723	$ (136,462)	$ (3,664)	$ (1,408)	$ 11,677	$ 28,740	$ (28,394)

(17) Quarterly Financial Data (unaudited):

($ in thousands, except per share amounts)

2000	Revenue	Net Income (Loss)	Net Income (Loss) per Common Share Basic	Diluted
First quarter	$ 448,702	$ 7,326	$ 0.03	$ 0.03
Second quarter	418,607	3,012	0.01	0.01
Third quarter	452,710	1,467	0.01	0.01
Fourth quarter	482,339	(40,199)	(0.15)	(0.15)

1999	Revenue	Net Income	Net Income per Common Share Basic	Diluted
First quarter	$ 414,780	$ 54,625	$ 0.21	$ 0.21
Second quarter	390,063	7,753	0.03	0.03
Third quarter	397,141	11,908	0.05	0.05
Fourth quarter	396,252	70,200	0.27	0.26

Fourth quarter 2000 results include an after tax charge of approximately

$18,400,000, or 9(cent) per share, related to the settlement of a proceeding with the Louisiana Public Service Commission (see Note 20).

First quarter 1999 results include an after tax gain of approximately $42,900,000, or 16(cent) per share, on the sale of Centennial Cellular stock (see Note 6). Fourth quarter 1999 results include an after tax gain of approximately $41,700,000, or 16(cent) per share, on the sale of Century stock and an after tax gain of approximately $51,800,000, or 20(cent) per share, on the sale of our interest in a cable joint venture (see Note 6), offset by after tax asset impairment charges of approximately $22,300,000, or 9(cent) per share, (see Note 1(f)), after tax costs of an executive retirement agreement of $4,100,000, or 2(cent) per share, after tax restructuring charges of approximately $3,600,000, or 1(cent) per share (see Note 12), and after tax impact of accelerated depreciation of approximately $3,000,000, or 1(cent) per share, related to the change in useful life of an operating system.

The quarterly net income (loss) per common share amounts are rounded to the nearest cent. Annual net income (loss) per common share may vary depending on the effect of such rounding. Quarterly revenue has been retroactively revised from their original presentations to conform to current presentation.

(18) Supplemental Cash Flow Information:

The following is a schedule of net cash provided by operating activities for the years ended December 31, 2000, 1999 and 1998:

($ in thousands)	2000	1999	1998
Income (loss) from continuing operations	$ (40,071)	$ 136,599	$ 44,110
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	387,607	310,187	245,475
Non-cash charges to earnings	-	36,136	-
Non-cash investment (gains)/losses	18,314	(221,088)	-
Non-cash HTCC investment impairment charge	-	-	31,905
Cumulative effect of change in accounting principle	-	-	3,394
Allowance for equity funds used during construction	(3,257)	(4,586)	(3,869)
Deferred income tax and investment tax credit	53,215	26,644	22,203
Change in operating accounts receivable	(11,685)	(1,966)	(29,103)
Change in accounts payable and other	(32,452)	52,066	(92,353)
Change in accrued taxes and interest	(28,944)	29,867	19,305
Change in other assets	(34,583)	6,430	8,832
Net cash provided by continuing operating activities	$ 308,144	$ 370,289	$ 249,899

(19) Retirement Plans:

Pension Plan

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

The following tables set forth the plan's benefit obligations and fair values of plan assets as of December 31, 2000 and 1999 and net periodic benefit cost for the years ended December 31, 2000, 1999 and 1998.

($ in thousands)	2000	1999
Change in benefit obligation		
Benefit obligation at beginning of year	$ 227,602	$ 252,914
Service cost	12,286	13,234
Interest cost	18,772	17,200
Amendments	275	(1,877)
Actuarial (gain)/loss	23,223	(33,039)
Acquisitions	11,300	-
Benefits paid	(11,434)	(20,830)
Benefit obligation at end of year	$ 282,024	$ 227,602
Change in plan assets		
Fair value of plan assets at beginning of year	$ 238,886	$ 232,536
Actual return on plan assets	7,155	21,760
Acquisitions	12,622	-
Employer contribution	2,171	5,420
Benefits paid	(11,434)	(20,830)
Fair value of plan assets at end of year	$ 249,400	$ 238,886
(Accrued)/Prepaid benefit cost		
Funded status	$ (32,624)	$ 11,284
Unrecognized net liability	103	146
Unrecognized prior service cost	1,795	1,673
Unrecognized net actuarial (gain)/loss	21,900	(13,911)
(Accrued)/Prepaid benefit cost	$ (8,826)	$ (808)

	For the years ended December 31,		
	2000	1999	1998
Components of net periodic benefit cost			
Service cost	$ 12,286	$ 13,234	$ 10,747
Interest cost on projected benefit obligation	18,772	17,200	15,703
Return on plan assets	(19,743)	(19,081)	(17,241)
Net amortization and deferral	196	175	400
Net periodic benefit cost	$ 11,511	$ 11,528	$ 9,609

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

	2000	1999
Discount rate	8.0%/7.5%	7.0%/8.0%
Expected long-term rate of return on plan assets	8.25%/N/A	8.25%/N/A
Rate of increase in compensation levels	4.0%/4.0%	4.0%/4.0%

In June and August 2000, we acquired Verizon Nebraska and Verizon Minnesota, respectively, including their pension benefit plans. The Nebraska acquisition increased the pension benefit obligation by $3,762,000 and the fair value of plan assets by $4,123,000 as of December 31, 2000. The Minnesota acquisition increased the pension benefit obligation by $7,538,000 and the fair value of plan assets by $8,499,000 as of December 31, 2000.

Postretirement Benefits Other Than Pensions

We provide certain medical, dental and life insurance benefits for retired employees and their beneficiaries and covered dependents. The following table sets forth the plan's benefit obligations and the postretirement benefit liability recognized on our balance sheets at December 31, 2000 and 1999 and net periodic postretirement benefit costs for the years ended December 31, 2000, 1999 and 1998:

($ in thousands)	2000	1999
Change in benefit obligation		
Benefit obligation at beginning of year	$ 45,528	$ 51,983
Service cost	652	781
Interest cost	3,943	3,431
Plan participants' contributions	700	629
Curtailments	(812)	-
Actuarial (gain)/loss	8,733	(8,590)
Acquisitions	3,441	-
Benefits paid	(2,994)	(2,706)
Benefit obligation at end of year	$ 59,191	$ 45,528
Change in plan assets		
Fair value of plan assets at beginning of year	$ 20,460	$ 18,710
Actual return on plan assets	1,093	1,200
Benefits paid	-	(948)
Employer contribution	1,498	1,498
Acquisitions	2,361	-
Fair value of plan assets at end of year	$ 25,412	$ 20,460
Accrued benefit cost		
Funded status	$ (33,779)	$ (25,068)
Unrecognized transition obligation	281	359
Unrecognized (gain)	(4,832)	(14,953)
Accrued benefit cost	$ (38,330)	$ (39,662)

	For the years ended December 31,		
	2000	1999	1998
Components of net periodic postretirement benefit costs			
Service cost	$ 652	$ 781	$ 980
Interest cost on projected benefit obligation	3,943	3,431	3,523
Return on plan assets	(1,688)	(1,544)	(549)
Net amortization and deferral	(770)	(828)	(947)
Curtailment gain	(757)	-	(2,003)
Acquisition (gain)/loss	581	-	-
Net periodic postretirement benefit cost	$ 1,961	$ 1,840	$ 1,004

For purposes of measuring year end benefit obligations, we used the same discount rates as were used for the pension plan and a 9% annual rate of increase in the per-capita cost of covered medical benefits, gradually

decreasing to 5% in the year 2050 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 $356,000 and the effect on the accumulated postretirement benefit obligation for health benefits would be $4,694,000. The effect of a 1% decrease in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be ($316,000) and the effect on the accumulated postretirement benefit obligation for health benefits would be ($4,193,000).

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

In June and August 2000, we acquired Verizon Nebraska and Verizon Minnesota, respectively, including their postretirement benefit plans. The Nebraska acquisition increased the accumulated postretirement benefit obligation by $1,095,000 as of December 31, 2000. The Minnesota acquisition increased the accumulated postretirement benefit obligation by $1,765,000 and the fair value of plan assets by $2,361,000 as of December 31, 2000.

401(k) Savings Plans

We sponsor employee 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 in our stock based on qualified employee contributions. Matching contributions were $5,973,000, $5,850,000 and $5,795,000 for 2000, 1999 and 1998, respectively.

(20) Commitments and Contingencies:

We have budgeted capital expenditures in 2001 of approximately $750 million, including $654 million for the ILEC and ELI, $57 million for gas and electric, and $39 million for discontinued operations. Certain commitments have been entered into in connection therewith.

In December 1999, we entered into a three-year agreement with Nortel to outsource elements of DMS central office engineering and commissioning of our network. Our commitment under this agreement is approximately $37,000,000 for 2001 and $35,000,000 for 2002. The 2001 capital cost of this contract is included in the 2001 budgeted capital expenditures, presented above.

We conduct certain of our operations in leased premises and also lease certain equipment and other assets pursuant to operating leases. Future minimum rental commitments for all long-term noncancelable operating leases for continuing operations are as follows:

($ in thousands) Year	Amount
2001	$ 28,135
2002	18,584
2003	14,013
2004	11,439
2005	9,589
thereafter	53,875
Total	$ 135,635

Total rental expense included in our results of operations for the years ended December 31, 2000, 1999 and 1998 was $33,042,000, $30,855,000 and $27,964,000, respectively. We sublease, on a month to month basis, certain office space in our corporate office to a charitable foundation formed by our Chairman.

In 1995, ELI entered into a $110 million construction agency agreement and an operating lease agreement in connection with the construction of certain communications networks and fiber cable links. ELI served as agent for the construction of these projects and, upon completion of each project, leased the facilities for a three-year term, with one-year renewals available through April 30, 2002. At December 31, 2000 and 1999, ELI was leasing assets under this agreement with an original cost of approximately $108,541,000. ELI has the option to purchase the facilities at the end of the lease terms for the amount of the lessor's average investment in the facilities. Payments under the lease depend on current interest rates, and assuming continuation of current interest rates, payments would approximate $6.7 million annually through April 30, 2002 and, assuming exercise of the purchase option, a final payment of approximately $110 million in 2002. In the event ELI chooses not to exercise this option, ELI is obligated to arrange for the sale of the facilities to an unrelated party and is required to pay the lessor any difference between the net sales proceeds and the lessor's investment in the facilities. However, any amount required to be paid to the lessor is subject generally to a maximum of 80% (approximately $88 million) of the lessor's investment. We have guaranteed all obligations of ELI under this operating lease.

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

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

Minimum payments on operating leases are included in the table above. For payments on capital leases, see Note 8.

We are a party to contracts with several unrelated long distance carriers. The contracts provide fees based on leased traffic subject to minimum monthly fees. We also purchase capacity and associated energy from various electric energy and natural gas suppliers. Some of these contracts obligate us to pay certain capacity costs whether or not energy purchases are made. These contracts are intended to complement the other components in our power supply to achieve the most economic mix reasonably available. At December 31, 2000, the estimated future payments for long distance contracts, and capacity and energy that we are obligated for are as follows:

($ in thousands) Year	Amount
2001	$ 155,111
2002	120,059
2003	74,340
2004	55,184
2005	55,178
thereafter	297,763
Total	$ 757,635

The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, have entered into a purchase power agreement with Hydro-Quebec. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. As of

December 31, 2000, 1999 and 1998, our obligation under the agreement is approximately 10% of the total contract. The two largest participants in the VJO represent approximately 46% and 37% of the total contract, respectively. These two major participants have each experienced regulatory disallowances that have resulted in credit rating downgrades and stock price declines. Both of these participants are in the process of appealing the regulatory disallowances; however, both companies have stated that an unfavorable ruling could jeopardize their ability to continue as going concerns. If either or both of these companies default on their obligations under the Hydro-Quebec agreement, the remaining members of the VJO, including 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. Such a result could have a materially adverse effect on our financial results.

In the fourth quarter of 2000, we settled a proceeding with the Louisiana Public Service Commission. Louisiana Gas Service, our subsidiary, refunded approximately $27 million to ratepayers during the month of January 2001, effected as a credit on customers' bills. As a result, we recorded approximately $29.7 million of charges to earnings in the fourth quarter of 2000. This amount included a reduction to revenue for the refund to customers of approximately $27 million and legal fees of approximately $2.7 million. The Louisiana Gas Service business is to be sold to Atmos Energy Co. and the sale is expected to close in the first half of 2001 following regulatory approval (see Note 5).

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

CITIZENS COMMUNICATIONS COMPANY

WITH

LEONARD TOW

Employment Agreement

Dated: As of October 1, 2000

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EMPLOYMENT AGREEMENT

This Employment Agreement entered into as of October 1, 2000 by and between Citizens Communications Company, a Delaware corporation, with offices at Three High Ridge Park, Stamford, Connecticut 06905 ("the Company") and Leonard Tow, an individual residing at 160 Lantern Ridge Road, New Canaan, Connecticut 06840 ("the Executive").

RECITALS

The Company and the Executive under date of July 11, 1996 have heretofore entered into an agreement pursuant to which the Company employed the Executive as its Chief Executive Officer for a term ending December 31, 2000 (the "1996 Agreement"). The Executive is currently acting as Chief Executive Officer of the Company and as its Chairman pursuant to the 1996 Agreement to the full satisfaction of the Company.

The Company is desirous of retaining the services of the Executive as its Chief Executive and Chairman for an additional five (5) years beyond December 31, 2000 and having the benefit of the Executive's advice and counsel for an additional five (5) years beyond December 31, 2005 all is set forth in this Agreement and believes such retention is in the best interests of the Company.

The Company has requested the Executive to extend his employment with the Company under the terms, provisions and conditions set forth in this Agreement. As an inducement to the Executive to enter into this Agreement extending his employment by the Company, the Company is willing to grant and award the Executive shares of stock in the Company and options to acquire additional shares of stock of the Company as well as other benefits. The Company believes such grants, awards and benefits will continue to motivate the Executive in the performance of his duties. At the same time the Company has requested and has advised the Executive that as part of this Agreement extending his employment, and a material inducement to the Company, the Executive shall be required to extend the date when restrictions lapse on the 500,000 shares of the Company's Common Stock awarded to the Executive under the Company's 1990 Management Equity Incentive Plan (the "Current Restricted Shares") and presently 559,974 shares by reason of stock dividends, to a date subsequent to the expiration or prior termination of this Agreement, all as provided in this Agreement.

The Executive is willing to extend his term of employment with the Company for such additional five-year period and to enter into this Agreement upon the terms, provisions and conditions set forth herein, including without limitation, the award and grant of shares of the Company's Common Stock and options to acquire additional shares of the Company's Common Stock and the other benefits provided herein, and including extension of the date as provided in this Agreement when restrictions will lapse on the Current Restricted Shares provided the number of Current Restricted shares is increased from 559,974 to 809,974, to which the Company has agreed.

NOW THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, each to the other in hand paid and the receipt and adequacy of which is mutually acknowledged, the parties agree as follows:

1. EMPLOYMENT; DUTIES:

1. The Company hereby employs and continues the employment of the Executive and the Executive hereby accepts such employment for the duration of the Term (as herein defined) and upon the terms and conditions hereafter provided, as chief executive officer of the Company. As such chief executive, the Executive shall have the power and authority set forth in Schedule "A" annexed, which is an integral part of this Agreement. During the Term the Executive shall continue to be designated as the Chairman of the Board of the Company and the By-Laws of the Company shall continue to provide that the Chairman of the Board shall be the chief executive officer of the Company. The Executive currently serves as chairman of Electric Lightwave, Inc. (ELI), a subsidiary of the Company and shall continue in that capacity for the duration of the Term, so long as ELI is controlled by the Company. Additionally, during the Term, the Executive agrees to serve, if it is mutually determined to be appropriate or if the Executive desires to be so elected or appointed, for the period for which he is and from time-to-time shall be appointed or elected, as an officer of any subsidiary or affiliate of the Company, in addition to ELI. The Company shall not take any action to reduce the scope of the Executive's authority, position, functions, duties and responsibilities from that which is in effect at the date hereof and/or which is contemplated hereby, unless he shall otherwise consent in writing.

2. The Executive is currently a member of the Board of Directors of the Company. The Company shall use its best efforts to cause the Executive to continue to be a member of its Board of Directors throughout the Term, and shall include the Executive in management's slate for election as a director at every stockholders' meeting at which his term for director would otherwise expire and/or at all annual meetings of stockholders. The Company shall use its best efforts to cause the Executive to be a member of the Board of Directors of all subsidiaries of the Company throughout the Term. The Executive agrees to serve and continue to serve, if elected, as a director and as a member of any committee of the Board of Directors of the Company and also agrees to serve, if elected, as a member of the Board of Directors of all subsidiaries of the Company. During the Term of the Agreement, the Executive shall not receive a fee as a director or as a member of any committee of directors of the Company or any subsidiary of the Company.

2. TERMS:

1. The term of the Executive's employment under this Agreement shall commence on October 1, 2000 and shall expire on December 31, 2005 (the "Term"). The Executive's employment under this Agreement may be terminated prior to the expiration of the Term, as hereinafter provided.

2. The phrase "terminate this Agreement" when used herein shall refer to the termination of the period of employment as well as the Advisory Period, as hereafter defined, and the rendering of advisory services under this Agreement.

3. COMPENSATION, EXPENSES AND BENEFITS:

1. Base Salary. For the period October 1, 2000 through December 31, 2000 the Company shall pay the Executive a base salary of $225,000 which is the base salary payable under the 1996 Agreement. The Company shall pay to the Executive a base salary of $900,000 (the "Base Salary") for each year of the Term commencing January 1, 2001. The payment of aforesaid $225,000 as well as the Base Salary shall be payable currently in accordance with the customary payroll practices of the Company but in no event less frequently than monthly and shall be subject to such withholdings as may be required by applicable law.

2. Stock Compensation. In addition to his Base Salary, and in consideration of his entering into this Agreement, and subject to the provision of sub-section (c) of this Section 3, and in the event of termination pursuant to the provisions of Section 14 subject to the provisions of Section 15, the Executive shall be awarded and Company agrees to and shall give and deliver to the Executive, upon the execution and delivery of this Agreement

(or at such later date set forth in this Section 3b) the following shares and options to acquire shares:

1. 750,000 shares of the Common Stock of the Company (the "Additional Restricted Shares"), which are in addition to the Current Restricted Shares, and which shall be registered in the Executive's name but shall be subject to a restriction period (the "Additional Restriction Period") (after which all restrictions shall lapse) which shall mean the period commencing with the delivery of said shares to the Executive and ending with the first to occur of (i) the first January 1 next succeeding the expiration on December 31, 2005 of the Term , (ii) termination of employment by death of the Executive or by either the Executive or the Company under this Agreement in accordance with its provisions prior to December 31, 2005, provided that if the Executive is the chief executive officer on December 31 of the year in which such termination occurs or if the Executive is otherwise a "covered employee" for the purpose of Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code"), for the taxable year in which such termination occurs, the Additional Restriction Period shall end on the next succeeding January 1 after such termination, (iii) sale of all or substantially all of the assets or capital stock of the Company, (iv) merger, consolidation or other amalgamation or combination of the Company, in which merger or other transaction the Company is not the surviving entity, or (v) a Change in Control as defined in Section 19. During the Additional Restriction Period, none of the Additional Restricted Shares may be sold, exchanged, transferred, hypothecated or otherwise disposed of except that the Executive shall not be precluded from exchanging any Additional Restricted Shares for any other shares of the Company that thereby become similarly restricted by this Section or are similarly restricted and except that Executive may transfer Additional Restricted Shares to a Family Member as defined in Section 23 provided the Family Member agrees to hold said shares subject to the terms and provisions of this Agreement. Except for the restrictions on the Additional Restricted Shares during the Additional Restriction Period set forth in the immediately preceding sentence, Executive shall have all of the rights of a shareholder with respect to the Additional Restricted Shares, including without limitation the right to vote the shares and receive dividends and other distributions. During the Additional Restriction Period, dividends and other distributions payable in capital stock of the Company received by the Executive shall be subject to the foregoing restrictions.

[1.] The foregoing award of the Additional Restricted Shares shall be subject to the following proviso: In the event that EBIDTA of the Company as herein defined (A) for the fiscal year 2005, if the Term of this Agreement expires on December 31, 2005, or (B) for the fiscal year most recently completed in the event the employment of Executive as chief executive officer is terminated by the Company for "Good Cause" as defined in Section 14(a), is not in excess of $360,000,000 by at least the following applicable percentages (the "Applicable Percentage"):

Applicable Fiscal Year Under (A) or (B) above	Applicable Percentage
Calendar Year 2001	5
Calendar Year 2002	10
Calendar Year 2003	15
Calendar Year 2004	20
Calendar Year 2005	25

the 750,000 Additional Restricted Shares, as same may be otherwise adjusted by stock dividends or other adjustments, shall be reduced by a fraction, the numerator of which is the difference between the Applicable Percentage and the actual percentage increase in EBIDTA for the particular applicable fiscal year and the denominator of which is the Applicable Percentage for the particular year. (If termination occurs during a fiscal year, the EBIDTA for such year shall be annualized based on the EBIDTA for the portion of the year prior to termination.) As an example of the application of the foregoing, assuming that termination of employment occurs at the end of the fiscal 2003

and the actual EBIDTA for fiscal year 2003 is in excess of $360,000,000 by 12%, then the reduction in Restricted Shares (assuming the 750,000 Additional Restricted Shares have not been otherwise adjusted) shall be determined as follows:

$$\frac{\text{15\% (the Applicable Percentage) minus 12\% (the Actual Percentage) for the particular applicable fiscal year}}{\text{15\% (the Applicable Percentage) multiplied by [750,000] reduction in number of Restricted Shares}} = 20\%$$

[2.] The reduction of 20% results in the number of Restricted Shares being 750,000 minus 150,000 shares, or 600,000 shares.

[3.] Provided further, however, (I) the aforesaid formula shall apply and the number of Additional Restricted Shares shall be reducible in accordance with such formula only if the Additional Restriction Period terminates by reason of an event set forth in subdivisions (A), or (B) in [i] above, (II) in the event that employment under this Agreement terminates by reason of the events set forth in subdivision (B) above, and only in such events, the number of Additional Restricted Shares shall be subject to reduction pursuant to said formula and additionally shall be subject to further reduction (the "Further Reduction") by the fraction, the numerator of which shall be the number of full calendar months remaining in the unexpired portion of the Term at the date of the termination of employment under this Agreement pursuant to an event set forth in subdivision (B) above, and the denominator of which is 60, (III) and if the Additional Restriction Period terminates by reason of any event other than one referred to in subdivision (A) or (B) above, there shall be no reduction in the number of Additional Restricted Shares pursuant to the aforesaid formula (relating to EBIDTA) and fraction (relating to Further Reduction) and both the aforesaid formula and the aforesaid fraction shall not be applicable.

[4.] For the purpose of this Agreement, EBIDTA means, for any period, consolidated net income or loss for such period, excluding gains or losses from extraordinary or non-recurring items (including but not limited to Assimilation Costs associated with the integration of acquisitions), of the Company and its consolidated or combined subsidiaries plus the sum of consolidated interest expense, depreciation and amortization expense, provision for income taxes, and all other non-cash expenses and income included in the determination of net income or loss. Notwithstanding the above, EBIDTA shall include the EBIDTA of any investment or subsidiary accounted for on the equity method of accounting to the extent of the Company's interest in same. Provided, however, if the Company or any of its subsidiaries has sold, discontinued or otherwise disposed of any of its subsidiaries, divisions or businesses (a "Disposed Property" or "Disposed Properties") during any period for which EBIDTA is to be computed, or during the Term, EBIDTA shall be computed as if each of such Disposed Properties had not been owned by the Company or a subsidiary during any part of the Term or during the fiscal year ended December 31, 1999. Minority interests included in cash flow in accordance with the first two sentences of this paragraph shall be treated in a manner consistent with the immediately preceding sentence with respect to any Disposed Property. For all purposes for which EBIDTA is to be determined under this Agreement, EBIDTA shall be determined by the Company's independent public accountants utilizing for each of the applicable years those generally accepted accounting principles ("GAAP") which are in effect for the fiscal year ended December 31, 1999.

2. Options to acquire 2,500,000 shares of the Common Stock of the Company, 568,933 of which are to be granted under the Company's 1996 Equity Incentive Plan (the "1996 Plan") and 1,931,067 of which are to be granted under the Company's 2000 Management Equity Incentive Plan (the "2000 Plan") subject to the approval of such plan by the stockholders of the Company, or in such other manner as the Executive and the Company may agree, and which

options shall vest and be exercisable at the following times and option prices with the understanding that once vested options may be exercised at any time thereafter during the consecutive ten-year period commencing on the date of the grant of said options, which is deemed to be the date of the execution of this Agreement and with the understanding that in the event from and after the date hereof, of a change in corporate capitalization, stock split or stock dividend, the number of shares purchasable upon exercise of an option shall be increased by the new number of shares which result from the shares covered by the option immediately before the change, split or dividend. The exercise price for shares shall be reduced proportionately and the total exercise price will remain the same.

[1.] Options to Purchase 250,000 shares shall vest on December 31, 2000 and (subject to the approval of the 2000 Plan by the stockholders of the Company with respect to each of the last eight (8) installments of 250,000 options) on each December 31 of each of the succeeding nine (9) consecutive years (except that the last 250,000 options shall vest on the date that the immediately preceding 250,000 options vest) with the understanding that upon the expiration or prior termination of this Agreement or upon the earlier termination of the Additional Restriction Period, all options which have not as yet vested shall immediately vest.

[2.] The exercise price of the first 500,000 options to vest shall be the Fair Market Value of the shares of the Company's Common Stock as defined and determined under 1996 Plan or other arrangement on the date of the grant of such options, which is the date of execution of this Agreement and the exercise price for each additional 500,000 options to vest shall be $2.00 per share in excess of the exercise price of the immediately preceding 500,000 shares.

3. Registration of Shares.
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1. The Company represents and warrants that (A) the issuance to the Executive of the Current Restricted Shares was effected under and in accordance with the Company's 1990 Management Equity Incentive Plan (the "1990 Plan") and was registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to a registration statement on Form S-8, (B) the offer and sale of all shares of stock of the Company subject to the 1996 Plan, including the shares issuable upon exercise of the options granted to the Executive under the 1996 Plan, have been registered under the Securities Act pursuant to a registration statement on Form S-8, and (C) each such registration statement is currently effective, complies with all current requirements of the Securities Act and the regulations thereunder as may be applicable, and is not subject to any stop order or other proceeding.

2. The Company agrees that it will submit the 2000 Plan to its stockholders for their approval at the next meeting of stockholders, and will use its best efforts to obtain such approval.

3. The Company further agrees that, as promptly as practicable after the date hereof, it will prepare and file with the Securities and Exchange Commission (the "Commission"), and cause to become effective, (A) such amendments to each of the registration statements referred to in Section 3(c)(A), including a re-offer prospectus (as such term is used in the instructions to Form S-8), so that the Executive would be permitted, without limitation under Section 5 of the Securities Act as to time or amount, to dispose of any or all of the shares of Company stock referred to in Section 3(c)(A), and (B) one or more registration statements on Form S-8 relating to (x) the shares of Company stock subject to the 2000 Plan, including the shares issuable under the options to be granted to the Executive under the 2000 Plan, (y) the Additional Restricted Shares, and (z) the 250,000 shares of Company stock referred to in Section 3(d). The Company will include in each registration statement referred to in Section 3(c)(C)(B) a re-offer prospectus so that the Executive would be permitted, without limitation under Section 5 of the Securities Act as to time or amount,

to dispose of any or all of the shares of Company stock referred to in Section 3(c)(C)(B). Each re-offer prospectus referred to in this Section 3(c)(C) shall also relate to the resale by any person to whom the Executive may transfer any such stock other than pursuant to such re-offer prospectus, so long as such transfer did not violate this Agreement, and shall describe such plan of distribution as the Executive may reasonably request.

4. At all times after the date hereof, in the case of each registration statement referred to in Section 3(c)(A), or the date of filing, in the case of each registration statement referred to in Section 3(c)(C), and until the disposition by the Executive of all Company stock which he acquired or has the right to acquire under such registration statement, the Company shall (A) use its best efforts so that such registration statement shall remain effective, (B) from time to time, as may be required, prepare and file with the Commission such amendments and supplements to such registration statement and the prospectuses (including the re-offer prospectus) used in connection therewith as may be necessary to comply with the provisions of the Securities Act and the regulations thereunder and to continue to permit the disposition by the Executive of all such Company stock, (C) furnish to the Executive such numbers of copies of the re-offer prospectus contained therein as he may reasonably request to facilitate the disposition of such stock, and (D) notify the Executive of the happening of any event as a result of which the re-offer prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and promptly file such amendments to such registration statement as shall be necessary so that such re-offer prospectus does not contain such an untrue statement or omission.

5. The representations and covenants of the Company in this Section 3(c) shall be for the benefit of the Executive and any transferee referred to in the last sentence of Section 3(c) (C).

4. In further consideration of the Executive entering into this Agreement, the Company agrees that the number of Current Restricted Shares shall be increased by 250,000 shares of the Company's Common Stock, from 559,974 to 809,974 shares. The 559,974 shares shall be held under the same terms and provisions as set forth in the 1996 Agreement except that the Restriction Period therein set forth is modified so that same shall be identical to the Additional Restriction Period and that same shall be subject to the provisions of Section 3(b)A [i] relating to the EBIDTA formula, subject however, to the provisions of Section 3bA[iii]. The additional 250,000 shares shall be subject to both the Additional Restricted Period and to the provisions of Section 3(b)A [i] relating to the EBIDTA formula subject to the provisions of Section 3bA[iii] and the Further Reduction, if applicable, and in the event of termination pursuant to Section 14, to the provisions of Section 15 with respect to the Additional Restricted Shares, provided that both the Current Restricted Shares and said 250,000 shares may be transferred as provided in Section 3bA with respect to Additional Restricted Shares.

4. PARTICIPATION IN PLANS:
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1. The various plans (in the aggregate the "Plans" and individually, a "Plan") presently in effect by the Company and ELI for the benefit of its respective employees are set forth in Schedule "B" annexed which is an integral part of this Agreement.

2. The Executive shall continue to participate and be entitled to participate in all Plans and all plans which may hereafter be adopted by the Company for the benefit of employees and/or senior employees generally, in an amount consistent with and appropriate to the Executive's station, compensation and function as Chief Executive Officer and Chairman of the Company. In addition, it is agreed that the Executive shall be entitled to participate in similar plans of subsidiaries of the Company, including without limitation any and all plans for the benefit of employees or senior employees of ELI.

1. Provided however that it is acknowledged and agreed under and pursuant to the Company's Pension Plan the maximum amount of annual compensation that is taken into account in determining an employee's pension is currently $170,000. To compensate for the inability to take into account the Executive's annual compensation in excess of $170,000 (or the then current maximum amount) in determining his pension under the Company's Pension Plan and in further consideration of the Executive entering into this Employment Agreement and to further induce the Executive so to do, the Company, the Executive (and/or a trust created by the Executive) shall put into effect promptly after the execution of this Agreement, but in no event later than sixty (60) days immediately succeeding the execution of this Agreement, a split-dollar insurance policy and arrangement utilizing both first to die and second-to-die policies on the lives of the Executive and his wife, Claire Tow, with companies licensed to underwrite such insurance in the State of Connecticut which will provide that on the death of the second-to-die of the Executive and his said wife a payment of not less than $15 million shall be made to the aforesaid trust or to the trustee of the trust concurrently being created by the Executive as grantor thereof, which trust shall also be the owner of the policies effecting such insurance.

2. The arrangement for this split-dollar life insurance shall be substantially the same as the arrangement entered into with respect to the split-dollar insurance referenced in Section 3(c)(iv)(B) of the 1996 Agreement including but not limited to payment of all premiums by the Company and with the express undertaking and agreement of the Company that the policies of insurance shall be fully paid-up policies on or before expiration or prior termination of this Agreement and the Executive's employment by the Company.

3. Further, to the extent that the Executive, his said wife and/or the applicable trustee or trust become or are subject to income and/or gift taxes under the Code and/or applicable state law, by reason of any premiums paid by the Company on the applicable policies of insurance, (whether paid directly to the insurance carrier or to the Executive or the applicable trustee or trust) and/or with respect to the PS 58 or PS 38 (or successor promulgations) values applicable to each policy (including but not limited to such values attributable to time frames following payment of all premiums on the applicable policy or policies) and/or by reason of any other amounts taxable to the Executive, his said wife, or the applicable trustee or trust (both income and gift taxes) emanating from such arrangement, the Company shall pay all such taxes and fully reimburse the Executive, his said wife and/or the applicable trust or trustee for same on a grossed-up and after tax basis.

4. Provided further however that in the event the Executive's employment is terminated pursuant to Section 14(a), the said $15 million of life insurance required to be maintained by the Company at its cost shall be reduced by a fraction (the "Reducing Fraction") the numerator of which shall be the number of full months remaining in the Term following termination of the Executive's employment and the denominator of which is 60 (the reduced amount of life insurance being referred to as the "Reduced Insurance") with the understanding and agreement that notwithstanding the foregoing, the life insurance shall be maintained at the $15 million level at the request of the Executive (or his surviving spouse) provided the differential in the cost of maintaining said life insurance over and above the level of the Reduced Insurance shall be the obligation of the Executive (or his surviving spouse, if applicable).

5. Provided further that in the event the Executive and/or his wife are not accepted for said insurance by reason of medical condition then in lieu of such insurance being effected, the Company shall pay to the Executive or his estate or legal representatives as the case may be, the sum of $7 million on the expiration or sooner termination of this Agreement and the Executive's employment with the Company, with the understanding that in the event the Executive's employment by the Company is terminated pursuant to the provision of said Section 14(a), the aforesaid $7 million shall be reduced by the Reduction Fraction.

6. Payments to be made to the Executive under any of the Plans shall be made as provided in the respective Plans except that

notwithstanding the provisions of any particular Plan, payment under the Plans shall be made to the Executive or his representatives no later than the expiration or prior termination of this Agreement. None of the benefits of the Executive under any of the Plans and under this Agreement shall be subject to forfeiture, notwithstanding any provision to the contrary in such Plan for forfeiture or divestiture of benefits or compensation, subject to the provisions of Section 12.

5. SPECIAL INSURANCE ARRANGEMENT: It is acknowledged that the Executive does not participate in the arrangement presently existing for senior management of the Company which provides for benefits to participating employees on retirement or sooner death utilizing the vehicle of life insurance on a split-dollar basis. In lieu of such participation, a policy of insurance on the life of the Executive in the principal amount of $3,000,000 and underwritten by Security Life of Denver, currently owned by the Company and with the Company being the beneficiary thereof, shall be modified so that the beneficiary thereof, at the Executive's election, shall be the Executive or his legal representatives and that said beneficiary designation shall be irrevocable vis-a-vis the Company, with only the Executive having the right to change same. The Company shall maintain said policy in full force and effect and pay all costs of such maintenance, including without limitation the payment to Executive on a grossed-up after tax basis, any and all taxes levied or assessed against Executive or for which Executive may be or become liable by reason of the Company providing and maintaining said insurance or emanating from such insurance. At the expiration of the Term, as extended by this Employment Agreement, or the prior termination of Executive's employment other than by reason of his death, the ownership of said policy shall be turned over to the Executive or his legal representatives, as applicable on a fully paid-up basis, with no additional premiums due or to become due therein and with the Company remaining obligated to pay Executive, on a grossed-up after tax basis any taxes for which Executive may become liable by reason of the continued maintenance of said policy.

6. EXPENSES, TAX AND OTHER SERVICES; ACCOUNTERMENTS OF OFFICE, VACATION:

1. Expenses. The Company will promptly pay or, if not paid, reimburse Executive upon reasonable substantiation, for all expenses, including without limitation, travel and business entertainment expenses, incurred by Executive on behalf of or in connection with the conduct of the business of the Company. In connection with the rendition and performance of Executive's services, the Company shall provide Executive with the use of, and shall pay all costs of maintenance and repair of an automobile of Executive's choosing, and a driver. The Executive shall also be entitled to all accouterments of office that are currently being made available by the Company to the Executive.

2. Tax and Other Services. To further induce the Executive to enter into this Agreement, and to enable the Executive to render the most effective services practicable and to facilitate appropriate financial planning, and consistent with the Company's prior practice the Company shall reimburse the Executive or pay for costs incurred by him for tax, financial, investment, estate planning, legal and accounting services, which may be rendered or incurred at any time during the Term. Such payments shall be made on the Executive's request therefor as such cost are incurred by him.

3. Vacation. Executive shall be entitled to a vacation of six (6) weeks during each year of the Term, at times mutually agreeable to Executive and the Company. All payments and benefits to executive shall be paid and continue during all vacation periods.

7. PLACE AND TIME FOR SERVICES: Executive's base of operations shall be Fairfield County, CT (the "Base Area"), although Executive, at his election, may render his services from other locations. However, Executive shall not be required to render his services on a permanent or other than temporary basis outside of the Base Area. Executive agrees, nevertheless, from time-to-time, to take such trips and travel outside said area as may reasonably be necessary in connection with his duties. In the event any trip or the contemplated duration of any trip by the Executive outside of the Base Area is in excess of two (2) days, Executive's wife may accompany Executive and the costs and expenses incident to the Executive's wife shall be paid for or reimbursed by the Company. First class travel including without limitation, first class air travel, or travel by plane consistent with current practice being made available to the

Executive, and lodging arrangements shall be made available to the Executive.

8. BONUS; ADDITIONAL PAYMENTS: Nothing in any provision of this Agreement shall preclude increases in Executive's compensation, including without limitation, additional benefits, annual and other bonuses, incentive awards and other payments or benefits as the Board of Directors or appropriate committee of the Board of Directors of the Company may approve, in its sole discretion, all of which payments and benefits are expressly authorized.

9. SPLIT-DOLLAR INSURANCE: The Company and Executive confirm the obligations of the Company to provide, maintain and pay for insurance of the type known as split-dollar life insurance as set forth in Sections 3(c)(iv) A and B of the 1996 Agreement and that all premiums on all of the insurance referenced in said sections have been paid in full and that the policies providing for said insurance are paid-up policies. The provisions of said sections of the 1996 Agreement shall govern the relationship of the Executive and the Company with respect to such insurance.

10. EXCLUSIVITY:
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1. The Company acknowledges that the Executive from time-to-time during the term may serve as a member of the Board of Directors of Adelphia Communications Corporation, and certain of such company's subsidiaries and affiliated companies (all referred to as "Adelphia"). The Company agrees that the Executive may serve as such director (or a member of a committee of directors) and the Company shall make no claim of any nature against Executive for his legal representatives by reason of any association with Adelphia. Additionally, subject to the provisions of Section 10(b) (with respect to Executive engaging in competition materially detrimental to the Company), and without the necessity of seeking approval of the Board of Directors of the Company, the Executive may serve as a member of the board of directors, non-working officer, non-working partner or stockholder, or in any other similar position or capacity for any company, firm, person other than the Company and other than Adelphia, concurrently with his employment under this Agreement, and further may engage in the management of his own affairs and supervision of his investments and other assets concurrently with his employment hereunder. Executive shall retain for his account any and all compensation and other benefits payable or awarded to him with the respect to services rendered to or for Adelphia or to or for such other entities.

2. Other that an association with Adelphia and as otherwise permitted by Section 10(a), the Executive shall not engage in competition with the Company which is materially detrimental to the Company; provided, however, that the Executive shall not be deemed to have engaged in such competition unless and until the Executive shall have received written notice on behalf of the Board of Directors of the Company from an independent consultant selected by those Directors who are not employees of the Company, specifying the conduct alleged to constitute such competition, and the Executive has thereafter continued to engage in such conduct after a reasonable opportunity and a reasonable period, (but in no event less than 60 or more than 120 days) after receipt of such notice to refrain from such conduct. In the event of discontinuance by the Executive, he shall not be or be deemed to be in violation of the provisions of this Section 10(b). Additionally, and without limitation, Executive shall have the right to contest in appropriate forums the determination of the independent consultant. Notwithstanding and without limitation of the foregoing, it is agreed that ownership by Executive and/or his wife of a non-controlling interest in a publicly traded entity that is competitive to the Company and its subsidiaries, taken as a whole, without the rendition by the Executive of senior management services, shall not be deemed to be engagement in competition. The provisions of this Section shall constitute the sole contractual provisions between the Executive and the Company restricting the activities or conduct of the Executive. Any similar provisions in any Plan, or any other Company benefit plan, or elsewhere, shall terminate and be deemed terminated and be unenforceable to the extent inconsistent with or more burdensome to Executive than this Section subject to the limitations of Section 12 of this Agreement.

11. ADVISORY SERVICES:

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1. General. The Executive shall render the advisory services described in this Section 11(a) as an advisor-consultant of the Company for the period commencing on January 1, 2006, the day immediately succeeding the expiration of the Term. This advisory period shall continue consecutively through the fifth anniversary of the commencement date thereof (the "Advisory Period"). During the Advisory Period, the Executive will provide such advisory services concerning the business, affairs and management of the Company as may reasonably be requested by the Board of Directors of the Company, which shall be performed at a time or times and at places which are mutually convenient to both parties and which are consistent with the Executive's other employment and private activities. Services may be performed via telephone, facsimile, telecopier, electronic mail, or other avenue of communication. The Executive may engage in other full time employment of any kind during the Advisory Period, provided that during the Advisory Period the Executive shall not engage in full time employment that is in materially detrimental competition with the Company or any of its subsidiaries as provided for in Section 10(b), it being agreed without limitation that the rendition of services for or to Adelphia or any successor of Adelphia is not and shall not be deemed in competition with the Company or any of its subsidiaries. During each year of the Advisory Period, the Company shall pay the Executive and the Executive shall be entitled to receive a payment of $500,000 payable in equal monthly installments. Such payments are referred to as the Advisory Payments.

2. Termination. Notwithstanding the foregoing, coincident with, or at any time after the commencement of the Advisory Period, the Executive, on notice to the Company may terminate the Advisory Period and not be required to render any additional advisory services and have no further obligations to the Company in the event such termination is based on the advice or recommendation of Executive's physician(s) or other medical and/or mental health practitioner(s) that in his (her or their) opinion continued rendering of his services and acting as an advisor-consultant would likely have an adverse effect on the Executive's physical or mental health (a "Disability Notice"). The Advisory Period is also terminated by the death of the Executive and may also be terminated by the Company but only for Good Cause as defined in Section 14(a) and for breach of the non-competitive provisions referenced in Section 11(a).

3. Other Matters. During the Advisory Period and for such further period as may be mutually agreed (in the event that subsequent to the end of the Advisory Period there should then be a business relationship between the Company and the Executive), the Company at its expense shall provide Executive with and maintain in good repair and condition, an appropriate private office outside the Company's offices (taking into account the position held by the Executive and his length of service and contribution to the growth and development of the Company) at a location acceptable to the Executive, appropriate office furnishings, all utilities, equipment, parking privileges, office and secretarial assistants and other amenities and accouterments of office (all of which are referred to as "Advisory Support"), it being understood and agreed that such Advisory Support is to be and is being provided for the Company's benefit, and provided, however, that until the Executive's new office is ready (it being agreed that same will be ready immediately succeeding commencement of the Advisory Period), the Company shall provide Executive with and maintain in good repair and condition an appropriate temporary private office together with office and secretarial assistants and other services which were available to Executive when acting as chief executive officer. The Company shall be responsible for the hiring, employment by the Company and compensation, including all benefits, of the personnel forming part of the Advisory Support and for all required moving and relocation expenses.

4. Provided however that notwithstanding the provisions of Section 11(a), in the discretion of the Company, the Company may elect to eliminate the Advisory Period and substitute in its place on a split-dollar basis, a second-to-die insurance policy or policies of life insurance insuring both the Executive and his wife and with a trust and trustee designated by the Executive as the owner and beneficiary of said policy or policies, in the principal sum of not less than $7 million. Such insurance shall be effected prior to the effectiveness of any election and as a condition to making such election. The Executive, his wife and said trust and the trustee thereof as well as the Company shall have the same respective rights and obligations with the respect to said policy or policies as are set forth in

Section 4b. of this Agreement with respect to the $15 million of second-to-die life insurance referenced in said section, with same being reduced by the Reducing Fraction in the event the Advisory Period is terminated by the Company for Good Cause or for breach of the non-competitive provisions of Section 10(b). Provided further that in lieu of such insurance being effected and in lieu of an Advisory Period and Advisory Support, the Company shall pay to the Executive or his estate or legal representatives, as the case may be, not later than the date when the Advisory Period would otherwise have commenced, the sum of $3.2 million with the understanding that same shall only be reduced by the Reducing Fraction in the event the Advisory Period is terminated by the Company for Good Cause.

12. WAIVERS; LIMITATIONS OF LAW: The Company shall make such waivers, amendments to Plans or consents under Plans, or amendments and consents in connection with other benefits provided for herein, as may be necessary to carry-out the intent of Sections 3(b), 3(d) and 4. However, in no event shall the Company or any Plan take any action which would (A) contravene applicable law, (B) bring about the disqualification under the Code of any Plan presently qualified under the Code, or (C) eliminate any exception from liability under Section 16(b) of the Securities Exchange Act of 1934 for any director or officer subject thereto. If, by reason of any matter referred to in this Section, any action cannot be undertaken at the time at which it is expected, requested or proposed by the Executive, it (or as much thereof as shall be permissible) shall be undertaken at the earliest time possible thereafter, or in the case of a request for deferred payment, at the time closest to that requested which is permissible without contravening this Section. To the extent that benefits under a Plan or other benefits or payments provide for herein would be lost to the Executive permanently or for any period of time by reason of this Section, the Company shall provide such benefits supplementarily outside such Plan or in an alternative form within the Plan which will not disqualify the Plan.

13. CONTINUED AVAILABILITY OF BENEFITS AFTER RETIREMENT:
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1. Nothing herein is intended to limit or eliminate any benefits to which the Executive (or, after his death, his beneficiaries or estate) or his wife is or may be or become entitled under any of the Plans. No amendment to any Plan shall be carried-out which shall deprive the Executive or his wife from continuing to participate in and receive the aforesaid benefits and all other benefits provided for in this Agreement, unless the Executive or his wife is compensated by supplemental payments and benefits outside said Plan so that he or she is in no way prejudiced by any such Plan amendment. Additionally, after expiration or prior termination of the Term and/or the Advisory Period, the life insurance coverage and entitlement of the Executive and his wife shall be continued at the level of coverage provided in this Agreement and the 1996 Agreement until his death and if applicable, until the last to die of the Executive and his wife, in all cases without diminution of any of the Company's obligations under this Agreement and the 1996 Agreement. The Executive may convert such insurance arrangements into new or different insurance coverages or substitute different insurance arrangements, as he shall determine from time to time, and also may extend coverage to his wife and extend the period to include her lifetime; provided, however, that if the Executive should elect to make any such different arrangements, the total cost of an actuarial basis of the insurance coverage which shall be borne or be expected to be borne by the Company shall not exceed the cost to the Company on an actuarial basis of maintaining (for the remainder of the Executive's life and if applicable, that of Executive's wife) the level of life insurance coverage to which the Executive is entitled as described above. Such costs on an actuarial basis shall be determined as provided in Section 17 hereof. The implementation of this paragraph shall be subject to the provisions set forth in Section 12.

2. The Company agrees and shall provide the Executive and his wife or the survivor of them, at the sole cost of the Company, effective with the expiration or prior termination, for any reason, of the Term or the Executive's employment by the Company, and for the duration of joint lives of the Executive and his wife and the life of the survivor of them, with a medical, dental, hospitalization and health plan and insurance having the same benefits as are contained in the plans available for the Executive immediately preceding the expiration or prior termination of the Term or his employment with the Company. In the event such plans provide for the

continuation of such benefits subsequent to the Executive's employment by the Company and for the duration of the lives of the Executive and his wife and for the survivor of them, the Company may utilize such plans and the participation of the Executive and wife in such plans to satisfy its obligations set forth in the immediately preceding sentence.

14. TERMINATION:
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1. Termination of Cause. The Executive's employment by the Company may be terminated as follows with the understanding that termination of the Executive's employment shall also terminate the Advisory Period.

1. The Company may terminate the Executive's employment by the Company for "Good Cause" as hereafter defined. With the exception of termination under Section 14(b)(ii), this is the only basis for which the Company may terminate the Executive's employment.

2. As used in this Agreement, "Good Cause" shall be limited to (A) chronic alcoholism or chronic drug addiction materially and injuriously affecting the Executive's performance, (B) wilful malfeasance by the Executive consisting of his refusal without proper cause to perform his duties of Chief Executive Officer of the Company under this Agreement and which refusal has a materially injurious effect on the Company's business, (C) the Executive's conviction of a felony involving moral turpitude and related directly to the conduct of Executive's Office (which through lapse of time or otherwise is not subject to appeal) or (D) engaging in and not thereafter refraining from competition as provided in Section 10(b), provided that any such termination shall be effective as of the date which is 120 days after receipt of the written notice referenced in Section 10(b) by the Executive provided the Executive has not refrained from the particular competition, and provided further however, if any such termination is based on of the Executive's wilful malfeasance without proper cause to perform his duties as Chief Executive Officer under this Agreement and within 30 business days following the date of the receipt of notice of termination the Executive uses his reasonable efforts to perform such obligations, the termination shall not be effective. Without limitation the Executive shall have the right to contest or challenge in appropriate forums any termination for Good Cause.

2. Other Termination. This Agreement and the Executive's employment by the Company shall be terminated (i) on the death of the Executive, (ii) on written notice from the Company to the Executive in the event of an illness or other disability which has incapacitated the Executive from performing his duties for twelve or more consecutive months ("Permanent Incapacity"), and may be terminated (iii) by the Executive effective 30 days after the giving of notice in the instance of an illness or disability to the Executive which may not be a Permanent Incapacity under this Section 14(b) but is one which the Executive's physician(s) or other medical and/or mental health practitioner(s), advise or recommend that in his (her or their) the continuance of Executive in his employment with the Company would likely have an adverse effect on the Executive's physical or mental health; provided however that if within 30 days after receiving the aforesaid notice from the Executive, the Company shall give notice to the Executive that the Company wishes the Executive to continue to remain as chief executive of the Company notwithstanding such illness or disability with the Executive only being required to render services subject to the limitations and restriction of such illness or disability and without diminution of compensation and benefits, the effectiveness of the notice of termination of employment given by the Executive shall be postponed for a period designated by the Company in its notice but not in excess of four months, at the end of which the Executive shall reconsider his notice of termination in light of the condition of his illness or disability at that time, provided further that, if the Executive shall give further notice of termination at the end of such period, termination of employment shall occur ten (10) days after the giving of such notice, (iv) by the Executive on written notice to the Company effective 30 days after the giving of such notice, if at any time during the Term the Company shall be in material breach of any of its obligations hereunder, provided that the Executive's services shall not terminate if within such 30-day period the Company shall have cured all such material breaches of its obligations, it being

understood that a material breach by the Company for the purposes of this Section shall include, but not be limited to failure of Executive to be elected or retained as Chairman of the Board and Chief Executive Officer of the Company and chairman of the Board of ELI (so long as ELI is a Company controlled by the Company), or the failure of the Company to cause Executive to so serve in all such positions, a reduction by the Board of Directors in the Executive's authority, functions, duties or responsibilities provided in this Agreement (whether or not accompanied by a change in title) which has not been fully corrected within said 30-day period, the Company's requirement that all persons and personnel (or causing all persons or personnel to) report directly or indirectly to other than Executive, or the Company's failure to cause Executive to be the senior officer of the Company, (v) by the Executive, on written notice to the Company upon a Change in Control as this term is defined in Section 19, and (vi) by the Executive in the event of a merger of the Company, in which the Company is not the surviving company, or in the event of a consolidation of the Company or a sale of all or substantially all of the assets or Capital Stock of the Company.

3. Challenge or Contest. Without limitation on his rights and remedies, the Executive shall have the right to challenge or contest any termination by the Company pursuant to Section 14(a) or 14(b)(ii) by appropriate legal action. In the event the Executive challenges or contests termination by the Company pursuant to Section 14(a) or 14(b)(ii) no such termination shall be effective until a non-appealable order of a court having jurisdiction finds that such termination was justified, and the Executive has not cured the particular default within a reasonable time thereafter. In any such legal action the Executive shall have the right to obtain damages from the Company (including without limitation, legal fees and expenses) and in addition thereto, the payments, proceeds and participations set forth in Section 15(b) if and to the extent that such termination is determined by final non-appealable court order of a court having jurisdiction to have been wrongful. With particular reference to the Company seeking to terminate this Agreement for "Good Cause," failure of the court to find that the Company terminated employment under this Agreement for "Good Cause" as defined, shall be deemed to be a determination that the termination by the Company was wrongful.

15. CONSEQUENCES OF TERMINAITON:
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1. Termination Under Section 14a. In the event the Executive's employment with the Company is terminated pursuant to Section 14a, the Executive shall be entitled to receive and be given and the Company shall pay over to and provide the Executive with the following:

1. The Executive's Base Salary through the end of the week in which the termination is effective and all cash balances in any and all of the Plans and all deferred compensation payments allocable to or accrued to the Executive as of the date of termination.

2. All options theretofore granted to the Executive, whether under any of the Plans or otherwise, that vest or may have theretofore vested under their respective terms on or prior to the termination date, shall be exercisable by the Executive, according to the respective terms of the applicable option agreements but in no event no earlier than 12 months immediately succeeding such termination.

3. All restrictions shall lapse on such number of Current Restricted Shares determined by applying to the aggregate of Current Restricted Shares a fraction, the numerator of which is the number of whole months in the Term to the date of termination, and the denominator of which is 60 and subject to possible further reduction by the applicability of the provision of Sections 3(b)A [i]. Such lapse shall occur the first day immediately succeeding termination and the Company confirms that said shares are the sole property of the Executive for any and all purposes. The shares on which said restrictions shall not have lapsed shall be forfeited to the Company.

4. All restrictions shall lapse on such number of Additional Restricted Shares (including for this purpose the 250,000 shares referenced in Section 3d) determined by applying to the aggregate of such Additional Restricted Shares a fraction, the numerator of which is the number of whole months in the Term to the date of termination

and the denominator of which is 60 and subject to possible further reduction by the applicability of the provisions of Section 3(b)A[i]. Such lapse shall occur the first day immediately succeeding termination and the Company confirms that said lapsed shares are the sole property of the Executive for any and all purposes. The shares on which said restrictions shall not have lapsed shall be forfeited to the Company.

5. The benefits of all split-dollar life insurance referenced in Sections 4, and 11d of this Agreement shall continue to be available to the Executive and the Company shall continue in force and shall continue to maintain said insurance and the polices providing for same and to pay any and all income and gift taxes taxable to the Executive, his wife and/or the applicable trust, on a gross-up and after-tax basis, by reason of or relating to said split-dollar insurance, subject with respect to said split-dollar insurance, to reduction in amount as set forth in said Sections; provided however that in the event all premiums have not been paid on the policies providing for said split-dollar insurance such that said policies are fully paid-up policies requiring no further payment of premiums, the Company shall pay over to a trust created by the Executive, such amount of monies that will provide (from principal) all of the funds necessary to make all future payments of premiums on said policies, and provided further that in the event said insurance was not available by reason of medical condition of the Executive and/or his wife, the monetized amount provided for in said Sections 4 and 11d of this Agreement shall be paid over to the Executive subject to reduction as therein provided.

6. The Company shall remain obligated to provide to the Executive and his wife during their joint lives and the life of the survivor of them, the medical, dental, hospitalization and health benefits referenced in Section 13(b) of this Agreement.

2. Termination Under Section 14b. In the event this Agreement and the Executive's employment with the Company is terminated pursuant to Section 14b, the Executive or his estate or legal representatives, as the case may be, shall be entitled to receive and be given and the Company shall pay over to and provide the Executive, his estate or legal representatives with the following and the provisions of Section 3(b) A [i] shall not be applicable in the instances of any of the subsections below:

1. All of the monies, options, shares, vesting and lapse of restrictions, insurance and other benefits (all referred to as "Benefits") that are to be paid over and given or made available to the Executive in the instance of a termination pursuant to Section 14(a), plus the following, with the understanding that there shall be no duplication of payments and benefits provided in this Section 15(b) with payments and benefits provided in Section 15(a).

2. Base Salary for the remainder of the Term plus a bonus payment for the fiscal year of the Term commencing with the fiscal year in which termination occurs (the "Remaining Years") determined by utilizing the average of the bonuses awarded (in cash and/or securities) for the full fiscal years of the Term preceding termination and applying same proportionately for the Remaining Years; provided that if termination occurs prior to January 1, 2002, the period to be utilized is the full fiscal years in the 1996 Agreement.

3. The amount by which the split-dollar insurance referenced in Sections 4b. and 11(d), would otherwise be reduced, as therein referenced in the event this Agreement were terminated pursuant to Section 14(a), or if said insurance has been monetized as provided in Section 4b, E and Section 11(d), the amount by which said monetized amount would be reduced if this Agreement were terminated pursuant to Section 14(a).

4. The immediate vesting of all options heretofore granted to the Executive which have not theretofore vested prior to the date of termination, including without limitation, those options referenced in Section 3 of this Agreement which have not vested at the date of termination, with the right to exercise same from time to time during the later of the 12-month period immediately succeeding termination and the respective dates provided therefore under the applicable

option agreement, which with respect to the options granted pursuant to Section 3, is the ten-year period as referenced in Section 3.

5. The immediate lapse of all restrictions on shares heretofore granted or awarded to the Executive, which did not lapse prior to termination including but not limited to restrictions on the Current Restricted Shares and the Additional Restricted Shares, including the 250,000 shares referenced in Section 3d within the meaning of Additional Restricted Shares and the Company confirms that all of said lapsed shares are the sole property of the Executive for any and all purposes.

6. All benefits under any and all Plans (as well as all future plans) adopted by the Company which would have been available to the Executive through the expiration of the Term on December 31, 2005 assuming the Executive were employed and fully performing all of his obligations to such date.

3. Special Advisory Term Payment. In addition to the payments and benefits provided in Section 15(a) and 15(b), in the event the Advisory Period is terminated pursuant to Section 11(b) other than termination by the Company for Good Cause, there shall be paid to the Executive the sum of $3.2 million reduced by the Advisory Period payments theretofore paid to him pursuant to Section 11(a).

4. Vested Rights not Affected. Consistent with both the provisions and the intent of Section 15(b), any termination under Section 14(b) shall not affect any vested rights which the Executive may have at the effective date of such termination pursuant to any insurance or other death benefit plans or arrangements of the Company or under any stock option, stock appreciation right, bonus unit, management incentive or other plan of the Company maintained for its senior executives whether or not referenced herein, all of which rights shall remain in full force and effect (and any period shall not be deemed shortened as result of the Executive's termination of employment, notwithstanding the provisions of any related plan, agreements or certificates issued thereunder), nor shall such termination affect the obligations of the Company to continue to provide the Executive with the other benefits, payments and other entitlements required to be provided to the Executive under this Agreement.

5. Mitigation. In the event of the termination of this Agreement, whether under Section 14(a) or 14(b), or the termination of the Advisory Period subsequent to the commencement thereof, the Executive shall not be required to mitigate his damages hereunder and payments and benefits to be made in event of termination under either of said sections or the termination of the Advisory Period, shall not be limited or reduced by any amount Executive might earn or be able to earn from other employment or ventures.

6. Excess Parachute Payments. The parties believe that the above payments or benefits pursuant to Section 15 do and will not constitute "Excess Parachute Payments" under Section 208G of the Code. Notwithstanding such belief, if any such payment or benefit under Section 15 is determined by the United States Internal Revenue Service to be an "Excess Parachute Payment" the Company shall pay Executive additional amounts (the "Tax Payment") on a fully reimbursed after-tax basis equal to the sum of excise tax under Section 4999 of the Code, income taxes under Subtitle A of the Code and all other taxes under applicable state law on such Excess Parachute Payments.

7. Remedies. The Company recognizes and agrees that because of Executive's special talents, stature and opportunities that the provisions of this Agreement regarding further payments of Base Salary, Advisory Payments and the other payments and the benefits provided for in Section 15, constitute fair and reasonable provisions for the consequences of such termination and do not constitute a penalty.

16. INDEMNITY, DIRECTORS' AND OFFICERS' INSURANCE:
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1. The Company agrees to and confirms its obligations, to indemnify the Executive as an officer, director, employee and agent, and its related obligation to advance funds for expenses to the Executive as contained in the Company's certificate of incorporation, by-laws and any other instruments or provided for by law or otherwise. Such obligations shall be

in scope the greatest of (i) the obligations existing as of the date hereof, (ii) the obligations as they may be amended or otherwise revised in the future, or (iii) the maximum protection available for officers and/or directors under applicable law. The Company agrees that it will use its best efforts to the end that the By-laws and Certificate of Incorporation of the Company shall not be amended to reduce any indemnity protection presently available to officers and/or directors.

2. The Company presently maintains Directors and Officers Insurance in limits of $25,000,000. The Company agrees to maintain Directors' and Officers' Insurance (at a minimum in such limit) covering the Company's obligation, among other things, to indemnify the Executive for loss, liability and expense resulting from litigation relating to his activities a an officer, director, employee or agent of the Company, and/or any of its subsidiaries, and, following termination of employment under this Agreement, to maintain equivalent coverage for the executive, for the maximum period of all applicable periods of limitation, on an "occurrence" basis (or as a named former officer and director on a "claims made" basis or otherwise, for his activities during the Term and Advisory Period, while he is an officer or director of the Company or any of its subsidiaries.

17. DETERMINATION OF BENEFITS. Whenever under this Agreement it is necessary to determine actuarially equivalent continuing benefits, or whether one benefit, cost or payment is less than, equal to or larger than another (whether or not such benefit, cost or payment is provided under this Agreement) or to make any determination or calculation specifically designated in this Agreement to be made in accordance with this Section 17, or the present or commuted value of payment or payments to be made in the future or over a period of time, or whenever either party hereto requests that any calculation relevant to this calculation be checked, such determination, calculation or procedure shall be made by an independent actuary acceptable to the Executive and the Company, using when such information is needed the mortality tables when currently in use for purposes of the Company's Pension Plan (assuming 100% joint and survivor benefits), and the discount rate equal to the United States Treasury Rate for the period closest to the period over which the determination is being made.

18. MERGER, CONSOLIDAITON, OR SALE OF ASSETS OR STOCK:
---

1. Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets or capital stock to, another corporation or business organization which has a net worth at least equal to that of the Company immediately preceding such merger, consolidation, transfer or sale, and which other corporation or business organization expressly assumes in writing this Agreement and all benefit plans, programs or practices, and other corporate undertakings, obligation and agreements of the Company, including without limitation, those set forth in this Agreement. Upon such a consolidation, merger or transfer of assets or stock and assumption, the term "Company" shall refer to such other corporation or business organization, and this Agreement shall continue in full force and effect, and such other corporation or business organization shall, ipso facto, assume, in writing, this Agreement and all other obligations of the Company contemplated by this Agreement. No such consolidation, merger or transfer shall relieve the Company from any of the Company's obligations under this Agreement without he written consent of the Executive or if Executive is deceased of his legal representative, or if permanently incapacitated, of his surviving wife, or if the Executive's surviving wife is deceased or permanently incapacitated, the Executive's legal representatives.

2. Nothing in this Section 18 shall diminish the provisions of Sections 3(b) and 15(b) which provide for lapse of restrictions on the Additional Restricted Shares on expiration, or prior termination of this Agreement in the instance of, a sale of assets, transfer of stock, merger or consolidation of the Company or change in control.

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19. ADDITIONAL OPTION TO ACQUIRE SHARES:
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1. In the event of a Change in Control, as defined in Section 19c, the Executive shall have the right and option, exercisable by Executive in Executive's discretion, from time to time during the period set forth below, by notice to the Company (the "Option Notice") to acquire from the

Company up to 10,000,000 shares, in the aggregate (the precise number of shares to be determined by the Executive in his discretion), of the Common Stock ("Common Stock") of the Company (adjusted as set forth in Subsection (b)) at a price per share, to be paid by Executive equal to the Closing Price (as hereafter defined) of said stock on the date of the giving of the Option Notice, or if such day is a Saturday, Sunday or Holiday, on the immediately preceding business day on which securities are generally traded (the "Applicable Date"). The Option Notice shall be given on or before the latest of (i) December 31, 2005, (ii) the expiration date of any renewal or extension of this Agreement or any other employment agreement between Executive and the Company (the "New Agreement") and (iii) six months following the termination of Executive's employment with the Company subsequent to the Term or the term of any new agreement. The Closing price shall be the last such reported sales price, regular way, on the Applicable Date, or, in case no such reported sale takes place on such particular day, the average of the closing bid and asked prices, regular way, for such particular day, in each case on the principal national securities exchange or in the NASDAQ-National Market System (the "Securities Exchange") on which the shares of Common Stock are listed or admitted to trading or, if not listed or admitted to trading, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market as reported by NASDAQ or any comparable system, as adjusted pursuant to Subsection (b). Payment shall be made by the Executive within ten (10) business days following the giving of the Option Notice.

2. The number of shares subject to the option set forth in subsection (a) above, shall be adjusted to reflect, after the date of this Agreement, any (i) declaration or payment of dividends in the form of Common Stock, or other stock of the Company, (ii) stock splits, (iii) subdivisions or combinations or reclassifications of outstanding shares of Common Stock or (d) the issuance to holders of Common Stock of options, warrants or rights to acquire additional shares of such respective series and any other distribution made by its Company to holders of Common Stock, and the Option Price shall be adjusted to reflect all of the foregoing.

3. A "Change in Control" of the Company shall be deemed to occur when (A) any person or group of affiliated or related persons (other than a group of which Executive or an entity controlled by Executive is a participant and other than an employee benefit plan of the Company) acquires, directly or indirectly, voting securities or assets of the Company if, immediately after giving effect to such acquisition, such person or group of affiliated or related persons either (i) beneficially owns 15% or more of the total voting power of all of the Company's voting securities outstanding at the time of such acquisition, or 15% or more than the fair market value of the Company's issued and outstanding stock, or (ii) within the preceding 12-month period acquired the voting power referenced in (i) above, or (iii) within the preceding 12-month period acquired 15% or more of the assets of the Company, or (iv) otherwise effectively controls the operations of the Company, whether by control of its Board of Directors, by contract, or otherwise, or (B) a majority of the members of the Board of Directors of the Company is replaced during the preceding 12-month period by directors whose appointment or election was not endorsed by the prior Board. Provided that if (a)(i) the acquisition of voting securities or assets or (ii) the beneficial ownership of voting power by such person or group of affiliated or related persons or (b) the transfer of effective control of the operations of the Company, or control of the board or other effective control of the Company to such person or group or affiliated or related persons requires the approval or authorization of any regulatory or governmental agency or authority as a condition to any such acquisition, beneficial ownership, transfer of effective control or control of the board, the Change of Control shall be deemed to take place on the later of the date (A) when such approval or authorization is obtained or (B) when such acquisition or transfer of control takes place.

20. MISCELLANEOUS:
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1. Decisions by Company. Except as otherwise expressly provided in this Agreement, any decision, designation, consent or other action by the Company relating to this Agreement, its operation or its termination, shall be made by the Board of Directors, or at the direction of the Board of Directors, when so requested by the Executive.

2. Entire Agreement. This Agreement sets forth the entire agreement and

understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings, written or oral, between the parties and may not be modified except by an agreement signed by the Executive (and/or where applicable his legal representatives and his wife) and the Company.

3. Assignability. This Agreement, and the Executive's rights and obligations hereunder, may not be assigned or delegated by the Executive; provided, however, that nothing in this subsection (c) shall preclude (1) the Executive from designating a beneficiary to receive any benefit payable on his death, and (ii) the legal representatives of the estate of the Executive or his wife from assigning any rights hereunder to the person or persons entitled thereto under his or her will, or, in case of intestacy, to the person or persons entitled thereto under the laws of the intestacy. Except as expressly provided for in Section 18, this Agreement and the Company' rights and obligations hereunder, may not be assigned or delegated by the Company.

4. No Attachment. Except as otherwise required by law, no right to receive payments under this Agreement shall be subject to encumbrance, charge, execution, attachment, levy or similar process or assignment by operation of law, and any attempt voluntary/or involuntary, to effect any such action shall be null, void and of no effect.

5. Binding Agreement. This Agreement shall be binding upon an inure of the benefit of the Executive and the Company and their respective permitted successors and permitted assigns.

6. No Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

7. Expenses and Legal Fees. The Company shall pay all legal fees (which shall include without limitation, fees of tax advisors and tax counsel and associated expenses and disbursements) incurred by Executive in the negotiation and execution of this Agreement. Additionally, the Company shall pay all legal fees of litigation, and other expenses incurred by the Executive, his wife, or the estate, legal representative or other beneficiary of either ("Claimant") (i) as a result of (A) the Company's refusal to make payments or failure to make payments when due to which the Claimant or any benefit plan, fund or agent is or shall become entitled under this Agreement, or otherwise, (B) the refusal or failure of the Company to make provision for or acknowledge any employee benefit to which the Claimant is or shall become entitled as provided for by this Agreement or otherwise, or (C) the refusal or failure by any benefit plan, fund or agent established for the benefit of the Company's employees to make any such payment when due, or (ii) contesting the validity, enforceability or interpretation of this Agreement or any portion thereof.

8. Right to Accelerate. Without limitation of any rights of Executive to otherwise cause acceleration of any benefits or monies due or to become due to Executive, his wife or their respective legal representatives, if the Company or any of the benefit plans or funds referenced herein shall fail to make, when due, any payment referred to in this Agreement or shall refuse to make any such payment, or shall fail or refuse to make provision for, any employee or other benefit to which the Claimant is entitled, the Claimant may, at his, her or its option, accelerate and declare due, payable and performable all such payments, provisions or entitlement, provided, however, that such acceleration shall be effected only by written notice thereof delivered by the Claimant to the Company specifying in detail the basis for acceleration, and shall be effective as of the date which is thirty (30) business days after the receipt of such notice by the Company; provided further, however, that if within thirty (30) business days following the date of receipt of such notice the Company shall make, when due, the payment in question or shall agree to make any such payment when due, or shall make provision therefor, the acceleration shall not be effective. If at any time the Claimant has the right to accelerate payments under this Section, same shall be determined in accordance with the provisions of Section17, but incorporating, however, in said lump sum calculation the average annual increase in the Consumer Price Index for

(the New York - Northeastern New Jersey Area Consumer Price Index for Urban Wage Earners and Clerical Workers, or any equivalent succession thereto as determined by the Bureau of Labor Statistics of the United States Department of Labor) the most recent 36 months preceding the date on which said accelerated payment is to be made. The Claimant may, but shall not be required to, bring one or more legal actions to enforce payment, or other appropriate remedy, of any and all amounts to which the Claimant has then become, or shall at any time in the future become entitled, whether or not then due, payable or performable.

9. Severability. If for any reason any provision of this Agreement shall be held invalid, such invalidity shall not affect any other provision of this Agreement not held invalid, and all other such provisions shall to the full extent consistent with law continue in full force and effect so as to carry-out the intent of this Agreement. If any such provision shall be held invalid in part, such invalidity shall in no way affect the rest of such provision not held invalid, and the rest of such provision, together with all other provisions of this Agreement, shall likewise to the full extent consistent with the law continue in full force and effect so as to carry-out the intent of this Agreement. In the event of any such invalidity, the parties shall both endeavor and negotiate in, good faith, to agree upon substitute provisions to effectuate the interest of the provisions held to be invalid.

10. Headings. The headings of Sections are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

11. Governing Law. The Company being a Delaware corporation, the validity, interpretation, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware applicable to agreements made and fully to be performed therein, without any reference to any rules of conflicts of laws.

12. Counterparts. This Agreement may be executed in two or more counterparts, and such counterparts when taken together shall constitute one executed instrument.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (i) when delivered personally, (ii) when transmitted by facsimile transmission to the facsimile number set forth below (during normal business hours of the recipient or the immediate succeeding business day), (iii) when mailed, on the second business day immediately succeeding the mailing by registered or certified mail (return receipt requested), postage prepaid, or (iv) when delivered by overnight courier such as Federal Express, on the day delivered, addressed to the parties at the following respective address (or at such other address for a party as shall be specified by like notice, provided that notices of changes of address shall be effective only upon receipt thereof):

(i) If to the Company at:
Three High Ridge Park
Stamford, CT 06907
Attention: Board of Directors
Facsimile Number: (203) 329-4627

(ii) If to Executive at:

160 Lantern Ridge Road
New Canaan, CT 06240

Facsimile Number: (203) 972-2821

With A Copy To:

David Z. Rosensweig, Esq.
Duane, Morris & Heckscher LLP
39th Floor
380 Lexington Avenue
New York, NY 10168

Facsimile Number: (212) 692-1095

14. Transfer. Nothing in the 1996 Agreement as modified by this Agreement shall be deemed to limit or prohibit the transfer by Executive of any shares of the Common Stock of the Company to which he becomes the holder or beneficial owner except as expressly provided herein in this Agreement.

21. NON-APPROVAL OF 2000 PLAN: In the event the 2000 Plan is not approved by the Stockholders of the Company at their next meeting, the Company and the Executive shall promptly (and in no event more than twenty (20) days following such failure to approval) meet and in good faith negotiate alternative forms of benefits to be paid and provided to the Executive as a substitute and to compensate Executive for the inability of the Company to provide the Executive with the options under the 2000 Plan provided for in this Agreement.

22. FAMILY MEMBERS: For the purposes of Section 3bA and other provisions of this Agreement, the term Family Member shall mean the Executive's spouse, any issue of the Executive, and any trust for the benefit of the Executive, his spouse or any issue of the Executive, a charitable organization, including without limitation, a private foundation, organized or managed by the Executive or any of the foregoing, or entity, organization, company organized or controlled by the Executive.

23. NO DIMINUTION OF BENEFITS: Nothing in this Agreement shall diminish any monies or benefits payable or available to the Executive under the 1996 Agreement. In the event any provision of the 1996 Agreement is inconsistent with the provisions of this Agreement, the provisions of this Agreement shall prevail, provided that the fact that a payment or benefit provided for in this Agreement is cumulative to a benefit or payment in the 1996 Agreement does not by itself make same inconsistent with the terms and provisions of the 1996 Agreement.

IN WITNESS WHEREOF, the parties hereto have signed their names, all as of the date and year first above written.

Citizens Communications Company

By: _____
Its

Attest:

_____
Secretary of
Citizens Communications Company

_____
Leonard Tow

APPROVED:

_____

_____

_____

_____

Robert A. Stanger (Chairman)

Constituting all of the Members of the
Compensation Committee of the Board
of Directors of Citizens Communications
Company.

SCHEDULE A

POWER AND AUTHORITY OF THE CHIEF EXECUTIVE

As chief executive, the Executive shall be in charge of and have final authority and responsibility for all phases of the activities, operations and business of the Company and its subsidiaries, subject only to such authority and responsibility which under applicable law cannot be delegated and which may only be exercised by the Board of Directors of the Company. The Executive shall be the most senior officer of the Company and report directly to the Board of Directors, and no officer of the Company shall have authority and responsibility greater than or senior to the Executive.

SCHEDULE B

24. The Citizens Communications Company Management Equity Incentive Plan (1990);

25. The Citizens Communications Company 1996 Equity Incentive Plan;

26. The Citizens Communications Company 2000 Equity Incentive Plan 1;

27. The Citizens Communications Company 401 K Savings Plan;

28. The Citizens Communications Company Incentive Plan;

29. The Citizens Communications Company Executive Deferred Savings Plan;

30. Welfare plans such as medical, dental and other health plans of the Company;

31. The Company's Pension Plan;

32. The Electric Lightwave, Inc. 1997 Equity Incentive Plan;

33. Travel Insurance Plan,

34. Other plans currently in effect but not enumerated above.

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1 Approved by the Company's Board of Directors. To be submitted to the Company's stockholders for their approval at their next annual meeting.

AGREEMENT OF CLARIFICATION

Under the date hereof we, the undersigned, Leonard Tow (sometimes referred to as the "Executive"), and Citizens Communications Company ("Citizens") are entering into an agreement of employment (the "Agreement") pursuant to which Citizens employs the Executive as its chief executive for a period of five (5) years commencing January 1, 2001, subject to prior termination as provided in the Agreement.

Sections 3(b) and 3(d) of the Agreement provides for the grant to Executive of 750,000 shares and 250,000 shares, respectively, of Citizens Common Stock, to be reduced under certain circumstances if the applicable percentage increase in EBIDTA (as defined in the Agreement) is not met, all as provided for in the Agreement.

We are now mutually desirous of clarifying the determination of EBIDTA as applied to earnings generated by the net proceeds available to Citizens from the discontinuance, sale or other disposition of a Disposed Property, as defined in the Agreement (the "Additional Proceeds"). As currently defined in the Agreement

such earnings are to be taken into account and included in determining EBIDTA for an applicable year.

In the event either of the undersigned believes that such inclusion will work an inequitable measurement of the increase in EBIDTA from the fiscal year 1999 to the year of termination, such party (the "Notifying Party") within twenty (20) days following the end of the first fiscal year of Citizens in which EBIDTA includes earnings generated by the Additional Proceeds, shall notify the other party (the "Receiving Party") of this position in writing (the "Notification") and thereafter and within 20 days immediately following receipt of the Notification by the Receiving Party, the parties shall meet and negotiate in good faith the methodology pursuant to which the amount of earnings generated by the Additional Proceeds are to be included in the determination of EBIDTA. If the parties are unable to reach an agreement within 20 days following commencement of the negotiation (the "Negotiation Period") the methodology to be utilized shall be determined by arbitration in New York City by a panel of three (3) arbitrators, one (1) chosen by the Selected Arbitrators. The Selected Arbitrators shall be chosen within ten (10) days immediately succeeding the end of the Negotiation Period and the third (3rd) arbitrator shall be chosen by the Selected Arbitrators within 10 days immediately succeeding the date when the second of the Selected Arbitrators is chosen. In the event the American Arbitration Association ("AAA") permits or authorizes its then obtaining rules, other than the rules of the AAA relating to selection of arbitrators, to be utilized by the arbitrators, such rules of the AAA shall be utilized. In the event the AAA does not authorize or permit such rules to be utilized by the arbitrators, the arbitrators shall hold such procedures as they may deem appropriate and which are in accordance with applicable law, and have such authority that is available to arbitrators under the applicable law. The arbitrators shall complete their hearings proceedings with thirty (30) days immediately succeeding the designation of the third arbitrator and shall render their decision (which may be by majority vote) within 30 days immediately succeeding the completion of proceedings. The decision of the arbitrators shall be final and binding as provided by applicable law.

In connection with the foregoing each of Executive and Citizens acknowledges and agrees that it is his or its respective intention that the manner of computing EBIDTA resulting from any discontinuance, sale or other disposition of any Disposed Property, as defined in the Agreement, shall not have any negative or detrimental effect or impact on attaining the specified percentage increases in EBIDTA set forth in Section 3(b). In reaching a decision the arbitrators are to take into account this intention of the parties.

In the event no Notification is given with said twenty-day period, no adjustment shall be made in determining EBIDTA and same shall be determined as provided for in Section 3(b) of the Agreement.

Additionally and consistent with the intent set forth in Section 4, 5 and 11 of the Agreement, in the event the split-dollar arrangements referenced therein result in income and/or gift tax on or being imposed, levied or assessed against Executive, his wife and/or any of the trusts or the trustees referenced in said section by reason of the Technical Advice Memorandum 9604001 issued by the U. S. Internal Revenue Service under the date of September 8, 1995 (copy of which is annexed) and rules referenced therein, Citizens shall pay such taxes and fully reimburse, on an after tax basis, the Executive, his wife or the applicable trust and trustee, as the case may be.

By signing their respective names, hereto, the undersigned hereby agree to the foregoing.

CITIZENS COMMUNICATIONS COMPANY

By: _____ _____
Its Leonard Tow

Approval of Compensation Committee of the Company to be annexed together with applicable resolution adopted by the Committee as well as applicable resolution of the full Board, and Secretary's certification that resolutions were duly adopted and are subsisting.

EXECUTION COPY

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$5,700,000,000

COMPETITIVE ADVANCE AND
REVOLVING CREDIT FACILITY AGREEMENT

Dated as of October 27, 2000

among

CITIZENS COMMUNICATIONS COMPANY
as Borrower

and

THE LENDERS NAMED HEREIN
as Lenders

and

THE CHASE MANHATTAN BANK
as Administrative Agent

==========

CHASE SECURITIES INC.
Lead Arranger and Sole Book Manager

BANK OF AMERICA, N.A.
CITIBANK, N.A.
BANK ONE, NA
Co-Syndication Agents

TABLE OF CONTENTS

COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT, dated as of October 27, 2000, among CITIZENS COMMUNICATIONS COMPANY, a Delaware corporation (the "Borrower"), the Lenders listed in Schedule 2.01 (together with any assignees pursuant to Section 9.04(b), the "Lenders") and THE CHASE MANHATTAN BANK, a New York banking corporation, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

The Borrower has requested the Lenders to extend credit to the Borrower in order to enable it to borrow on a standby revolving credit basis on and after the date hereof and at any time and from time to time prior to the Revolving Period Maturity Date (as hereinafter defined) a principal amount not in excess of $5,700,000,000 (as such amount may be modified pursuant to Section 2.11 hereof) at any time outstanding, all or a portion of which may be converted to one-year term loans on the Revolving Period Maturity Date. The Borrower has also requested the Lenders to provide a procedure pursuant to which the Borrower may invite the Lenders to bid on an uncommitted basis on short-term borrowings by the Borrower. The proceeds of such borrowings are to be used to backstop commercial paper issued to finance the Acquisitions (as hereinafter defined), to pay reasonable and customary fees, expenses and transaction costs incurred by the Borrower in connection with the Acquisitions and for other general corporate purposes, including other acquisitions. The Lenders are willing to extend such credit to the Borrower on the terms and subject to the conditions herein set forth.

Accordingly, the Borrower, the Lenders and the Administrative Agent agree as follows:

Article I

DEFINITIONS

Section 1.01. Defined Terms.

As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Standby Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"Acquisitions" shall mean (x) the acquisition by the Borrower of telephone access lines from Verizon Communications and certain of its affiliates and Qwest Communications International, Inc. pursuant to (i) nine separate Agreements for Purchase and Sale of Telephone Exchanges, each dated as of June 16, 1999, between the Borrower and Qwest Communications International, Inc., (ii) an Asset Purchase Agreement, dated as of May 27, 1999, between GTE California Incorporated and the Borrower, (iii) an Asset Purchase Agreement, dated as of May 27, 1999, between GTE West Coast Incorporated and the Borrower and (iv) an Asset Purchase Agreement, dated as of May 27, 1999, between Contel of Minnesota, Inc. and the Borrower, and (y) the acquisition by the Borrower from Global Crossing Ltd. of the Frontier local exchange carrier business, consisting of approximately 1.1 million access lines, pursuant to a Stock Purchase Agreement, dated as of July 11, 2000, among Global Crossing Ltd., Global Crossing North America Inc. and the Borrower.

"Administrative Fees" shall have the meaning assigned to such term in Section 2.06(b).

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit B hereto.

"Affiliate" shall mean, when used 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" shall mean, for any day, a rate per annum (rounded

upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (i) the Prime Rate in effect on such day and (ii) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of the Administrative Agent to obtain sufficient quotations, the Alternate Base Rate shall be determined without regard to clause (ii) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Rate" shall mean 0.000% with respect to any ABR Loan, and shall mean, with respect to any Eurodollar Standby Loan or Facility Fee, as the case may be, at all times during which any "Applicable Rating Level" set forth below is in effect, the rate per annum set forth below under the appropriate caption next to such Applicable Rating Level:

Applicable Rating Level	S&P Rating/Moody's Rating	Applicable Rate for Eurodollar Standby Loans	Applicable Rate for Facility Fee	Utilization Margin
I	AA-or higher/Aa3 or higher	0.200%	0.050%	0.100%
II	A+/A1	0.240%	0.060%	0.100%
III	A/A2	0.240%	0.060%	0.100%
IV	A-/A3	0.330%	0.070%	0.100%
V	BBB+/Baa1	0.400%	0.100%	0.100%
VI	BBB/Baa2	0.625%	0.125%	0.100%
VII	BBB-/Baa3	0.725%	0.150%	0.125%
VIII	lower than BBB-/lower than Baa3	0.800%	0.200%	0.125%

provided, that the Applicable Rate for Eurodollar Standby Loans and ABR Loans shall be increased by the rate per annum set forth above under the caption "Utilization Margin" that corresponds to the Applicable Rating Level used to determine such Applicable Rates at all times following the effectiveness of the Term Election or at any time during a Utilization Period.

For purposes of the foregoing, the Applicable Rating Level shall be determined in accordance with the then applicable S&P Rating and the then applicable Moody's Rating. In the event that the S&P Rating and the Moody's Rating do not correspond to the same Applicable Rating Level, then the higher of the two ratings shall determine the Applicable Rating Level; provided, however, that if there is a difference of two or more levels between the Applicable Rating Level corresponding to the S&P Rating and the Applicable Rating Level corresponding to the Moody's Rating, then the Applicable Rating Level that is one level above the Applicable Rating Level corresponding to the lower of the S&P Rating and the Moody's Rating shall apply. In the event that no S&P Rating or no Moody's Rating shall be in effect (other than by reason of the circumstances referred to in the last sentence of this definition), then the Applicable Rating Level shall be Applicable Rating Level VIII. The Applicable Rating Level shall be redetermined on the date of announcement of a change in the S&P Rating or the Moody's Rating. A change in the Applicable Rate resulting from a change in the Applicable Rating Level shall become effective on such date. If the rating system of S&P or Moody's shall change, or if either such Person shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such Person and, pending the effectiveness of any such amendment, the Applicable Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in

substantially the form of Exhibit C.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders (or, in the case of a Competitive Borrowing, by the Lender or Lenders whose Competitive Bids have been accepted pursuant to Section 2.03) or Converted on a single date and as to which a single Interest Period is in effect. All Loans of the same Type, having the same Interest Period and made or Converted on the same day shall be deemed a single Borrowing hereunder until repaid or next Converted.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York) on which banks are open for business in New York City; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person shall mean 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 more than 49% 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 shall otherwise directly or indirectly Control the Borrower.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

"Commitment" shall mean, with respect to each Lender, the commitment of such Lender hereunder as set forth in Schedule 2.01 hereto, as such Lender's Commitment may be modified from time to time pursuant to Section 2.11 or Section 2.13(f). Unless earlier terminated pursuant to the terms of this Agreement, the Commitments shall automatically and permanently terminate on the Revolving Period Maturity Date.

"Competitive Bid" shall mean an offer by a Lender to make a Competitive Loan pursuant to Section 2.03.

"Competitive Bid Accept/Reject Letter" shall mean a notification made by the Borrower pursuant to Section 2.03(d) in the form of Exhibit A-4.

"Competitive Bid Rate" shall mean, as to any Competitive Bid made by a Lender pursuant to Section 2.03(b), (i) in the case of a Eurodollar Loan, the Margin, and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest offered by the Lender making such Competitive Bid.

"Competitive Bid Request" shall mean a request made pursuant to Section 2.03 in the form of Exhibit A-1.

"Competitive Borrowing" shall mean a Borrowing consisting of a Competitive Loan or concurrent Competitive Loans from the Lender or Lenders whose Competitive Bids for such Borrowing have been accepted by the Borrower under the bidding procedure described in Section 2.03.

"Competitive Loan" shall mean a Loan from a Lender to the Borrower pursuant to the bidding procedure described in Section 2.03. Each Competitive Loan shall be a Eurodollar Competitive Loan or a Fixed Rate Loan.

"Consolidated Net Worth" shall mean, 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 Termination Date, mandatorily redeemable convertible preferred securities and minority equity interests in other persons, as determined on a consolidated basis in conformity with GAAP consistently applied.

"Consolidated Tangible Assets" of any Person shall mean 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" shall mean 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 ownership of voting securities, by contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Conversion", "Convert" or "Converted" shall mean the conversion of any Standby Loan of one Type into a Standby Loan of another Type, or the selection of a new, or the renewal of the same, Interest Period for any such Standby Loan, as the case may be, pursuant to Section 2.05.

"Conversion Request" shall mean a request made pursuant to Section 2.05 in the form of Exhibit A-6.

"Default" shall mean any event or condition which upon notice, lapse of time, or both would constitute an Event of Default.

"Dollars" or "$" shall mean lawful money of the United States of America.

"Effective Date" shall mean the date on which the conditions specified in Section 4.02 are satisfied (or waived in accordance with Section 9.08).

"Environmental Laws" shall mean 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" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, and the regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" shall mean 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" shall mean (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 Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Competitive Borrowing" shall mean a Borrowing comprised of Eurodollar Competitive Loans.

"Eurodollar Competitive Loan" shall mean any Competitive Loan bearing interest at a rate determined by reference to the LIBO Rate in accordance with the provisions of Article II.

"Eurodollar Loan" shall mean any Eurodollar Competitive Loan or Eurodollar Standby Loan.

"Eurodollar Standby Borrowing" shall mean a Borrowing comprised of Eurodollar Standby Loans.

"Eurodollar Standby Loan" shall mean any Standby Loan bearing interest at a rate determined by reference to the LIBO Rate in accordance with the provisions of Article II.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Existing Facility" shall mean the Credit Agreement, dated as of October 29, 1999, among the Borrower, the lenders parties thereto and The Chase Manhattan Bank, as agent for said lenders.

"Facility Fee" shall have the meaning assigned to such term in Section 2.06(a).

"Federal Funds Effective Rate" shall mean, for any day, the weighted average 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 which is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fees" shall mean the Facility Fee and the Administrative Fees.

"Financial Officer" of any corporation shall mean the President, Chief Financial Officer, Chief Executive Officer, Vice President - Finance, Executive Vice President or Treasurer of such corporation.

"First Mortgage Bond Indentures" shall mean (i) the First Mortgage and Collateral Trust Indenture, dated as of March 1, 1947, from the Borrower to The Marine Midland Trust Company of New York, as Trustee, and (ii) the Mortgage and Deed of Trust Indenture, dated as of June 1, 1962, from the Borrower to Manufacturers Hanover Trust Company, as Trustee, as the same have been and may from time to time be amended or supplemented and in effect.

"Fixed Rate Borrowing" shall mean a Borrowing comprised of Fixed Rate Loans.

"Fixed Rate Loan" shall mean any Competitive Loan bearing interest at a fixed percentage rate per annum (expressed in the form of a decimal to no more than four decimal places) specified by the Lender making such Loan in its Competitive Bid.

"GAAP" shall mean generally accepted accounting principles, applied on a consistent basis.

"Governmental Approval" shall mean 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" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Hostile Acquisition" shall mean 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" shall mean any transaction, or any series of related transactions, by which the Borrower and/or any of its

Subsidiaries directly or indirectly (i) acquires 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) acquires (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 acquires control of a more that 50% ownership interest in any such Person.

"Indebtedness" of any Person shall mean, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (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 interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (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 (j) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, directly or indirectly (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (ii) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term Indebtedness shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable thereto and, in the case of a Eurodollar Loan with an Interest Period of more than three months' duration or a Fixed Rate Loan, each day that would have been an Interest Payment Date for such Loan had successive Interest Periods of three months' duration or 90 days duration, as the case may be, been applicable to such Loan and, in addition, the date of any Conversion of such Loan to a Loan of a different Type.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter (or such longer period as may be agreed to by all of the Lenders), as the Borrower may elect, (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the date 90 days thereafter or, if earlier, on the Termination Date or the date of prepayment of such Borrowing and (c) as to any Fixed Rate Borrowing, the period commencing on the date of such Borrowing and ending on the date specified in the Competitive Bids in which the offer to make the Fixed Rate Loans comprising such Borrowing were extended, which shall not be earlier than the day after the date of such Borrowing or later than 364 days (or, subject to the Borrower obtaining all necessary Governmental Approvals, such longer period as may be agreed to by all of the Lenders) after the date of such Borrowing; provided, however, that 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, in the case of Eurodollar Loans only, 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. Interest shall accrue from and including the first day

of an Interest Period to but excluding the last day of such Interest Period.

"LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the rate at which dollar deposits approximately equal in principal amount to (i) in the case of a Standby Borrowing, The Chase Manhattan Bank's (if then acting as Administrative Agent or, in case another Person is then acting as Administrative Agent, such other Person's) portion of such Eurodollar Borrowing and (ii) in the case of a Competitive Borrowing, a principal amount that would have been The Chase Manhattan Bank's (if then acting as Administrative Agent or, in case another Person is then acting as Administrative Agent, such other Person's) portion of such Competitive Borrowing had such Competitive Borrowing been a Standby Borrowing, and, in the case of each of clause (i) and clause (ii) above, for a maturity comparable to such Interest Period, are offered to the principal London office of The Chase Manhattan Bank (or such other Person then acting as 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" shall mean, 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" shall mean a Competitive Loan or a Standby Loan, whether made as a Eurodollar Loan, an ABR Loan, or a Fixed Rate Loan, as permitted hereby.

"Margin" shall mean, as to any Eurodollar Competitive Loan, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or subtracted from the LIBO Rate in order to determine the interest rate applicable to such Loan, as specified in the Competitive Bid relating to such Loan.

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

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

"Moody's" shall mean Moody's Investors Service, Inc., or any successor thereto.

"Moody's Rating" shall mean, on any date of determination, (i) the debt rating most recently announced by Moody's with respect to the long-term, senior, unsecured, non-credit enhanced Indebtedness of the Borrower or (ii) if (A) the Indebtedness of the Borrower under this Agreement shall be credit enhanced by any Person other than the Borrower and (B) both Moody's and S&P shall have assigned a debt rating to such Indebtedness, then such debt rating assigned by Moody's.

"Net Cash Proceeds" shall mean, with respect to any Sale Transaction, the aggregate amount of cash received by the Borrower or any Subsidiary thereof in connection with such sale after deducting therefrom (i) reasonable and customary transaction costs that are, at the time of receipt of such cash, actually paid or reserved for payment (A) to a Person that is not an Affiliate of the Borrower or (B) to the Borrower or an Affiliate of the Borrower to reimburse the Borrower or such Affiliate of the Borrower for payments made by the Borrower or such Affiliate of the Borrower to another Person that is not the Borrower or an Affiliate of the Borrower in respect of such transaction costs described above and (ii) the amount of taxes paid or reasonably expected to be payable in connection with, or as a result of, such transaction.

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

"Person" shall mean any natural person, corporation, business trust, joint venture, association, company, limited liability company, partnership, or government, or any agency or political subdivision thereof.

"Plan" shall mean 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" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced as effective.

"Principal Subsidiaries" shall mean any Subsidiary of the Borrower, other than Electric Lightwave, Inc., whose Consolidated Tangible Assets comprise in excess of 20% of the Consolidated Tangible Assets of the Borrower and its consolidated Subsidiaries as of the date hereof or at any time hereafter.

"Register" shall have the meaning given such term in Section 9.04(d).

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation T" shall mean Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Release" shall mean 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" shall mean, at any time, Lenders having Commitments representing at least 66-2/3% of the Total Commitment or, for purposes of acceleration pursuant to clause (ii) of Article VII or if the Total Commitment has terminated, Lenders holding Loans representing at least 66-2/3% of the aggregate principal amount of the Loans outstanding.

"Revolving Period Maturity Date" shall mean October 26, 2001.

"Sale Transaction" shall mean (i) the sale by the Borrower or any of its Subsidiaries of any Utilities Assets or the stock of, or the sale outside the ordinary course of business of any of the assets of, Electric Lightwave Inc. or (ii) the sale or issuance of debt having a maturity of at least one year or equity of the Borrower or any of its Subsidiaries in the capital or bank markets for the purpose of financing the Acquisitions.

"S&P" shall mean Standard & Poo's Ratings Services, a division ofThe McGraw-Hill Companies, Inc., or any successor thereto.

"S&P Rating" shall mean, on any date of determination, (i) the debt rating most recently announced by S&P with respect to the long-term, senior, unsecured, non-credit enhanced Indebtedness of the Borrower or (ii) if (A) the Indebtedness of the Borrower under this Agreement shall be credit enhanced by any Person other than the Borrower and (B) both S&P and Moody's shall have assigned a debt rating to such Indebtedness, then such debt rating assigned by S&P.

"Specified Substance" shall mean (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.

"Standby Borrowing" shall mean a Borrowing consisting of simultaneous Standby Loans from each of the Lenders.

"Standby Borrowing Request" shall mean a request made pursuant to Section 2.04 in the form of Exhibit A-5.

"Standby Loans" shall mean the revolving loans made by the Lenders to the Borrower pursuant to Section 2.04. Each Standby Loan shall be a Eurodollar Standby Loan or an ABR Loan. All Standby Loans by a Lender of the same Type, having the same Interest Period and made or Converted on the same day shall be deemed to be a single Standby Loan by such Lender until repaid or next Converted.

"Subsidiary" shall mean, 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.

"Term Election" shall have the meaning assigned to such term in Section 2.07(b).

"Term Maturity Date" shall have the meaning assigned to such term in Section 2.07(b).

"Termination Date" shall mean the earlier to occur of (i) the Revolving Period Maturity Date or, if the Borrower makes the election described in Section 2.07(b), the Term Maturity Date and (ii) the date of termination or reduction in whole of the Commitments pursuant to Section 2.11 or Article VII.

"Total Commitment" shall mean at any time the aggregate amount of the Lenders' Commitments, as in effect at such time.

"Transferee" shall mean any transferee or assignee of all or any portion of a Lender's interests, rights and obligations hereunder, including any participation holder.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall include the LIBO Rate, the Alternate Base Rate and the rate of interest applicable to any Fixed Rate Loan.

"Utilities Assets" shall mean any assets of the Borrower or any Subsidiary thereof (including, without limitation, stock in any such Subsidiary) that are employed in the generation or production, transmission or distribution (as applicable) of electricity, natural gas, synthetic gas or water, or that are used to provide wastewater services.

"Utilization Period" shall mean any day or days during which the aggregate amount of Loans outstanding hereunder is equal to or greater than 33% of the Total Commitment for such day or days.

Section 1.02. Terms Generally.

The definitions in Section 1.01 shall apply equally to both 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". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement, unless the context shall otherwise require. 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, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.02.

Article II

THE CREDITS

Section 2.01. Commitments.

Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, to make Standby Loans to the Borrower, at any time and from time to time on and after the Effective Date and until the earlier to occur of the Revolving Period Maturity Date and the termination of the Commitment of such Lender, in an aggregate principal amount at any time outstanding not to exceed such Lender's Commitment minus the amount by which the Competitive Loans outstanding at such time shall be deemed to have used such Commitment pursuant to Section 2.16, subject however, to the conditions that (a) at no time shall (i) the sum of (x) the outstanding aggregate principal amount of all Standby Loans made by all Lenders plus (y) the outstanding aggregate principal amount of all Competitive Loans made by all Lenders exceed (ii) the Total Commitment, and (b) at all times the outstanding aggregate principal amount of all Standby Loans made by each Lender shall equal the product of (i) the percentage which its Commitment represents of the Total Commitment times (ii) the outstanding aggregate principal amount of all Standby Loans made pursuant to Section 2.04. Each Lender's Commitment is set forth opposite its respective name in Schedule 2.01. Such Commitments may be modified or reduced from time to time pursuant to Section 2.11 and Section 2.13(f).

Within the foregoing limits, the Borrower may borrow, pay, or prepay and reborrow hereunder, on and after the Effective Date and prior to the Revolving Period Maturity Date, subject to the terms, conditions and limitations set forth herein.

Section 2.02. Loans.

(a) Each Standby Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their Commitments; provided, however, that the failure of any Lender to make any Standby Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Each Competitive Loan shall be made in accordance with the procedures set forth in Section 2.03. The Standby Loans or Competitive Loans comprising any Borrowing shall be in an aggregate principal amount which is an integral multiple of $1,000,000 and not less than $10,000,000 (or, in the case of Standby Loans, an aggregate principal amount equal to the remaining balance of the available Commitments).

(b) Each Competitive Borrowing shall be comprised entirely of Eurodollar Competitive Loans or Fixed Rate Loans, and each Standby Borrowing shall be comprised entirely of Eurodollar Standby Loans or ABR Loans, as the Borrower may request pursuant to Section 2.03 or 2.04, as applicable. Each Lender may at its option 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. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall

not be entitled to request any Borrowing which, if made, would result in an aggregate of more than ten separate Standby Loans of any Lender being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to the Administrative Agent in New York, New York, not later than 1:00 P.M., New York City time, and the Administrative Agent shall by 3:00 P.M., New York City time, credit the amounts so received to the general deposit account of the Borrower with the Administrative Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders. Competitive Loans shall be made by the Lender or Lenders whose Competitive Bids therefor are accepted pursuant to Section 2.03 in the amounts so accepted and Standby Loans shall be made by the Lenders pro rata in accordance with Section 2.16. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (or, in the case of an ABR Borrowing, prior to the time of such ABR Borrowing) that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with this paragraph (c) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have made such portion available to the Administrative Agent and the Administrative Agent has made available to the Borrower such portion, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Effective Rate. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(d) Notwithstanding any other provision of this Agreement, the Interest Period requested by the Borrower with respect to any Borrowing shall not (unless otherwise agreed to by all of the Lenders) end after the earlier to occur of (i) the Termination Date and (ii) the latest date permitted by any Governmental Approval then in effect for the Borrower to have outstanding Borrowings.

Section 2.03. Competitive Bid Procedure.

(a) Subject to the terms and conditions set forth herein, from time to time during the period from and including the Effective Date to but excluding the earlier to occur of the Revolving Period Maturity Date and the termination of the Commitments of all Lenders, the Borrower may request Competitive Bids and may, but shall not have any obligation to, accept Competitive Bids and borrow Competitive Loans; provided, that at no time shall the sum of (x) the outstanding aggregate principal amount of all Standby Loans made by all Lenders plus (y) the outstanding aggregate principal amount of all Competitive Loans made by all Lenders exceed the Total Commitment. In order to request Competitive Bids, the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Competitive Bid Request in the form of Exhibit A-1 hereto, to be received by the Administrative Agent (i) in the case of a Eurodollar Competitive Borrowing, not later than 10:00 A.M., New York City time, four Business Days before a proposed Competitive Borrowing and (ii) in the case of a Fixed Rate Borrowing, not later than 10:00 A.M., New York City time, one Business Day before a proposed Competitive Borrowing. No ABR Loan shall be requested in, or made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit A-1 may be rejected in the Administrative Agent's sole discretion, and the Administrative Agent shall promptly notify the Borrower of such rejection by telecopier. Such request shall in each case refer to this Agreement and specify (x) whether the Borrowing then being requested is to be a Eurodollar Borrowing or a Fixed Rate Borrowing, (y) the date of such Borrowing (which shall be a Business Day) and the aggregate principal amount thereof which shall be in a minimum principal amount of $10,000,000 and in an integral multiple of $1,000,000, and (z) the Interest Period(s) with respect thereto (which may not end after the Revolving Period Maturity Date unless otherwise agreed to by all of the Lenders). Promptly after

its receipt of a Competitive Bid Request that is not rejected as aforesaid, the Administrative Agent shall invite by telecopier (in the form set forth in Exhibit A-2 hereto) the Lenders to bid, on the terms and conditions of this Agreement, to make Competitive Loans pursuant to the Competitive Bid Request.

(b) Each Lender may, in its sole discretion, make one or more Competitive Bids to the Borrower responsive to a Competitive Bid Request. Each Competitive Bid by a Lender must be received by the Administrative Agent via telecopier, in the form of Exhibit A-3 hereto, (i) in the case of a Eurodollar Competitive Borrowing, not later than 9:30 A.M., New York City time, three Business Days before a proposed Competitive Borrowing and (ii) in the case of a Fixed Rate Borrowing, not later than 9:30 A.M., New York City time, on the day of a proposed Competitive Borrowing. Multiple bids will be accepted by the Administrative Agent. Competitive Bids that do not conform substantially to the format of Exhibit A-3 may be rejected by the Administrative Agent after conferring with, and upon the instruction of, the Borrower, and the Administrative Agent shall notify the Lender making such nonconforming bid of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and specify (x) the range of principal amounts (each of which shall be in a minimum principal amount of $5,000,000 and in an integral multiple of $1,000,000 and, in the case of the larger such amount, may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Lender is willing to make to the Borrower, (y) the Competitive Bid Rate or Rates at which the Lender is prepared to make the Competitive Loan or Loans and (z) the Interest Period and the last day thereof. If any Lender shall elect not to make a Competitive Bid, such Lender shall so notify the Administrative Agent via telecopier (A) in the case of Eurodollar Competitive Loans, not later than 9:30 A.M., New York City time, three Business Days before a proposed Competitive Borrowing, and (B) in the case of Fixed Rate Loans, not later than 9:30 A.M., New York City time, on the day of a proposed Competitive Borrowing; provided, however, that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Competitive Loan as part of such Competitive Borrowing. A Competitive Bid submitted by a Lender pursuant to this paragraph (b) shall be irrevocable. If the Administrative Agent shall not have received from any Lender notification of its election to make a Competitive Bid on or before the times set forth in the second sentence of this paragraph, such Lender shall be deemed to have elected not to make a Competitive Bid.

(c) The Administrative Agent shall promptly notify (but in any event no later than 10:00 A.M., New York City time, on the day any Competitive Bid is received by the Administrative Agent) the Borrower by telecopier of all the Competitive Bids made, the Competitive Bid Rate and the principal amount (or range thereof) of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Lender that made each bid. The Administrative Agent shall send a copy of all Competitive Bids to the Borrower for its records as soon as practicable after completion of the bidding process set forth in this Section 2.03.

(d) The Borrower may in its sole and absolute discretion, subject only to the provisions of this paragraph (d), accept or reject all or any portion (within the range of principal amounts specified therein) of any Competitive Bid referred to in paragraph (c) above. The Borrower shall notify the Administrative Agent by telephone, confirmed by telecopier in the form of a Competitive Bid Accept/Reject Letter, whether and to what extent it has decided to accept or reject any of or all the bids referred to in paragraph (c) above, (x) in the case of a Eurodollar Competitive Borrowing, not later than 11:00 A.M., New York City time, three Business Days before a proposed Competitive Borrowing and (y) in the case of a Fixed Rate Borrowing, not later than 11:00 A.M., New York City time, on the day of a proposed Competitive Borrowing; provided, however, that (i) the failure by the Borrower to give such notice shall be deemed to be a rejection of all the bids referred to in paragraph (c) above, (ii) the Borrower shall not accept a bid made at a particular Competitive Bid Rate if the Borrower has decided to reject a bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the principal amount specified in the Competitive Bid Request, (iv) if the Borrower shall accept a bid or bids made at the same Competitive Bid Rate but the amount of such bid or bids shall cause the total amount of bids to be accepted by the Borrower to exceed the amount specified in the Competitive Bid

Request, then the Borrower shall accept a portion of such bid or bids in an amount no greater than the amount specified in the Competitive Bid Request less the amount of all other Competitive Bids at a lower Competitive Bid Rate accepted with respect to such Competitive Bid Request, which acceptance, in the case of multiple bids at such Competitive Bid Rate, shall be made pro rata in accordance with the lowest amount of each such bid at such Competitive Bid Rate, and (v) except pursuant to clause (iv) above, no bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of $5,000,000 and an integral multiple of $1,000,000; provided further, however, that if a Competitive Loan must be in an amount less than $5,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of $1,000,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple bids at a particular Competitive Bid Rate pursuant to clause (iv) the amounts shall be rounded to integral multiples of $1,000,000 in a manner which shall be in the discretion of the Borrower. A notice given by the Borrower pursuant to this paragraph (d) shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Lender whether or not its Competitive Bid has been accepted (and if so, in what amount and at what Competitive Bid Rate) by telecopier sent by the Administrative Agent, and each successful bidder will thereupon become bound, subject to the other applicable conditions hereof, to make the Competitive Loan in respect of which its bid has been accepted.

(f) If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such bid directly to the Borrower not later than 9:15 A.M., New York City time, on the day on which the other Lenders are required to submit their bids to the Administrative Agent pursuant to paragraph (b) above.

(g) All notices required by this Section 2.03 shall be given in accordance with Section 9.01.

Section 2.04. Standby Borrowing Procedure.

In order to request a Standby Borrowing (other than a Conversion), the Borrower shall hand deliver or telecopy to the Administrative Agent a notice in the form of Exhibit A-5 (a) in the case of a Eurodollar Standby Borrowing, not later than 11:00 A.M., New York City time, three Business Days before a proposed Borrowing, and (b) in the case of an ABR Borrowing, not later than 11:00 A.M., New York City time, on the day of a proposed Borrowing. No Fixed Rate Loan shall be requested or made pursuant to a Standby Borrowing Request. Such notice shall be irrevocable (unless otherwise expressly provided herein) and shall in each case specify (i) whether the Borrowing then being requested is to be a Eurodollar Standby Borrowing or an ABR Borrowing; (ii) the date of such Standby Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Standby Borrowing, the Interest Period with respect thereto. If no election as to the Type of Standby Borrowing is specified in any such notice, then the requested Standby Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Standby Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise (but in any event no later than 12:00 noon on such date) the Lenders of any notice given pursuant to this Section 2.04 and of each Lender's portion of the requested Borrowing.

Section 2.05. Conversions.

The Borrower may from time to time Convert any Standby Loan (or portion thereof) of any Type and with any Interest Period (if applicable) to one or more Standby Loans of the same or any other Type and with any Interest Period (if applicable) by delivering (by hand delivery or telecopier) a request for such Conversion in the form of Exhibit A-6 to the Administrative Agent no later than (i) 11:00 A.M., New York City time, on the third Business Day prior to the date of any proposed Conversion into a Eurodollar Standby Loan and (ii) 11:00 A.M., New York City time, on the day of any proposed Conversion into an ABR Loan. The Administrative Agent shall give each Lender prompt notice of each Conversion Request. Each Conversion Request shall be irrevocable (unless otherwise expressly provided herein) and binding on the Borrower and shall specify the requested (A) date of such Conversion, (B) Type of, and Interest Period, if any, applicable to, the Standby Loans (or portions thereof) proposed to be Converted,

(C) Type of Standby Loans to which such Standby Loans (or portions thereof) are proposed to be Converted, (D) initial Interest Period, if any, to be applicable to the Standby Loans resulting from such Conversion and (E) aggregate amount of Standby Loans (or portions thereof) proposed to be Converted. No Eurodollar Standby Loans may be Converted on a date other than the last day of the Interest Period applicable thereto, unless the Borrower reimburses each Lender pursuant to Section 2.15 for all losses or expenses incurred by such Lender in connection with such Conversion. If the Borrower shall fail to give a timely Conversion Request pursuant to this subsection in respect of any Standby Loans, such Standby Loans shall, on the last day of the then existing Interest Period therefor, automatically Convert into, or remain as, as the case may be, ABR Loans, unless such Standby Loans are repaid at the end of such Interest Period. If the Borrower shall fail, in any Conversion Request that has been timely given, to select the duration of any Interest Period for Standby Loans to be Converted into Eurodollar Standby Loans, such Standby Loans shall, on the last day of the then existing Interest Period therefor, automatically Convert into Eurodollar Standby Loans with an Interest Period of one months' duration. If, on the date of any proposed Conversion, the Borrower shall have failed to fulfill any condition set forth in Section 4.01, all Standby Loans then outstanding shall, on such date, automatically Convert into, or remain as, as the case may be, ABR Loans.

Section 2.06. Fees.

(a) The Borrower agrees to pay to each Lender, through the Administrative Agent, on each March 31, June 30, September 30 and December 31, on the date on which the Commitment of such Lender shall be terminated as provided herein and on the Termination Date, a facility fee (a "Facility Fee") at a rate per annum equal to the Applicable Rate from time to time in effect on (i) the amount of the Commitment of such Lender, whether used or unused, during the preceding quarter (or shorter period commencing on the date hereof or ending on the Revolving Period Maturity Date or any other date on which the Commitment of such Lender shall be terminated) and (ii) in the event that the Commitments have terminated and/or the Borrower has made the Term Election, the aggregate amount of the Standby Loans owed by the Borrower to such Lender during the preceding quarter (or shorter period ending on the later of the Term Maturity Date and the date on which such Standby Loans are paid in full). All Facility Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as the case may be. The Facility Fee due to each Lender shall commence to accrue on the date hereof and shall cease to accrue on the later of the Termination Date and the date of payment in full of the Loans, accrued interest thereon and all other amounts payable hereunder.

(b) The Borrower agrees to pay the Administrative Agent, for its own account, the fees (the "Administrative Fees") at the times and in the amounts agreed upon between them.

(c) All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders. Once paid, none of the Fees shall be refundable under any circumstances.

Section 2.07. Repayment of Loans.

(a) The outstanding principal balance of each Loan shall be payable, in the case of each Competitive Loan, on the earlier to occur of the last day of the Interest Period applicable to such Loan and the Termination Date, and, in the case of each Standby Loan, on the Termination Date, unless otherwise agreed to by all of the Lenders. Each Competitive Loan and each Standby Loan shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.08. Each Lender shall, and is hereby authorized by the Borrower to record in such Lender's internal records an appropriate notation evidencing the date and amount of each Competitive Loan or Standby Loan, as applicable, of such Lender, each payment or prepayment of principal of any Competitive Loan or Standby Loan, as applicable, and such other relevant information as such Lender records in its internal records with respect to loans of a type similar to such Loans; provided, however, that the failure of any Lender to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Competitive Loans or Standby Loans, as applicable, made by such Lender in accordance with the terms hereof.

(b) The Borrower may elect, by providing written notice of such election to the Administrative Agent (who shall promptly advise the Lenders of such notice) at least five but no more than 30 days prior to the Revolving Period Maturity Date, to have all or a portion of the Standby Loans outstanding on the Revolving Period Maturity Date mature not later than the first anniversary of the Revolving Period Maturity Date (such election being the "Term Election"). Such notice shall be irrevocable and binding on the Borrower and shall specify (i) the date (the "Term Maturity Date") on which the Borrower desires such Standby Loans to mature and (ii) the Standby Loans and the amount thereof that shall mature on the Term Maturity Date. The Term Election shall be effective on the Revolving Period Maturity Date if and only if on such date no Default or Event of Default shall have occurred and be continuing or would occur as a result of the Term Election. Upon the effectiveness of the Term Election, the Borrower shall no longer have the right to borrow any unfunded portion of the Commitments or reborrow all or any part of the Loans that have been repaid or prepaid. The Term Election may be made only once.

(c) Any Lender may request that any Loans made by it be evidenced by one or more promissory notes. Promptly upon receipt of such request, the Borrower shall prepare, execute and deliver to such Lender one or more promissory notes payable to the order of such Lender (or, if requested by such Lender, to such Lender and its assignees) substantially in the form of Exhibit E-1 or E-2, as appropriate. Thereafter, the Loans evidenced by such promissory notes 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 order of the payee named therein.

Section 2.08. Interest on Loans.

(a) Subject to the provisions of Section 2.09, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to (i) in the case of each Eurodollar Standby Loan, the LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate, and (ii) in the case of each Eurodollar Competitive Loan, the LIBO Rate for the Interest Period in effect for such Borrowing plus the Margin offered by the Lender making such Loan and accepted by the Borrower pursuant to Section 2.03. Interest on each Eurodollar Borrowing shall be payable on each applicable Interest Payment Date. The LIBO Rate for each Interest Period shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error. The Administrative Agent shall promptly (but in any event no later than 10:30 A.M., New York City time, two Business Days prior to the commencement of such Interest Period) (A) advise the Borrower and each Lender, as appropriate, of such determination and (B) upon the request of the Borrower, provide the Borrower with the calculations and relevant factors supporting such determination.

(b) Subject to the provisions of Section 2.09, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 days when determined with reference to the Prime Rate and over a year of 360 days in all other cases) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate. Interest on each ABR Borrowing shall be payable on each applicable Interest Payment Date. The Alternate Base Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error. The Administrative Agent shall promptly (but in any event no later than 11:30 A.M., New York City time, on the day of each ABR Borrowing) (A) advise the Borrower and each Lender of such determination and (B) upon the request of the Borrower, provide the Borrower with the calculations and relevant factors supporting such determination.

(c) Subject to the provisions of Section 2.09, each Fixed Rate Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the fixed rate of interest offered by the Lender making such Loan and accepted by the Borrower pursuant to Section 2.03. Interest on each Fixed Rate Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement.

Section 2.09. Default Interest.

If the Borrower shall default in the payment of the principal of or

interest on any Loan or any other amount becoming due hereunder, whether by scheduled maturity, notice of prepayment, acceleration, or otherwise, the Borrower shall on demand from time to time from the Administrative Agent pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus 2%.

Section 2.10. Alternate Rate of Interest.

In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined that dollar deposits in the principal amounts of the Eurodollar Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to any Lender of making or maintaining its Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give written notice of such determination to the Borrower and the Lenders. In the event of any such determination, until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any such request by the Borrower for a Eurodollar Competitive Borrowing pursuant to Section 2.03 shall be of no force and effect and shall be denied by the Administrative Agent, (ii) any such request by the Borrower for a Eurodollar Standby Borrowing pursuant to Section 2.04 shall be deemed to be a request for an ABR Borrowing (unless the Borrower shall have withdrawn its request for such Eurodollar Standby Borrowing not later than 10:00 A.M., New York City time, on the day of the proposed Borrowing) and (iii) any request by the Borrower for a Conversion to Eurodollar Standby Loans pursuant to Section 2.05 shall be deemed to be a request for a Conversion to ABR Loans (unless the Borrower shall have withdrawn its request for such Conversion not later than 10:00 A.M., New York City time, on the day of the proposed Conversion). Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

Section 2.11. Changes in Commitments.

(a) Upon at least three Business Days' prior irrevocable written notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Total Commitment; provided, however, that (i) each partial reduction of the Total Commitment shall be in an integral multiple of $1,000,000 and in a minimum principal amount of $10,000,000 and (ii) no such termination or reduction shall be made which would reduce the Total Commitment to an amount less than the aggregate outstanding principal amount of the Competitive Loans.

(b) The Total Commitment shall be permanently reduced in an amount equal to the amount of any prepayment required to be made pursuant to Section 2.12(c), regardless of whether any Loans are outstanding or actually prepaid, such reduction to be effective on the scheduled date for such prepayment.

(c) Each reduction in the Total Commitment hereunder shall be made ratably among the Lenders in accordance with their respective Commitments. The Borrower shall pay to the Administrative Agent for the account of the Lenders, on the date of each termination or reduction, the Facility Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction. Subject to Section 2.06(a)(ii), no additional Facility Fees on the amount of the Commitments so terminated or reduced will accrue.

(d) Unless earlier terminated pursuant to the terms of this Agreement, the Commitment of each Lender shall automatically and permanently terminate on the Revolving Period Maturity Date.

(e) Provided that no Default or Event of Default shall have occurred and be continuing, the Borrower shall have the right, without the consent of the Lenders but subject to the terms of an amendment hereto entered into by the Borrower and the Administrative Agent, to effectuate from time to time an increase in the Total Commitment by (x) the accession to this Agreement of one

or more financial institutions as a Lender or as Lenders or (y) allowing one or more Lenders to increase its Commitment hereunder (any such event described in clause (x) or (y) being a "Commitment Increase"); provided that (i) the aggregate amount of Commitment Increases effectuated pursuant to this paragraph shall not exceed $800,000,000, (ii) no Lender's Commitment shall be increased without the consent of such Lender, (iii) on the effective date of any such Commitment Increase, there are no outstanding Eurodollar Standby Loans, and (iv) no Commitment Increase may occur pursuant to this paragraph on any date after January 31, 2001. Each party hereto hereby consents to the amendment of this Agreement to reflect any such Commitment Increase. The Borrower shall give the Administrative Agent three Business Days' notice of the Borrower's intention to increase the Total Commitment pursuant to this paragraph. Such notice shall specify each new financial institution to accede to this Agreement as a Lender or the name of the Lender that has agreed to increase its Commitment hereunder, as the case may be, and the amount of the proposed additional Commitment or the amount of the proposed increase in an existing Commitment, as the case may be. The Borrower shall also provide to the Administrative Agent satisfactory evidence that all necessary Governmental Approvals and corporate authorizations have been obtained by the Borrower in connection with proposed Commitment Increase, together with such other information as is reasonably requested by the Administrative Agent. Each financial institution agreeing to accede to this Agreement as a Lender, and each Lender agreeing to increase its Commitment (each such financial institution or Lender being an "Acceding Lender"), shall execute and deliver to the Administrative Agent and the Borrower documentation in form and substance satisfactory to the Administrative Agent and the Borrower pursuant to which it becomes a party hereto or increases its Commitment, as the case may be, shall deliver to the Administrative Agent an Administrative Questionnaire, and shall purchase from the existing Lenders its proportionate share (based on the amount of its Commitment and the amount of the Total Commitment after giving effect to the Commitment Increase) of any Standby Loans outstanding on the date such Commitment Increase becomes effective. Upon (x) the execution and delivery of such documentation and an amendment to this Agreement that reflects any such increase in the Total Commitment and such additional or changed Commitments and (y) the provision to the Administrative Agent by the Acceding Lender of funds in an amount necessary to purchase from the existing Lenders its proportionate share (based on the amount of its Commitment and the amount of the Total Commitment after giving effect to the Commitment Increase) of any Standby Loans outstanding on the date such Commitment Increase becomes effective, (i) the Commitment Increase shall become effective, (ii) the financial institution agreeing to accede to this Agreement as a Lender shall constitute a Lender under this Agreement with a Commitment as specified therein, or, in the case of an existing Lender agreeing to increase its Commitment, such Lender's Commitment shall increase as specified therein, and (iii) the Acceding Lender shall acquire its proportionate share (determined as aforesaid) of any outstanding Standby Loans and the rights relating thereto as provided by the Agreement.

(f) Any changes in the Commitments pursuant to this Section 2.11 shall be appropriately recorded by the Administrative Agent in the Register in accordance with Section 9.04(d). In addition, all notices with respect to any such change shall be maintained by the Administrative Agent with the Register.

Section 2.12. Prepayment.

(a) The Borrower shall have the right at any time and from time to time to prepay any Standby Borrowing or Eurodollar Competitive Borrowing, in whole or in part, upon giving written notice (or telephone notice promptly confirmed by written notice) to the Administrative Agent: (i) before 11:00 A.M., New York City time, three Business Days prior to prepayment, in the case of Eurodollar Loans, and (ii) before 11:00 A.M., New York City time, on the day of prepayment, in the case of ABR Loans; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of $1,000,000 and not less than $5,000,000. The Borrower shall not have the right to prepay any Fixed Rate Competitive Borrowing.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.11 (other than subsection (b) thereof) or Section 2.13(f), the Borrower shall pay or prepay so much of the Standby Borrowings as shall be necessary in order that the aggregate principal amount of the Competitive Loans and Standby Loans outstanding will not exceed the Total Commitment after giving effect to such termination or reduction. In the event that the Borrower makes the Term Election, the Borrower shall pay or prepay on the Revolving Period Maturity Date so much of the Standby Borrowings as shall be necessary in order

that the aggregate principal amount of the Standby Loans outstanding will not exceed the amount of the Standby Loans subject to the Term Election.

(c) The Borrower shall, from time to time, prepay Standby Borrowings in an amount equal to the Net Cash Proceeds received by the Borrower or any Subsidiary thereof from any Sale Transaction, such prepayment to be made on the tenth Business Day following the day on which the Borrower or such Subsidiary receives such Net Cash Proceeds; provided, that (1) the aggregate amount of such prepayments made pursuant to this subsection (c) shall not exceed $3,700,000,000 plus the aggregate amount of Commitment Increases made pursuant to Section 2.11(e) minus the aggregate amount of reductions in the Total Commitment made pursuant to Section 2.11(a); (2) no such prepayment shall be required to the extent that any commercial paper issued by the Borrower prior to its receipt of such Net Cash Proceeds and supported by the Commitments required to be reduced pursuant to Section 2.11(b) shall be outstanding; provided, that prepayment of such amount shall be required as and when such commercial paper matures; and (3) any prepayment of a Eurodollar Loan made pursuant to this subsection (c) shall not be required to be made until the end of the Interest Period applicable to such Eurodollar Loan.

(d) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing (or portion thereof) by the amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to Section 2.15 but otherwise without premium or penalty. All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

Section 2.13. Reserve Requirements; Change in Circumstances.

(a) It is understood that the cost to each Lender of making or maintaining any of the Eurodollar Loans may fluctuate as a result of the applicability of reserve requirements imposed by the Board at the ratios provided for in Regulation D on the date hereof. The Borrower agrees to pay to each of the Lenders from time to time such amounts as shall be necessary to compensate such Lender for the portion of the cost of making or maintaining Eurodollar Loans (other than Eurodollar Competitive Loans) resulting from any such reserve requirements provided for in Regulation D as in effect on the date hereof, it being understood that the rates of interest applicable to Eurodollar Loans have been determined on the assumption that no such reserve requirements exist or will exist and that such rates do not reflect costs imposed on the Lenders in connection with such reserve requirements.

(b) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation (including, without limitation, Regulation D) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Lender of the principal of or interest on any Eurodollar Loan or Fixed Rate Loan made by such Lender or any Fees or other amounts payable hereunder (other than changes in respect of taxes imposed on the overall net income of such Lender and franchise taxes imposed on it by the jurisdiction in which such Lender has its principal office or by any political subdivision or taxing authority therein), or shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement against assets of, deposits with or for the account of or credit extended by such Lender, or shall impose on such Lender or the London interbank market any other condition affecting this Agreement or any Eurodollar Loan or Fixed Rate Loan made by such Lender, 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 Fixed Rate Loan or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest, or otherwise) by an amount deemed by such Lender to be material, then, to the extent not otherwise being reimbursed under Section 2.19 hereof, the Borrower will pay to such Lender upon demand such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered. Notwithstanding the foregoing, no Lender shall be entitled to request compensation under this paragraph with respect to any Competitive Loan if it shall have had actual knowledge of the change giving rise to such request at the time of submission of the Competitive Bid pursuant to which such Competitive Loan shall have been made.

(c) If any Lender shall have determined that the adoption after the date hereof of any law, rule, regulation, or guideline regarding capital adequacy, or any change in any existing law, rule, regulation, or guideline regarding capital adequacy or in the interpretation or administration of any of the foregoing by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or any Lender's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender pursuant hereto to a level below that which such Lender or such Lender's holding company could have achieved but for such adoption, change, or compliance (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(d) A certificate of a Lender setting forth such amount or amounts as shall be necessary to compensate such Lender as specified in paragraph (a), (b), or (c) above, as the case may be, and all of the relevant factors and the calculations supporting such amount or amounts, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay each Lender the amount shown as due on any such certificate delivered by it within 10 days after the receipt of the same.

(e) Notwithstanding the provisions of subsections (a), (b) or (c), above, to the contrary, no Lender shall be entitled to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital to the extent that such compensation relates to any period of time prior to the date upon which such Lender first notified the Borrower of the occurrence of the event entitling such Lender to such compensation (unless, and to the extent, that any such compensation so demanded shall relate to the retroactive application of any event so notified to the Borrower required by any governmental authority, central bank or comparable agency).

(f) If any Lender shall have delivered a notice or certificate pursuant to paragraph (d) 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 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 (other than any amounts owed to such Lender pursuant to Section 2.15(c) in connection with such principal payment).

Section 2.14. Change in Legality.

(a) Notwithstanding any other provision herein, if any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Administrative Agent, such Lender may:

(i) declare that Eurodollar Loans will not thereafter be made by such Lender hereunder, whereupon such Lender shall not submit a Competitive Bid in response to a request for Eurodollar Competitive Loans and any request by the Borrower for a Eurodollar Standby Borrowing shall, as to such Lender only, be deemed a request for an ABR Loan (or for a Conversion thereto pursuant to Section 2.05) unless such declaration shall be subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be

Converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically Converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the Converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the Conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.14, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

Section 2.15. Indemnity.

The Borrower shall indemnify each Lender against any loss or expense which such Lender may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to Convert any Loan hereunder after irrevocable notice of such Borrowing or Conversion has been given pursuant to Section 2.03, 2.04 or 2.05, (c) any payment, prepayment or Conversion of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto, (d) any default in payment or prepayment of the principal amount of any Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise), or (e) the occurrence of any Event of Default, including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably demonstrated by such Lender, of (i) its cost of obtaining the funds for the Loan being paid, prepaid, Converted, or not borrowed (assumed to be the LIBO Rate or, in the case of a Fixed Rate Loan, the fixed rate of interest applicable thereto) for the period from the date of such payment, prepayment, or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably demonstrated by such Lender) that would be realized by such Lender in reemploying the funds so paid, prepaid, or not borrowed for such period or Interest Period, as the case may be. A certificate of any Lender setting forth the factors and calculations supporting any amount or amounts which such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower no later than 30 days following the incurrence of any loss or expense for which such Lender is seeking indemnification under this Section 2.15 and shall be conclusive absent manifest error.

Section 2.16. Pro Rata Treatment.

Except as required or otherwise permitted under Sections 2.13(f) and 2.14, each Standby Borrowing, each payment or prepayment of principal of any Standby Borrowing, each payment of interest on the Standby Loans, each payment of the Facility Fees, each reduction of the Commitments and each Conversion of any Borrowing with a Standby Borrowing of any Type, shall be allocated pro rata among the Lenders in accordance with their respective Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Standby Loans). Each payment of principal of any Competitive Borrowing shall be allocated pro rata among the Lenders participating in such Borrowing in accordance with the respective principal amounts of their outstanding Competitive Loans comprising such Borrowing. Each payment of interest on any Competitive Borrowing shall be allocated pro rata among the Lenders participating in such Borrowing in accordance with the respective amounts of accrued and unpaid interest on their outstanding Competitive

Loans comprising such Borrowing. For purposes of determining the available Commitments of the Lenders at any time, each outstanding Competitive Borrowing shall be deemed to have utilized the Commitments of the Lenders (including those Lenders which shall not have made Loans as part of such Competitive Borrowing) pro rata in accordance with such respective Commitments. Each Lender agrees that, in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole dollar amount.

Section 2.17. Sharing of Setoffs.

Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff, or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency, or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Standby Loan or Standby Loans as a result of which the unpaid principal portion of the Standby Loans of such Lender shall be proportionately less than the unpaid principal portion of the Standby Loans of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Standby Loans of such other Lender, so that the aggregate unpaid principal amount of the Standby Loans and participations in the Standby Loans held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Standby Loans then outstanding as the principal amount of its Standby Loans prior to such exercise of banker's lien, setoff, or counterclaim or other event was to the principal amount of all Standby Loans outstanding prior to such exercise of banker's lien, setoff, or counterclaim or other event; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.17 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that, to the maximum extent permitted by law, any Lender holding a participation in a Standby Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff, or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Standby Loan directly to the Borrower in the amount of such participation.

Section 2.18. Payments.

(a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder not later than 12:00 noon, New York City time, on the date when due in dollars to the Administrative Agent at its offices at 270 Park Avenue, New York, New York 10017, in immediately available funds. All payments by the Borrower shall be made without deduction for any counterclaim, defense, recoupment or setoff.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

Section 2.19. Taxes.

(a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.18, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the Administrative Agent's or any Lender's (or any Transferee's) net income and franchise taxes imposed on the Administrative Agent or any

Lender (or Transferee) by the United States or any jurisdiction under the laws of which it is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lenders (or any Transferee) or the Administrative Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.19) such Lender (or Transferee) or the Administrative Agent (as the case may be) shall receive 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 pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law. Each Lender party hereto on the date hereof represents and warrants that no Taxes will be incurred on the date hereof in connection with the execution and delivery of this Agreement.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement (hereinafter referred to as "Other Taxes"). Each Lender party hereto on the date hereof represents and warrants that no Other Taxes will be incurred on the date hereof in connection with the execution and delivery of this Agreement.

(c) The Borrower will indemnify each Lender (or Transferee) and the Administrative Agent for the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.19) paid by such Lender (or Transferee) or the Administrative Agent, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Payment of such indemnification shall be made within 30 days after the date any Lender (or Transferee) or the Administrative Agent, as the case may be, makes written demand therefor. If a Lender (or Transferee) or the Administrative Agent shall become aware that it is entitled to receive a refund in respect of Taxes of Other Taxes, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Lender (or Transferee) or the Administrative Agent receives a refund in respect of any Taxes or Other Taxes for which such Lender (or Transferee) or the Administrative Agent has received payment from the Borrower hereunder, it shall promptly notify the Borrower of such refund and shall, within 15 days after receipt of such refund, repay such refund to the Borrower, net of all out-of-pocket expenses of such Lender (or Transferee) or the Administrative Agent and only with interest received, if any, from the relevant taxing authority or Governmental Authority; provided that the Borrower, upon the request of such Lender (or Transferee) or the Administrative Agent, agrees to return such refund (plus penalties, interest, or other charges) to such Lender (or Transferee) or the Administrative Agent in the event such Lender (or Transferee) or the Administrative Agent is required to repay such refund.

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Lender (or Transferee) or the Administrative Agent, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.19 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) Each Lender represents and warrants that either (i) it is organized under the laws of a jurisdiction within the United States or (ii) it has delivered to the Borrower and the Administrative Agent duly completed copies of such form or forms prescribed by the Internal Revenue Service indicating that such Lender is entitled to receive payments without

deduction or withholding of any United States federal income taxes, as permitted by the Code. Each Transferee agrees that, on or prior to the date upon which it shall become a party hereto or obtain a participation herein, and upon the reasonable request from time to time of the Borrower or the Administrative Agent, it will deliver to the Borrower and the Administrative Agent either (A) a statement that it is organized under the laws of a jurisdiction within the United States or (B) duly completed copies of such form or forms as may from time to time be prescribed by the United States Internal Revenue Service, indicating that such Transferee is entitled to receive payments without deduction or withholding of any United States federal income taxes, as permitted by the Code. Each Lender that has delivered, and each Transferee that hereafter delivers, to the Borrower and the Administrative Agent the form or forms referred to in the two preceding sentences further undertakes to deliver to the Borrower and the Administrative Agent, so far as it may legally do so, further copies of such form or forms, or successor applicable form or forms, as the case may be, as and when any previous form filed by it hereunder shall expire or shall become incomplete or inaccurate in any respect. Each Lender and Transferee represents and warrants that each such form supplied by it to the Administrative Agent and the Borrower pursuant to this subsection (f), and not superseded by another form supplied by it, is or will be, as the case may be, complete and accurate.

(g) The Borrower shall not be required to pay any additional amounts to any Lender (or Transferee) in respect of United States withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Lender (or Transferee) to comply with the provisions of paragraph (f) above, unless such failure results from (i) a change in applicable law, regulation, or official interpretation thereof, or (ii) an amendment, modification, or revocation of any applicable tax treaty or a change in official position regarding the application or interpretation thereof, in each case after the date hereof (and, in the case of a Transferee, after the date of assignment or transfer); provided, however, that the Borrower shall be required to pay those amounts to any Lender (or Transferee) which it was required to pay hereunder prior to the failure of such Lender (or Transferee) to comply with the provisions of paragraph (f).

(h) Any Lender (or Transferee) claiming any additional amounts payable pursuant to this Section 2.19 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender (or Transferee).

Article III

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to 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 this Agreement are within its corporate powers, have been duly authorized by all necessary action and do not violate or create a default under law, its constituent documents, or any contractual provision binding upon it. This Agreement 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).

(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, all Governmental Approvals required in connection with the execution and delivery by the Borrower of this Agreement and the performance by the Borrower of its obligations hereunder 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. No Interest Period requested with respect to any Borrowing extends beyond the latest date permitted for Borrowings by any Governmental Approval then in effect.

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, 1999, 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 condition, financial or otherwise, results of operations, business, assets or operations of the Borrower and the Subsidiaries taken as a whole (it being understood that the divestiture of Utilities Assets shall not constitute such a material adverse change).

Section 3.04. Title 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 (ii) except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 or the Borrower's Quarterly Reports on Form 10-Q for the periods ending March 31, 2000 and June 30, 2000, 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 hereof 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; Public Utility Holding Company Act.

Neither the Borrower nor any of the Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

Section 3.10. Use of Proceeds.

The Borrower will use the proceeds of the Loan only for the purposes specified in Section 5.05.

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 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.

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 included herein or delivered pursuant hereto 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.

Section 3.15. Acquisitions.

(a) The consummation by the Borrower of each Acquisition is within its corporate powers, has been duly authorized by all necessary action and does not violate or create a default under law, its constituent documents or any contractual provision binding upon it or any other Person or their respective properties.

(b) The consummation by the Borrower of each Acquisition or portion thereof does not require any Governmental Approval, or any authorization, consent, order, approval, license, franchise, lease, ruling, tariff, rate, permit, certificate, exemption of, or filing or registration with, any other Person, that is necessary for the consummation of such Acquisition or such portion thereof and that has not been obtained or will not have been obtained and be in full force and effect at the time such Acquisition or such portion thereof is completed. The Borrower holds, or will hold upon the completion of each Acquisition or portion thereof, all permits,

licenses, authorizations, certificates, exemptions and approvals of Governmental Authorities or other Persons, including those required under Environmental Laws (collectively, "Permits"), necessary for the use of the property acquired as a result of the completion of such Acquisition or such portion thereof, and all such Permits are, or will be upon the completion of each Acquisition or portion thereof, in full force and effect.

(c) Upon the consummation of each Acquisition or portion thereof, the Borrower shall have good, valid and marketable title to the properties so acquired, subject to no Liens except for transfer restrictions imposed by law and Permitted Liens. As used in this Section, the term "Permitted Liens" shall mean Liens permitted to exist pursuant to the terms of the definitive contracts governing the relevant Acquisition or portion thereof; provided, that the existence of such Liens does not materially detract from the value of the acquired properties.

(d) The financial projections and pro forma financial information that assume the consummation of the Acquisitions and that are contained in the Confidential Information Memorandum, dated September 2000, regarding the credit facility to be provided to the Borrower hereunder, as distributed to the Administrative Agent and the Lenders, have been prepared in good faith and based on reasonable assumptions (it being understood that such projections and financial information are subject to significant uncertainties and contingencies, many of which are beyond the Borrower's control, and that no assurance can be given that such projections and financial information will be realized).

(e) At the time of the consummation of any Acquisition or portion thereof, (i) there will be no material action, suit, proceeding, governmental investigation or arbitration pending against the Borrower or any seller of the property that is the subject of such Acquisition or such portion thereof before any court or arbitrator or any governmental or administrative body, agency, or official that seeks to question, delay or prevent the consummation of such Acquisition or such portion thereof, and (ii) neither the Borrower nor any seller of the property that is the subject of such Acquisition or such portion thereof will be subject to any material order of any Governmental Authority that seeks to question, delay or prevent the consummation of such Acquisition or such portion thereof.

Article IV

CONDITIONS OF LENDING

Section 4.01. Each Borrowing.

The obligation of each Lender to make a Loan on the occasion of any Borrowing, including any Conversion pursuant to Section 2.05, is subject to the satisfaction of the following conditions:

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section2.03, 2.04 or 2.05, as applicable;

(b) The representations and warranties set forth in ArticleIII hereof (except, in the case of a Conversion, the representations set forth in Sections 3.03 and 3.06(a)) shall be true and correct in all material respects on and as of the date of such Borrowing with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date;

(c) The Borrower shall be in compliance with all of the terms and provisions set forth herein on its part to be observed or performed, and at the time of, and immediately after such Borrowing, no Event of Default or Default shall have occurred and be continuing; and

(d) If the proceeds of such Borrowing are to be used to finance any Acquisition or portion thereof, no default or failure in the satisfaction of a condition to such Acquisition or such portion thereof shall have occurred and be continuing under the definitive contracts governing such Acquisition or such portion thereof, if the effect of such default or failure would be to materially increase the aggregate purchase price of the assets subject of such Acquisition or such portion thereof or materially decrease the aggregate value of such assets, without the consent of the

Administrative Agent.

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing as to the matters specified in paragraphs (b), (c) and (if applicable) (d) of this Section 4.01.

Section 4.02. Effective Date.

The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.08):

(a) The Borrower shall have entered into definitive purchase and sale contracts with respect to the Acquisitions, and the Borrower shall not have agreed to any modification of such contracts since the date of this Agreement without the consent of the Administrative Agent if the effect of such modification would be to materially increase the aggregate purchase price of the assets subject of the Acquisitions or materially decrease the aggregate value of such assets.

(b) The Administrative Agent shall have received a favorable written opinion of the general counsel of the Borrower, dated the Effective Date and addressed to the Lenders, to the effect set forth in Exhibit D hereto, and the Borrower hereby instructs such counsel to deliver such opinion to the Administrative Agent;

(c) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Administrative Agent and the Lenders;

(d) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Effective Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Agreement and the borrowings hereunder, and that such resolutions have not been modified, rescinded, or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing this Agreement or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; (iv) an irrevocable notice from the Borrower requesting termination of the "Total Commitment" under the Existing Facility effective automatically on the Effective Date and (v) such other documents as the Administrative Agent or the Lenders may reasonably request;

(e) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01 and paragraph (a) of this Section;

(f) The Administrative Agent shall have received all Fees and other amounts due and payable on or prior to the Effective Date;

(g) All "Commitments" (as defined in the Existing Facility) under the Existing Facility shall have been terminated in accordance with the terms thereof and all "Loans" (as defined in the Existing Facility) outstanding

thereunder shall have been repaid or prepaid together with accrued interest thereon and all other amounts payable to the "Lenders" (as defined in the Existing Facility) under the Existing Facility; and

(h) The Administrative Agent shall have received satisfactory evidence that the commercial paper of the Borrower is rated at least A2 by S&P and P2 by Moody's.

Article V

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with the Administrative Agent 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, 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, provided, however, 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;

(c) comply, and cause each of the Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, including, without limitation, 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 without limitation, 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;

(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;

(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 the sale of Utilities Assets and the consummation of the Acquisitions; 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, however, 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 Peat Marwick 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, 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) 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;

(d) prompt notice of any reduction in the credit rating given to the Borrower by S&P or Moody's;

(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.

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;

(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; and

(d) its receipt of any Net Cash Proceeds from any Sale Transaction.

Section 5.04. Maintaining Records.

Maintain all financial records in accordance with GAAP and, upon reasonable notice, permit any Lender to visit and inspect the financial records of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by 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, however, 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 under this Section 5.04.

Section 5.05. Use of Proceeds.

Use the proceeds of the Loans only for the purposes set forth in the preamble of this Agreement; provided, however, that no such proceeds shall be used directly or indirectly in connection with any Hostile Acquisition.

Article VI

NEGATIVE COVENANTS

The Borrower covenants and agrees with each Lender 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, it will not:

Section 6.01. Liens.

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, 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) Liens created under or in connection with the First Mortgage Bond Indentures or any other indentures governing the issuance of mortgage bonds by the Borrower; (c) pledges or deposits to secure the utility obligations of the Borrower incurred in the ordinary course of business; (d) 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; (e) Liens on the assets of any Principal Subsidiary to secure the repayment of project financing for such Principal Subsidiary; (f) 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; and (g) Liens securing Indebtedness of the Borrower or of any Principal Subsidiary to the Rural Electrification Administration, the Rural Utilities Service, the Rural Telephone Bank or the Rural Telephone Finance Corporation (or any successor to any such agency); provided, however, 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 (g)) on its assets so long as the assets subject to such Liens do not represent in the aggregate more than 20% of the Borrower's Consolidated Tangible Assets.

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 to another Subsidiary and except to the extent the assets of such Principal Subsidiary consist entirely of Utilities Assets at the time such transaction is consummated.

Section 6.03. Asset Sales.

Permit any Principal Subsidiary to sell, assign, or otherwise dispose of assets (whether in one transaction or a series of transactions), if after giving effect to such transaction, such Principal Subsidiary will have disposed of, in the aggregate, assets representing more than 25% of such Principal Subsidiary's aggregate Consolidated Tangible Assets as of the date upon which such Principal Subsidiary first became a Principal Subsidiary; provided that (i) any Principal Subsidiary may transfer assets representing up to 100% of such Principal Subsidiary's Consolidated Tangible Assets to any other Subsidiary or to the Borrower, and (ii) any Subsidiary may dispose of its Utilities Assets.

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 for Utilities Assets, 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, however, 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.

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. The Secretary of the Borrower or another officer of the Borrower satisfactory to the Administrative Agent shall, prior to entry into any contract or agreement that could restrict the ability of any Principal Subsidiary to pay dividends or make distributions to the Borrower, deliver to the Lenders a certificate certifying (a) to the absence of any Event of Default or Default after giving effect to the entry by such Principal Subsidiary into such contract or agreement, and (b) that such contract or agreement will not impair the ability of the Borrower to meet its present and future obligations hereunder.

Section 6.06. Transactions with Affiliates.

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. Minimum Consolidated Net Worth.

Permit its Consolidated Net Worth at any time to be less than $1,500,000,000.

Article VII

EVENTS OF DEFAULT

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with this Agreement or the Borrowings hereunder, or any representation, warranty, statement, or information contained in any written report, certificate, financial statement, or other instrument furnished in connection with or pursuant to this Agreement, shall prove to have been false or misleading in any material respect when so made, deemed made, or furnished;

(b) default shall be made in the payment of any principal of any Loan (or any portion thereof) when and as the same shall become due and payable, whether at the due date thereof or at a date fixed or for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan (or any portion thereof) or any Fee or any other amount (other than an amount referred to in (b) above) due hereunder, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance of any covenant, condition, or agreement contained in Section 5.01(f) or Section 5.05 or in Article VI;

(e) default shall be made in the due observance or performance of any covenant, condition, or agreement contained herein (other than those specified in (b), (c), or (d) above) and such default 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 written notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender;

(f) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Principal Subsidiary, or of a substantial part of the property or assets of the Borrower or a Principal Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership, or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Borrower or any Principal Subsidiary or for a substantial part of the property or assets of the Borrower or a Principal Subsidiary, or (iii) the winding-up or liquidation of the Borrower or any Principal Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(g) the Borrower or any Principal Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership, or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (f) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Borrower or any Principal Subsidiary or for a substantial part of the property or assets of the Borrower or any Principal Subsidiary, (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, (vi) become unable, admit in writing its inability, or fail generally to pay its debts as they become due, or (vii) take any action for the purpose of effecting any of the foregoing;

(h) the Borrower or any Principal Subsidiary, as the case may be, fails to pay when due, or within any grace period applicable thereto by the terms thereof, any other Indebtedness of the Borrower or any Principal Subsidiary aggregating $50,000,000 or more;

(i) the Borrower or any Principal Subsidiary shall fail to observe or perform any covenant or agreement contained in any single agreement or instrument relating to any Indebtedness in excess of (i) $75,000,000 in the aggregate, with respect to any Indebtedness issued on a tax-exempt basis, and (ii) $50,000,000 in the aggregate, with respect to all other Indebtedness, in each case within any applicable grace period, or any other event shall occur if the effect of such failure or other event is to accelerate, or to permit the holder of such Indebtedness or any other Person to accelerate, the maturity of such Indebtedness; or any such Indebtedness shall be required to be prepaid (other than by a regularly scheduled required prepayment or the exercise by the Borrower or such Principal Subsidiary of its right to make a voluntary prepayment) in whole or in part prior to its stated maturity;

(j) a judgment or order for the payment of money in excess of $50,000,000 and having a Material Adverse Effect shall be rendered against the Borrower or any of the Subsidiaries and such judgment or order shall continue unsatisfied (in the case of a money judgment) and in effect for a period of 30 days during which execution shall not be effectively stayed or deferred (whether by action of a court, by agreement, or otherwise);

(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; and

(l) there shall have occurred a Change in Control;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (f) or (g) above), 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 either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall become forthwith due and payable, without presentment, demand, protest, or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (f) or (g) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest, or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding.

Article VIII

THE ADMINISTRATIVE AGENT

In order to expedite the transactions contemplated by this Agreement, The Chase Manhattan Bank is hereby appointed to act as Administrative Agent on behalf of the Lenders. Each of the Lenders, and each Transferee by its agreement to be bound hereby, irrevocably authorizes the Administrative Agent to take such actions on behalf of such Lender or Transferee and to exercise such powers as are specifically delegated to the Administrative Agent by the terms and provisions hereof, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders all payments of principal of and interest on the Loans and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender its proper share of each payment so received; (b) to promptly give notice on behalf of

each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrower pursuant to this Agreement as received by the Administrative Agent.

Neither the Administrative Agent nor any of its directors, officers, employees, or agents shall be liable as such for any action taken or omitted by any of them, except for its or his own gross negligence or willful misconduct, or be responsible for any statement, warranty, or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants, or agreements contained herein. The Administrative Agent shall not be responsible to the Lenders or any Transferee for the due execution, genuineness, validity, enforceability, or effectiveness of this Agreement or any other instruments or agreements. The Administrative Agent may deem and treat each Lender party hereto as a "Lender" hereunder and for all purposes hereof until it shall have received notice, given as provided herein, of the assignment of all of such Lender's rights and obligations hereunder. The Administrative Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders (or such other number of Lenders as is expressly required hereby with respect to such action or inaction) and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders and each Transferee. The Administrative Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper Person or Persons. Neither the Administrative Agent nor any of its directors, officers, employees, or agents shall have any responsibility to the Borrower on account of the failure of or delay in performance or breach by any Lender of any of its obligations hereunder or to any Lender on account of the failure of or delay in performance or breach by any other Lender or the Borrower of any of their respective obligations hereunder or in connection herewith. The Administrative Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that the Administrative Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor administrative agent as provided below, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Borrower shall have the right to appoint a successor, provided that any successor selected by the Borrower must be approved by the Required Lenders. If no successor shall have been so appointed by the Borrower and shall have accepted such appointment within 20 Business Days after the retiring Administrative Agent gives notice of its resignation, then the Required Lenders shall have the right to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 Business Days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor administrative agent which shall be a bank with an office in New York, New York and having a combined capital and surplus of at least $1,000,000,000 or an Affiliate of any such bank. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

With respect to the Loans made by it hereunder, the Administrative Agent in its individual capacity and not as Administrative Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not the Administrative Agent, and the Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent.

Each Lender agrees (i) to reimburse the Administrative Agent, on demand, in the amount of its pro rata share (based on its Commitment hereunder or, if the Commitments shall have terminated, based on its outstanding Loans hereunder) of any expenses incurred for the benefit of the Lenders by the Administrative Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, which shall not have been reimbursed by the Borrower, and (ii) to indemnify and hold harmless the Administrative Agent and any of its directors, officers, employees, or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, cost, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against it in its capacity as the Administrative Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent the same shall not have been indemnified by the Borrower; provided that no Lender shall be liable to the Administrative Agent or any of them for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from the gross negligence or willful misconduct of the Administrative Agent or any of its directors, officers, employees, or agents.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender 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 also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender 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 related agreement or any document furnished hereunder or thereunder.

None of the Lenders identified on the facing page or signature pages of this Agreement as a "co-syndication agent" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "co-syndication agent" shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

Article IX

MISCELLANEOUS

Section 9.01. Notices.

Notices and other communications provided for herein shall be in writing and shall be delivered by the method, if any, specified in the relevant provisions of this Agreement and otherwise by hand or overnight courier service, mailed or sent by telecopy, as follows:

(a) if to the Borrower, to it at 3 High Ridge Park, Stamford, Connecticut 06905, Attention of Treasurer (Telecopy No. 203-614-4625);

(b) if to the Administrative Agent, to it at One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Janet Belden

(Telecopy No. 212-552-5658), with a copy to Joan M. Fitzgibbon, The Chase Manhattan Bank, 270 Park Avenue, New York, New York 10017 (Telecopy No. 212-270-4164); and

(c) if to a Lender, to it at its address (or telecopy number) set forth in Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy, or on the date five Business Days after dispatch by certified or registered mail, if mailed, in each case delivered, sent, or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01; provided, that notices from the Borrower to the Administrative Agent relating to Borrowings or Conversions shall be effective only on actual receipt.

Section 9.02. Survival of Agreement.

All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans, regardless of any investigation made by the Lenders or on their behalf, 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 so long as the Commitments have not been terminated.

Section 9.03. Binding Effect.

This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received copies hereof which, when taken together, bear the signatures of each Lender, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Lenders.

Section 9.04. Successors and Assigns.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns, of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Administrative Agent or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement, including all or a portion of its Commitment and the Loans at the time owing to it; provided, however, that (i) except in the case of an assignment to a Lender or an Affiliate of such Lender, or an assignment to a Federal Reserve Bank, the Borrower and the Administrative Agent must give their prior written consent to such assignment, which consent shall not be unreasonably withheld, provided, further, however, that the consent of the Borrower to any such assignment shall not be required at any time an Event of Default shall have occurred and be continuing, (ii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Lender's rights or obligations under this Agreement, (iii) the amount of the Commitment or Loans of the assigning Lender subject to any such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 and the amount of the Commitment or Loans of such Lender remaining after such assignment shall not be less than $5,000,000 or shall be zero, (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500 and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an

Administrative Questionnaire. Subject to payment in full by the assignee to the assignor and upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have (in addition to any such rights and obligations theretofore held by it) the rights and obligations of a Lender under this Agreement, and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an 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 Sections 2.13, 2.15, 2.19 and 9.05, as well as to any Fees accrued for its account hereunder and not yet paid)). Notwithstanding the foregoing, any Lender assigning its rights and obligations under this Agreement may retain any Competitive Loans made by it outstanding at such time, and in such case shall retain its rights hereunder in respect of any Loans so retained until such Loans have been repaid in full in accordance with this Agreement.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Standby Loans and Competitive Loans (to the extent assigned), in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other instrument or document furnished pursuant hereto or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.02 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, such assigning Lender, or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The Administrative Agent shall also record in the Register the then scheduled Termination Date and shall update the Register from time to time upon any change in a Lender's Commitment and Loans pursuant to the terms of this Agreement. The entries in the Register shall be conclusive in the absence of manifest error, 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. 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.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, together with an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, (iii) give prompt notice thereof to the Lenders and (iv) send a copy of such Assignment and Acceptance to the Borrower.

(f) Each Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, 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, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.13, 2.15 and 2.19 to the same extent as if they were Lenders and (iv) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications, or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or Fees, or changing or extending the Commitments).

(g) Any Lender may, in connection with any assignment or proposed assignment pursuant to this Section 9.04, disclose to the assignee or proposed assignee any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or proposed assignee shall execute an agreement whereby such assignee shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information. It is understood that confidential information relating to the Borrower would not ordinarily be provided in connection with assignments of Competitive Loans. No Lender may, in connection with any participation or proposed participation pursuant to this Section 9.04, disclose to any participant or proposed participant any confidential information relating to the Borrower without the prior written consent of the Borrower.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement and its promissory notes (if any) to a Federal Reserve Bank; provided that no such assignment shall release a Lender from any of its obligations hereunder.

(i) The Borrower shall not assign or delegate any of its rights or duties hereunder.

Section 9.05. Expenses; Indemnity.

(a) The Borrower agrees to pay (i) all reasonable legal fees and disbursements incurred by the Administrative Agent in connection with the preparation of this Agreement and (ii) all out-of-pocket expenses (including reasonable fees and disbursements of counsel) incurred by the Administrative Agent and any Lender in connection with any amendments, modifications or waivers of the provisions hereof or thereof or incurred by the Administrative Agent or any Lender in connection with the enforcement or protection of their rights in connection with this Agreement.

(b) The Borrower agrees to indemnify the Administrative Agent, each Lender and each of their respective directors, officers, employees, Affiliates and agents (each such Person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses,

claims, damages, liabilities and related expenses, including reasonable counsel fees and expenses, incurred by or asserted against any Indemnitee arising out of, (i) the use of the proceeds of the Loans or (ii) any claim, litigation, investigation, or proceeding relating to this Agreement, the use of such proceeds or the transactions contemplated hereby, whether or not 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 negligence or willful misconduct of such Indemnitee. Each Lender shall notify the Borrower promptly after it determines that it will make a claim for indemnification under this Section 9.05(b). The Borrower shall be entitled to participate in the defense of the litigation, investigation, or proceeding giving rise to such claim with counsel satisfactory to the Lender, in the exercise of its reasonable judgment; provided, however, that any such participation in such defense shall be conducted by the Borrower and at the Borrower's expense and in a manner considered by such Lender to be satisfactory and effective to protect against such claim without causing damage to the conduct of, or affecting such Lender's control of, such Lender's defense. The Borrower shall inform such Lender of its intention to participate in the defense of such claim within 15 days after receipt of notice thereof from such Lender.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement, or any investigation made by or on behalf of the Administrative Agent or any Lender. All amounts due under this Section 9.05 shall be payable on written demand therefor.

Section 9.06. Right of Setoff.

If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

Section 9.07. Applicable Law.

THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

Section 9.08. Waivers; Amendment.

(a) No failure or delay of the Administrative Agent or any Lender in exercising any power or right 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 and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies which 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) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Except as provided in Section 2.11(e), 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; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on, any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Lender, (ii) except as provided in Section 2.11(e), change or extend the Commitment of any Lender or decrease or extend any scheduled payment date for the Facility Fees of any Lender without the prior written consent of such Lender, or (iii) amend or modify the provisions of Section 2.16, the provisions of this Section or the definition of "Required Lenders", without the prior written consent of each Lender; provided further that no such agreement shall amend, modify, or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent. Each Lender shall be bound by any waiver, amendment, or modification authorized by this Section or by Section 2.11(e), and any consent by any Lender pursuant to this Section or by Section 2.11(e) shall bind any Transferee of its rights and obligations hereunder.

Section 9.09. Interest Rate Limitation.

Notwithstanding anything herein to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under applicable law (collectively, the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken, or reserved by any Lender, shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received, or reserved by such Lender in accordance with applicable law, the rate of interest payable to such Lender, together with all Charges payable to such Lender, shall be limited to the Maximum Rate.

Section 9.10. Entire Agreement.

This Agreement constitutes the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement. Nothing in this Agreement, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations, or liabilities under or by reason of this Agreement.

Section 9.11. Waiver of Jury Trial.

EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER AGREEMENT OR INSTRUMENT EXECUTED AND DELIVERED IN CONNECTION HEREWITH. EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY 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, IF APPLICABLE, ANY OTHER AGREEMENT OR INSTRUMENT EXECUTED AND DELIVERED IN CONNECTION HEREWITH, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

Section 9.12. Severability.

In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal, or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal, or unenforceable provisions.

Section 9.13. Counterparts.

This Agreement may be executed in two or more counterparts, each of

which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 9.03.

Section 9.14. 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 are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

Section 9.15. Jurisdiction; Consent to Service of Process.

(a) The Borrower hereby irrevocably and unconditionally submits to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other agreement or instrument executed and delivered in connection herewith, or for recognition or enforcement of any judgment, and each of the parties hereto hereby 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 or, to the extent permitted by 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 shall affect any right that any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action, or proceeding arising out of or relating to this Agreement or any other agreement or instrument executed and delivered in connection herewith in any New York State court or Federal court of the United States of America sitting in New York City. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement 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 to this Agreement to serve process in any other manner permitted by law.

[Signature pages follow]

IN WITNESS WHEREOF, the Borrower, the Administrative Agent and the Lenders 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:
Name:
Title:

THE CHASE MANHATTAN BANK,
as Administrative Agent

By:

Name:
Title:

Lenders:

THE CHASE MANHATTAN BANK

By:
Name:
Title:

CITZENS COMMUNICATIONS COMPANY

2000 EQUITY INCENTIVE PLAN

SECTION 1

PURPOSE

The purpose of the Citizens Communications Company 2000 Equity Incentive Plan (the "Plan") is to provide compensation incentives for high levels of performance and productivity by employees of the Company. The Plan is intended to strengthen the Company's existing operations and its ability to attract and retain outstanding employees upon whose judgment, initiative and efforts the continued success, growth and development of the Company is dependent, as well as encourage such employees to have a greater personal financial investment in the Company through ownership of its common stock.

SECTION 2

DEFINITIONS

When used herein, the following terms have the following meanings:

(a) "AFFILIATE" means any company controlled by the Company, controlling the Company or under common control with the Company.

(b) "AWARD" means an award granted to any Eligible Individual in accordance with the provisions of the Plan.

(c) "AWARD AGREEMENT" means the written agreement or certificate evidencing the terms of the Award granted to an Eligible Individual under the Plan.

(d) "BENEFICIARY" means the beneficiary or beneficiaries designated pursuant to Section 11 to receive the amount, if any, payable under the Plan upon the death of an Eligible Individual.

(e) "BOARD" means the Board of Directors of the Company.

(f) A "CHANGE IN CONTROL" shall mean the occurrence of any of the following events with respect to the Company:

(i) (A) a third "person" (other than an employee benefit plan of the Company), including a "group", as those terms are used in Section 13(d) of the Exchange Act, is or becomes the beneficial owner (as that term is used in said Section 13(d)) of stock having twenty percent (20%) or more of the total number of votes that may be cast for the election of members of the Board or twenty percent (20%) or more of the fair market value of the Company's issued and outstanding stock, or (B) the receipt by the Company of any report, schedule, application or other document filed with a state or federal governmental agency or commission disclosing such ownership or proposed ownership.

(ii) approval by the stockholders of the Company of any (1) consolidation or merger or sale of assets of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which holders of its common stock immediately prior to the consolidation or merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger as they held immediately before, or (2) sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets or businesses of the Company;

(iii) as a result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who are members of the

Board before the Transaction shall cease to constitute a majority of the Board or any successor to the Company.

(g) "CITIZENS PENSION PLANS" means any of the Company's non-contributory defined-benefit qualified retirement plans in effect and applicable on the date in question.

(h) "CODE" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. (All citations to Sections of the Code are to such Sections as they are currently designated and reference to such Sections shall include the provisions thereof as they may from time to time be amended or renumbered as well as any successor provisions and any applicable regulations.)

(i) "COMPANY" means Citizens Communications Company and its successors and assigns.

(j) "COMMITTEE" means the Compensation Committee of the Board of Directors of the Company.

(k) "DEFERRED STOCK" means Stock credited to an Eligible Individual under the Plan subject to the requirements of Section 8 and such other terms and restrictions as the Committee deems appropriate or desirable.

(l) "EFFECTIVE DATE" means May 18, 2000.

(m) "ELIGIBLE INDIVIDUAL" means a director, officer, or employee of any Participating Company or an individual who performs services for the Company directly or indirectly as a director, consultant or otherwise whose judgment, initiative and efforts, in the judgment of the Committee, foster the continued efficiency, productivity, growth and development of any Participating Company. Where required by the context, "Eligible Individual" includes an individual who has been granted an Award but is no longer performing services for any Participating Company.

(n) "FAIR MARKET VALUE" means, unless another reasonable method for determining fair market value is specified by the Committee, the average of the high and low sales prices of a share of the appropriate Series of Stock as reported by the New York Stock Exchange (or if such shares are listed on another national stock exchange or national quotation system, as reported or quoted by such exchange or system) on the date in question or, if no such sales were reported for such date, for the most recent date on which sales prices were quoted.

(o) "FAMILY MEMBER" AND "FAMILY TRUST" shall have the same meanings as are employed from time to time by the SEC for the purpose of the exception to the rules promulgated by the SEC which limit transferability of stock options and stock awards for purposes of Section 16 of the Exchange Act and/or the use of Form S-8 under the Securities Act. For the purposes of the Plan, the phrases "Family Member" and "Family Trust" shall be further limited, if necessary, so that neither the transfer to a Family Member or Family Trust nor the ability of a Participant to make such a transfer shall have adverse consequences to the Company or a Participant by reason of Section 162(m) of the Code.

(p) "OPTION" means an option to purchase Stock, including Restricted Stock or Deferred Stock, if the Committee so determines, subject to the applicable provisions of Section 5 and awarded in accordance with the terms of the Plan and which may be an incentive stock option qualified under Section 422 of the Code or a nonqualified stock option.

(q) "PARTICIPATING COMPANY" means the Company or any subsidiary or other affiliate of the Company; provided, however, for incentive stock options only, "Participating Company" means the Company, any corporation or other entity which at the time such option is granted under the Plan qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Section 425(f) of the Code.

(r) "PARTICIPANT" means an Eligible Individual who has been or is being granted an Award. When required by the context, the definition of Participant shall include an individual who has been granted an Award but is no longer an employee of any Participating Company.

(s) "PERFORMANCE SHARE" means a performance share subject to the requirements of Section 6 and awarded in accordance with the terms of the Plan.

(t) "PHANTOM STOCK" means a unit whose value is determined solely by reference to the value of one or more shares of Stock. Awards of Phantom Stock may be made pursuant to Section 9.

(u) "PLAN" means the Citizens Communications Company 2000 Equity Incentive Plan, as the same may be amended, administered or interpreted from time to time.

(v) "RESTRICTED STOCK" means Stock delivered under the Plan subject to the requirements of Section 7 and such other terms and restrictions as the Committee deems appropriate or desirable.

(w) "SAR" means a stock appreciation right subject to the appropriate requirements under Section 5 and awarded in accordance with the terms of the Plan.

(x) "SEC" means the Securities and Exchange Commission. "Exchange Act" means the Securities Exchange Act of 1934. "Rule 16b-3" shall mean such rule promulgated by the SEC under the Exchange Act and, unless the circumstances require otherwise, shall include any other rule or regulation adopted under Sections 16(a) or 16(b) of the Exchange Act relating to compliance with, or an exemption from, Section 16(b). "Securities Act" means the Securities Act of 1933. Reference to any section of the Securities Act, Exchange Act or any rule promulgated thereunder shall include any successor section or rule.

(y) "STOCK" means the Common Stock of the Company and any successor Common Stock.

(z) "TERMINATION WITHOUT CAUSE" means termination of employment with a Participating Company by the employer for any reason other than death, Total Disability or termination for deliberate, willful or gross misconduct, and also means voluntary termination of employment by employee.

(aa) "TOTAL DISABILITY" means the complete and permanent inability of an Eligible Individual to perform all of his or her duties under the terms of his or her employment with any Participating Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Company deems appropriate or necessary.

SECTION 3

SHARES SUBJECT TO THE PLAN

(a) Subject to adjustment as provided in Section 14 hereof, 19,000,000 shares of Stock are hereby reserved for issuance pursuant to Awards under the Plan. Awards of Phantom Stock or share units that, by the terms of such Awards, are payable solely in cash shall not be subject to such limit; provided, however, that such Awards shall be subject to a separate limit such that the value of all such Awards granted under the Plan shall be determined by reference to no more than 10,000,000 shares of Stock. Shares of Stock reserved for issuance under the Plan shall be made available either from authorized and unissued shares, shares held by the Company in its treasury or reacquired shares. The term "issued" shall include all deliveries to a Participant of shares of Stock pursuant to Awards under the Plan. The Committee may, in its discretion, decide to award other shares issued by the Company that are convertible into Stock or make such shares subject to purchase by an option, in which event the maximum number of shares of Stock into which such shares may be converted shall be used in applying the aggregate share limit under this Section 3 and all provisions of the Plan relating to Stock shall apply with full force and effect with respect to such convertible shares.

(b) If, for any reason, any shares of Stock awarded or subject to purchase or issuance under the Plan are not delivered or are reacquired by the Company for reasons including, but not limited to, a forfeiture of

Restricted Stock or Deferred Stock or termination, expiration or a cancellation of an Option, SAR or a Performance Share, such shares of Stock shall be deemed not to have been issued pursuant to Awards under the Plan, or to have been subject to the Plan; provided, however, that the counting of shares of Stock subject to Awards granted under the Plan against the number of shares available for further Awards shall in all cases conform to the requirements of Rule 16b-3 under the Exchange Act.

(c) With respect to any Award constituting an Option or SAR granted to any Eligible Individual who is a "covered employee" as defined in Section 162(m) of the Code that is canceled, the number of shares of Stock originally subject to such Award shall continue to count in accordance with Section 162(m) of the Code.

(d) Unless the Committee otherwise determines, shares of Stock received by the Company in connection with the exercise of Options by delivery of shares or in connection with the payment of withholding taxes shall reduce the number of shares deemed to have been issued pursuant to Awards under the Plan for the limit set forth in Section 3(a) hereof.

SECTION 4

GRANT OF AWARDS AND AWARD AGREEMENTS

(a) Subject to and in furtherance of the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Eligible Individuals or groups of Eligible Individuals to whom Awards are to be granted; (ii) grant Awards to Eligible Individual; (iii) determine the form or forms of Award to be granted to any Eligible Individual; (iv) determine the amount or number of shares of Stock, including Restricted Stock or Deferred Stock if the Committee so determines, subject to each Award; (v) determine the terms and conditions (which need not be identical) of each Award; (vi) determine the rights of each Participant after employment has terminated and the periods during which such rights may be exercised; (vii) establish and modify performance objectives; (viii) determine whether and to what extent Eligible Individuals shall be allowed or required to defer receipt of any Awards or other amounts payable under the Plan to the occurrence of a specified date or event; (ix) determine the price at which shares of Stock may be offered under each Award which price may, except in the case of Options, be zero; (x) permit cashless exercise of Options and other Awards of a sale, loan or other nature covering exercise prices and/or income taxes; (xi) interpret, construe and administer the Plan and any related Award Agreement and define the terms employed therein; and (xii) make all of the determinations necessary or advisable with respect to the Plan or any Award granted thereunder. Awards granted to different Eligible Individuals or Participants need not be identical and, in addition, may be modified in different respects by the Committee.

(b) Each Award granted under the Plan shall be evidenced by a written Award Agreement, in a form approved by the Committee. Such agreement shall be subject to and incorporate the express terms and conditions, if any, required under the Plan or as required by the Committee for the form of Award granted and such other terms and conditions as the Committee may specify.

(c) The Committee may modify or amend any Awards (by cancellation and regrant or substitution of Awards or otherwise and with terms and conditions more or less favorable to Eligible Individuals) or waive any restrictions or conditions applicable to any Awards or the exercise or realization thereof (except that the Committee may not undertake any such modifications, amendments or waivers if the effect thereof, taken as a whole, adversely and materially affects the rights of any recipient of previously granted Awards without his or her consent, unless such modification, amendment or waiver is necessary or desirable for the continued validity of the Plan or its compliance with Rule 16b-3 or any other applicable law, rule or regulation or pronouncement or to avoid any adverse consequences under Section 162(m) of the Code or any requirement of

a securities exchange or association or regulatory or self-regulatory body).

(d) The Committee may permit the voluntary surrender of all or a portion of any Award granted under the Plan to be conditioned upon the granting of a new Award or may require such voluntary surrender as a condition to a grant of a new Award. Any such new Award shall be subject to such terms and conditions as are specified by the Committee at the time the new Award is granted, determined in accordance with the provisions of the Plan without regard to the terms of the surrendered Award.

(e) In any calendar year, no Eligible Individual may receive Awards covering more than 2,000,000 shares of the Company's Stock if the Award is denominated in or valued by reference to a number of shares, or if the Award is denominated in dollars, $750,000 in dollar value. Such number of shares shall be adjusted in accordance with Section 14 hereof.

SECTION 5

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

(a) With respect to the Options and SARs, the Committee shall (i) authorize the granting of incentive stock options, nonqualified stock options, SARs or a combination of incentive stock options, nonqualified stock options and SARs; (ii) determine the number of shares of Stock subject to each Option or the number of shares of Stock that shall be used to determine the value of a SAR; (iii) determine whether such Stock shall be Restricted Stock or, with respect to nonqualified stock options, Deferred Stock; (iv) determine the time or times when and the manner in which each Option shall be exercisable and the duration of the exercise period; and (v) determine whether or not all or part of each Option may be canceled by the exercise of a SAR; provided, however, that the aggregate Fair Market Value (determined as of the date of Option is granted) of the Stock (disregarding any restrictions in the case of Restricted Stock) for which incentive stock options granted to any Eligible Individual under this Plan may first become exercisable in any calendar year shall not exceed $100,000. Notwithstanding the foregoing, to the extent that Options intended to be incentive stock options granted to an Eligible Individual under this Plan for any reason exceed such limit on exercisability, such excess Options shall be treated as nonqualified stock options as provided under Section 422(d) of the Code, but shall in all other respects remain outstanding and exercisable in accordance with their terms.

(b) The exercise period for a nonqualified stock option or SAR shall be 10 years from the date of grant or such shorter period as may be specified by the Committee at the time of grant. The exercise period for an incentive stock option and any related SAR, including any extension which the Committee may from time to time decide to grant, shall not exceed 10 years from the date of grant; provided, however, that, in the case of an incentive stock option granted to an Eligible Individual who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (a "10% Stockholder"), such period, including extensions, shall not exceed five years from the date of grant.

(c) The Option or SAR price per share shall be determined by the Committee at the time any Option is granted and shall be not less than the Fair Market Value, or, in the case of an incentive stock option granted to a 10% Stockholder and any related tandem SARs, 110 percent of the Fair Market Value, disregarding any restrictions in the case of Restricted Stock or Deferred Stock, on the date the Option is granted, as determined by the Committee; provided, however, that such price shall be at least equal to the par value of one share of Stock; provided further, however, that in the discretion of the Committee in the case of a nonstatutory stock option, the Option or SAR price per share may be less than the Fair Market Value in the case of an Option or SAR granted in order to induce an individual to become an employee of a Participating Company or in the case of an Option or SAR granted to a new or prospective employee in order to replace stock options or other long-term incentives under a program maintained by a prior employer which are forfeited or cease to be available to the new employee by reason of his termination of employment with his prior employer.

(d) No part of any Option or SAR may be exercised (i) until the Participant who has been granted the Award shall have remained in the employ of a Participating Company for such period after the date on which the Option or SAR is granted as the Committee may specify and (ii) until achievement of such performance or other criteria, if any, by the Participant, as the Committee may specify. A SAR and a related Option shall commence to be exercisable no earlier than six months following the date the Option and SAR are granted. The Committee may further require that an Option or SAR become exercisable in installments.

(e) Except as otherwise provided in the Plan, the purchase price of the shares as to which an Option shall be exercised shall be paid to the Company at the time of exercise either in cash or in such other consideration as the Committee deems appropriate, including, Stock, or with respect to nonqualified options, Restricted Stock or Deferred Stock, already owned by the optionee (subject to any minimum holding period specified by the Committee), having a total Fair Market Value, as determined by the Committee, equal to the purchase price, or a combination of cash and such other consideration having a total Fair Market Value, as so determined, equal to the purchase price; provided, however, that if payment of the exercise price is made in whole or in part in the form of Restricted Stock or Deferred Stock, the Stock received upon the exercise of the Option shall be Restricted Stock or Deferred Stock, as the case may be, at least with respect to the same number of shares and subject to the same restrictions or other limitations as the Restricted Stock or Deferred Stock paid on the exercise of the Option. The Committee may provide that a Participant who delivers shares of Stock to the Company, or sells shares of Stock and applies all of the proceeds, (a) to pay, or reimburse the payment of the exercise price of shares of Stock acquired under an employee stock option or SAR or to purchase shares of Stock under an employee award or grant, an employee purchase plan or program or any other stock-based employee benefit or incentive plan, (whether or not such award or grant is under this Plan) and/or (b) to pay federal or state income taxes resulting from the exercise of such options or SARs or the purchase of shares of Stock pursuant to any such grant, award, plan or program, shall receive a replacement Option under this Plan to purchase a number of shares of Stock equal to the number of shares of Stock delivered to the Company, or sold, the proceeds of the sale of which are applied as aforesaid in this sentence. The replacement Option shall have an exercise price equal to Fair Market Value on the date of such payment and shall include such other terms and conditions as the Committee may specify.

(f) (i) Upon the Termination Without Cause of a Participant holding Options or SARs who is not immediately eligible to receive benefits under the terms of the Citizens Pension Plans, his or her Options and SARs may be exercised to the extent exercisable on the date of Termination Without Cause, at any time and from time to time within the three months of the date of such Termination. The Committee, however, in its discretion, may provide that any Option or SAR of such a Participant which is not exercisable by its terms on the date of Termination Without Cause will become exercisable in accordance with a schedule (which may extend the time limit referred to above, but not later than the final expiration date specified in the Option or SAR Award Agreement) to be determined by the Committee at any time during the period that any other Options or SARs held by the Participant are exercisable.

(ii) Upon the death or Total Disability (during a Participant's employment or within 3 months after termination of employment for any reason other than termination for cause) of a Participant holding an Option or SAR who is not immediately eligible to receive benefits under the terms of the Citizens Pension Plans, his or her Options and SARs may be exercised only to the extent exercisable at the time of death or Total Disability (or such earlier termination of employment) from time to time (A) in the event of death or Total Disability, within the 12 months following death or Total Disability or (B) in the event of such termination of employment followed by death or Total Disability within the 3 months after such termination, within the 12 months following such termination. The Committee, however, in its discretion, may provide that any Options or SAR's outstanding but not exercisable at the date of the first to occur of death or, Total

Disability will become exercisable in accordance with a schedule (which may extend the limits referred to above, but not to a date later than the final expiration date specified in such Option or SAR Award Agreement) to be determined by the Committee at any time during the period while any other Option or SARs held by the Participant are exercisable.

(iii) Upon death, Total Disability or Termination Without Cause of a Participant holding an Option(s) or SAR(s) who is immediately eligible to receive benefits under the terms of the Citizens Pension Plans, his or her Options or SARs may be exercised in full as to all shares or SAR rights covered by Options and SAR Award Agreements (whether or not then exercisable) at any time, or from time to time, but no later than the expiration date specified in such Option or SAR Award Agreement as specified in Section 5(b) above or, in the case of incentive Options, within 12 months following such death, Total Disability or Termination Without Cause.

(iv) If the employment of a Participant holding an Option or SAR is terminated for deliberate, willful or gross misconduct, as determined by the Company, all rights of such Participant and any Family Member or Family Trust or other transferee to which such Participant has transferred his or her Option or SAR shall expire upon receipt by the Participant of the notice of such termination.

(v) In the event of the death of a Participant, his or her Options and SARs may be exercised by the person or persons to whom the Participant's rights under the Option or SAR pass by will, or if no such person has such right, by his or her executors or administrators or Beneficiary. The death of a Participant after Total Disability or Termination Without Cause will not adversely effect the rights of a Participant or anyone entitled to the benefits of such Option or SAR.

(g) Except as otherwise determined by the Committee, no Option or SAR granted under the Plan shall be transferable other than by will or by the laws of descent and distribution, unless the Committee determines that an Option or SAR may be transferred by a Participant to a Family Member or Family Trust or other transferee. Such transfer shall be evidenced by a writing from a grantee to the Committee or Committee's designee on a form established by the Committee. Absent an authorized transfer during the lifetime of the Participant, an Option shall be exercisable only by him or her by his or her guardian or legal representative.

(h) With respect to an incentive stock option, the Committee shall specify such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an incentive stock option within the meaning of Section 422 of the Code.

(i) Upon exercise of a SAR, the Participant shall be entitled, subject to such terms and conditions as the Committee may specify at any time, to receive upon exercise thereof all or a portion of the excess of (i) the Fair Market Value of a specified number of shares of Stock at the time of exercise, as determined by the Committee, over (ii) a specified amount which shall not, subject to Section 5(j), be less than the Fair Market Value of such specified number of shares of Stock at the time the SAR is granted. Upon exercise of a SAR, payment of such excess shall be made as the Committee shall specify (A) in cash, (B) through the issuance or transfer to the Participant of whole shares of Stock, including Restricted Stock or Deferred Stock, with a Fair Market Value, disregarding any restrictions in the case of Restricted Stock or Deferred Stock, at such time equal to any such excess, or (c) a combination of cash and shares of Stock with a combined Fair Market Value at such time equal to such excess, all as determined by the Committee; provided, however, a fractional share of Stock shall be paid in cash equal to the Fair Market Value of the fractional share of Stock, disregarding any restrictions in the case of Restricted Stock or Deferred Stock, at such time.

(j) If the Award granted to a Participant allows the Participant to elect to cancel all or any portion of an unexercised Option by exercising a related SAR, then the Option price per share of Stock shall be used as the specified price in Section 5(i), to determine the value of the SAR upon such exercise; and, in the event of the exercise of such SAR, the Company's

obligation in respect of such Option or such portion thereof will be discharged by payment of the SAR so exercised.

(k) If authorized by the Committee in its sole discretion, the Company may accept the surrender of the right to exercise any Option granted under the Plan (whether or not granted with a related SAR) as to all or any of the shares of Stock as to which the Option is then exercisable, in exchange for payment to the optionee (in cash or shares of Stock valued at the then Fair Market Value) of an amount not to exceed the difference between the option price and the then Fair Market Value of the shares as to which such right to exercise is surrendered.

SECTION 6

PERFORMANCE SHARES

(a) The Committee shall determine a performance period (the "Performance Period") of one or more years and shall determine the performance objectives for grants of Performance Shares. Performance objectives may vary from Participant to Participant and between groups of Participants and shall be based upon such performance criteria or combination of factors as the Committee may deem appropriate. Performance Periods may overlap and Participants may participate simultaneously with respect to Performance Shares for which different performance periods are prescribed.

(b) At the beginning of a Performance Period, the Committee shall determine for each Eligible Individual or group of Eligible Individuals with respect to that Performance Period the range of dollar values, if any, which may be fixed or may vary in accordance with such performance or other criteria specified by the Committee, which shall be paid to an Eligible Individual as an Award if the relevant measure of Company performance for the Performance Period is met.

(c) If during the course of a Performance Period there shall occur significant events as determined by the Committee, including, but not limited to, a reorganization of the Company, which the Committee expects to have a substantial effect on a performance objective during such period, the Committee may revise such objective.

(d) If a Participant terminates service with all Participating Companies during a Performance Period because of death, Total Disability, or a significant event, as determined by the Committee, that Participant shall be entitled to payment in settlement of each Performance Share for which the Performance Period was prescribed (i) based upon the performance objectives satisfied at the end of such period and (ii) prorated for the portion of the Performance Period during which the Participant was employed by any Participating Company; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Share in such amount and under such terms and conditions as the Committee deems appropriate or desirable with the consent of the Participant. If a Participant terminates service with all Participating Companies during a Performance Period for any other reason, then such Participant shall not be entitled to any payment with respect to that Performance Period unless the Committee shall otherwise determine.

(e) Each Performance Share may be paid in whole shares of Stock, including Restricted Stock or Deferred Stock (together with any cash representing fractional shares of Stock), or cash, or a combination of Stock and cash either as a lump sum payment or in annual installments, all as the Committee shall determine, at the time of grant of the Performance Share or otherwise, commencing as soon as practicable after the end of the relevant Performance Period. Any dividends or distributions payable on Performance Shares (or the equivalent as specified in the grant), other than cash dividends representing the periodic distribution of profits which shall be retained by the Company, shall be paid over to the Participant when and if payment is made of the underlying Performance Shares, unless the grant provides otherwise.

Except as otherwise provided in this Section 6, no Performance Shares awarded to Participants shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Performance Period unless the Committee determines that an Award may be transferred to a Family Member or Family Trust or other transferee.

SECTION 7

RESTRICTED STOCK

(a) Restricted Stock may be received by a Participant either as an Award or as the result of an exercise of an Option or SAR or as payment for a Performance Share. Restricted Stock shall be subject to a restriction period (after which restrictions shall lapse) which shall mean a period commencing on the date the Award is granted and ending on such date or upon the achievement of such performance or other criteria as the Committee shall determine (the "Restriction Period"). The Committee may provide for the lapse of restrictions in installments where deemed appropriate.

(b) Except as otherwise provided in this Section 7, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period unless the Committee determines that an Award may be transferred by a Participant to a Family Member or Family Trust or other transferee; provided, however, the Restriction Period for any Participant shall expire and all restrictions on shares of Restricted Stock shall lapse upon the Participant's (i) death, (ii) Total Disability or (iii) Termination Without Cause where the Participant is immediately eligible to receive benefits under the terms of Citizens Pension Plans, or with the consent of the Company, or upon some significant event, as determined by the Committee, including, but not limited to, a reorganization of the Company.

(c) If a Participant terminates employment with all Participating Companies for any reason other than under the circumstances referred to in clause (b) before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall, unless the Committee otherwise determines within 90 days after such termination, be forfeited by the Participant and shall be reacquired by the Company, and, in the case of Restricted Stock purchased through the exercise of an Option, the Company shall refund the purchase price paid on the exercise of the Option.

(d) The Committee may require under such terms and conditions as it deems appropriate or desirable that the certificates for Restricted Stock delivered under the Plan may be held in custody until the Restriction Period expires or until restrictions thereon otherwise lapse, and may require as a condition of any receipt of Restricted Stock that the Participant shall have delivered a stock power endorsed in blank relating to the Restricted Stock.

(e) Nothing in this Section 7 shall preclude a Participant from exchanging any shares of Restricted Stock subject to the restrictions contained herein for any other shares of Stock that are similarly restricted.

(f) Unless the Award Agreement provides otherwise, amounts equal to any cash dividends representing the periodic distributions of profits declared and payable during the Restriction Period with respect to the number of shares of Restricted Stock credited to a Participant shall be paid to the Participant within 30 days after each dividend becomes payable, unless, at the time of the Award, the Committee determines that the dividends should be reinvested in additional shares of Restricted Stock, in which case additional shares of Restricted Stock shall be credited to the Participant based on the Stock's Fair Market Value at the time of each such dividend, or unless the Committee specifies otherwise. All dividends or distributions payable on shares (other than cash dividends representing periodic distributions of profits) of Restricted Stock (or the equivalent as specified in the grant) shall be paid over to the Participant when and if as restrictions lapse on the underlying shares of Restricted Stock, unless the grant provides otherwise.

SECTION 8

DEFERRED STOCK

(a) Deferred Stock may be credited to an Eligible Individual either as an Award or as the result of an exercise of an Option or SAR or as payment for a Performance Share. Deferred Stock shall be subject to a deferral period which shall mean a period commencing on the date the Award is granted and ending on such date or upon the achievement of such performance or criteria as the Committee shall determine (the "Deferral Period"). The Committee may provide for the expiration of the Deferral Period in installments where deemed appropriate.

(b) Except as otherwise provided in this Section 8, no Deferred Stock credited to Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Deferral Period unless the Committee determines that an Award may be transferred to a Family Member or Family Trust or other transferee; provided, however, the Deferral Period for any Participant shall expire upon the Participant's (i) death, (ii) Total Disability or (iii) Termination Without Cause where the Participant is immediately eligible to receive benefits under the terms of Citizens Pension Plans, or an earlier age with the consent of the Company, or upon some significant event, as determined by the Committee, including, but not limited to, a reorganization of the Company.

(c) At the expiration of the Deferral Period, the Participant shall be entitled to receive a certificate pursuant to Section 10 for the number of shares of Stock equal to the number of shares of Deferred Stock credited on his or her behalf. Unless the Award Agreement provides otherwise, amounts equal to any cash dividends representing the periodic distributions of profits declared and payable during the Deferral Period with respect to the number of shares of Deferred Stock credited to a Participant shall be paid to such Participant within 30 days after each dividend becomes payable unless, at the time of the Award, the Committee determined that such dividends should be reinvested in additional shares of Deferred Stock, in which case additional shares of Deferred Stock shall be credited to the Participant based on the Stock's Fair Market Value at the time of each such dividend, or unless the Committee specifies otherwise. All dividends or distributions payable on shares (other than cash dividends representing periodic distributions of profits) of Deferred Stock (or the equivalent as specified in the grant) shall be paid over to the Participant when the Deferral Period ends, unless the grant provides otherwise.

(d) If a Participant terminates employment with all Participating Companies for any reason other than under the circumstances referred to in clause (b) before the expiration of the Deferral Period, all shares of Deferred Stock shall, unless the Committee otherwise determines within 90 days after such termination, be forfeited by the Participant, and, in the case of Deferred Stock purchased through the exercise of an Option, the Company shall refund the purchase price paid on the exercise of the Option.

SECTION 9

OTHER STOCK-BASED AWARDS

Phantom Stock may be credited to an Eligible Individual either as an Award or as the result of an exercise of an Option or SAR or as payment for a Performance Share. Each share of Phantom Stock may be paid in whole shares of Stock, including Restricted Stock or Deferred Stock (together with any cash representing fractional shares of Stock), or cash, or a combination of Stock and cash either as a lump sum payment or in annual installments, all as the Committee shall determine, at the time of grant of the Phantom Stock or otherwise, commencing as soon as practicable after the payment date designated by the Committee. Any dividends or distributions payable on Phantom Stock (or the equivalent as specified in the grant), other than cash dividends representing the periodic distribution of profits which shall be retained by the Company, shall be paid over to the Participant when and if payment is made of the underlying Phantom Stock, unless the grant provides otherwise.

Except as otherwise provided in this Section 9, no Phantom Stock awarded to Participants shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of unless the Committee determines that an Award may be transferred to a Family Member or Family Trust or other transferee.

The Committee may grant other Awards under the Plan which are denominated in stock units or pursuant to which shares of Stock may be acquired, including Awards valued using measures other than market value or Fair Market Value, if deemed by the Committee in its discretion to be consistent with the purposes of the Plan. Subject to the terms of the Plan, the Committee shall determine the form of such Awards, the number of shares of Stock to be granted or covered pursuant to such Awards and all other terms and conditions of such Awards.

SECTION 10

CERTIFICATES FOR AWARDS OF STOCK

(a) Subject to Section 7(d), each Participant entitled to receive shares of Stock under the Plan shall be issued a certificate for such shares or have their shares registered for their account in book entry form by the Company's transfer agent. In the instance of a certificate, such certificate shall be registered in the name of the Participant, and shall bear an appropriate legend reciting the terms, conditions and restrictions, if any, applicable to such shares and shall be subject to appropriate stop-transfer orders.

(b) The Company shall not be required to issue or deliver any shares or certificates for shares of Stock prior to (i) the listing of such shares on any stock exchange or quotation system on which the Stock may then be listed or quoted, and (ii) the completion of any registration, qualification, approval or authorization of such shares under any federal or state law, or any ruling or regulation or approval or authorization of such shares under any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

(c) All shares and certificates for shares of Stock delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the SEC, any stock exchange upon which the Stock is then listed and any applicable federal or state securities or regulatory laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. The foregoing provisions of this Section 10(c) shall not be effective if and to the extent that the shares of Stock delivered under the Plan are covered by an effective and current registration statement under the Securities Act, or if the Committee determines that application of such provisions is no longer required or desirable. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

(d) Except for the restrictions on Restricted Stock under Section 7, each Participant who receives an award of Stock shall have all of the rights of a stockholder with respect to such shares, including the right to vote the shares and receive dividends and other distributions. No Participant awarded an Option, a SAR, or Performance Share or Deferred Stock shall have any right as a stockholder with respect to any shares subject to such Award prior to the date of issuance to him or her of certificate or certificates for such shares.

No Participant awarded Phantom Stock or other share units shall have any right as a stockholder with respect to any shares whose value is used to determine the value of such Phantom Stock or share units; provided, however, that this sentence shall not preclude any Award of Phantom Stock or share units from providing dividend equivalent rights or payouts to the Participant in the form of shares of the Company's Stock (and the Participant shall have full stockholder rights with respect to any such paid out shares).

SECTION 11

BENEFICIARY

(a) Each Eligible Individual shall file with the Committee a written designation of one or more persons as the Beneficiary who shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. An Eligible Individual may from time to time revoke or change his or her Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Eligible Individual's death, and in no event shall it be effective as of a date prior to such receipt.

(b) If no such Beneficiary designation is in effect at the time of an Employee's death, or if no designated Beneficiary survives the Eligible Individual or if such designation conflicts with law, the Eligible Individual's estate shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the right thereto, or the Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefor.

SECTION 12

ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Committee, as appointed by the Board and serving at the Board's pleasure. Each member of the Committee shall be both a member of the Board and shall satisfy the "non-employee director" or similar successor requirements, if any, of Rule 16b-3 under the Exchange Act and the "outside director" or similar successor requirements, if any, of Section 162(m) of the Code and the regulations promulgated thereunder.

(b) All decisions, determinations or actions of the Committee made or taken pursuant to grants of authority under the Plan shall be made or taken in the sole and absolute discretion of the Committee and shall be final, conclusive and binding on all persons for all purposes.

(c) The Committee shall have full power, discretion and authority to interpret, construe and administer the Plan and any part thereof and any related Award Agreement and define the terms employed in the Plan or any agreement, and its interpretations and constructions thereof and actions taken thereunder shall be final, conclusive and binding on all persons for all purposes.

(d) The Committee shall have full power, discretion and authority to prescribe and rescind rules, regulations and policies for the administration of the Plan.

(e) The Committee's decisions and determinations under the Plan and with respect to any Award granted thereunder need not be uniform and may be made selectively among Awards, Participants or Eligible Individuals, whether or not such Awards are similar or such Participants or Eligible Individuals are similarly situated.

(f) The Committee shall keep minutes of its actions under the Plan. The act of a majority of the members present at a meeting duly called and held shall be the act of the Committee. Any decision or determination reduced to writing and signed by all members of the Committee shall be fully as effective as if made by unanimous vote at a meeting duly called and held.

(g) The Committee may employ such legal counsel, including without limitation independent legal counsel and counsel regularly employed by the Company, consultants and agents as the Committee may deem appropriate for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computations received from any such consultant or agent. All expenses incurred by the Committee in interpreting and administering the Plan, including without limitation, meeting fees and expenses and professional fees, shall be paid by the Company.

(h) No member or former member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under it. Each member or former member of the Committee or the Board shall be indemnified and held harmless by the Company against all cost or expense (including counsel fees and expenses) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan unless arising out of such member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any rights to indemnification or insurance the members or former member may have as directors or under the by-laws of the Company or otherwise.

(i) The Committee's determination that an Option, SAR, Performance Share, Restricted Stock, Deferred Stock or other Stock-based Awards may be transferred by a Participant to a Family Member or Family Trust or other transferee may be set forth in: determinations pursuant to Section 12(c)

, rules and regulations of general application adopted pursuant to Section 12(d), in the written Award Agreement, or by a writing delivered to the Participant made any time after the relevant Award or Awards have been granted, on a case-by-case basis, or otherwise. In any event, the transferee or Family Member or Family Trust shall agree in writing to be bound by all the provisions of the Plan and the Award Agreement, and in no event shall any such transferee have greater rights under such Award than the Participant effecting such transfer.

(j) With respect to credits, shares, cash or other property credited to a Participant by reason of dividends or distributions, if the Committee shall so determine, all such credits, shares, cash or other property to a Participant shall be paid to the Participant periodically at the end of the applicable period, whether or not the performance, employment or other standards (or lapse of time) upon which such Award is conditioned have been satisfied. In addition, the Committee may determine to include in Award Agreements granting Options and SARs a provision to the effect that (a) an amount equal to any dividends (payable in cash or other property) paid after the grant of the Option or SAR and before to the exercise of such Option or SAR with respect to the number of shares of Stock subject to such Option or SAR shall be credited to a Participant and, if the Award Agreement so provides, thereafter paid to such Participant within 30 days after each dividend becomes payable or, (b) if the Committee so determines, such Award shall be reinvested in additional shares of Stock, in which case such additional shares of Stock shall be credited to the Participant based on the Stock's Fair Market Value at the time of payment of each such dividend. In the latter event, if the Committee so determines, such additional shares of Stock shall be delivered to the Participant (whether or not such Option or SAR is exercised) at the time that such Option or SAR ceases to be exercisable in accordance with its terms or otherwise.

SECTION 13

AMENDMENT OR DISCONTINUANCE

The Board may, at any time, amend or terminate the Plan. The Plan may also be amended by the Committee, provided that all such amendments shall be reported to the Board. No amendments shall become effective unless approved by affirmative vote of the Company's stockholders if such approval is necessary or desirable for the continued validity of the Plan or if the failure to obtain such approval would adversely affect the compliance of the Plan with Rule 16b-3 or any successor rule under the Exchange Act or Section 162(m) of the Code or any other rule or regulation. No amendment or termination shall, when taken as a whole, adversely and materially affect

the rights of any Participant who has received a previously granted Award without his or her consent unless the amendment or termination is necessary or desirable for the continued validity of the Plan or its compliance with Rule 16b-3 or any other applicable law, rule or regulation or pronouncement or to avoid any adverse consequences under Section 162(m) of the Code or any requirement of a securities exchange or association or regulatory or self-regulatory body).

SECTION 14

ADJUSTMENTS IN EVENT OF CHANGE IN COMMON STOCK

In the event of a change in corporate capitalization, stock split or stock dividend, the number of shares purchasable upon exercise of an Option or SAR shall be increased to the new number of shares which result from the shares covered by the Option or SAR immediately before the change, split or dividend. The purchase price per share shall be reduced proportionately and the total purchase price will remain the same.

In the event of any other change in corporate capitalization, or a corporate transaction, such as any merger of a corporation into another corporation, any consolidation of two or more corporations into another corporation, any separation of a corporation (including a spinoff or other distribution of stock or property by a corporation), any reorganization of a corporation (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation by a corporation or other similar event which could distort the implementation of the Plan or the realization of its objectives, the Committee shall make an appropriate adjustment in the number of shares of Stock (i) which are covered by the Plan, (ii) which may be granted to any one Eligible Individual and which are subject to any Award, and the purchase price therefor, and in terms, conditions or restrictions on securities as the Committee deems equitable, with the objective that the securities covered under the Plan or an Award shall be those securities which a Participant would have received if he or she had exercised his or her Option or SAR prior to the event or been entitled to his or her Restricted or Deferred Stock or Performance Shares.

All such events occurring between the effective date of the Option and its exercise shall result in an adjustment to the Option terms.

SECTION 15

CHANGE IN CONTROL

Awards may include, or may incorporate from any relevant guidelines adopted by the Committee, terms which provide that any or all of the following actions or consequences, with any modifications adopted by the Committee, may occur as a result of, or in anticipation of, any Change in Control to assure fair and equitable treatment of Participants:

(a) Any Options outstanding at least six months as of the date of Change in Control shall, if held by a current employee of the Company, become immediately exercisable in full. In addition, all Participants may, regardless of whether still an employee of the Company, elect to cancel all or any portion of any Option or Award no later than 90 days after the Change in Control, in which event the Company shall pay to such electing Participant, an amount in cash equal to the excess, if any, of the Current Market Value (as defined below) of the shares of Stock, including Performance Shares, Restricted Stock or Deferred Stock, subject to the Option or of the portion thereof so canceled over the option price for such shares; provided, however, that no Participant shall have the right to elect cancellation unless and until at least 6 months have elapsed after the date of grant of the Option.

(b) Any Performance Periods shall end and the Company shall pay each Participant an amount in cash equal to the value of such Participant's performance shares, if any, based upon the Stock's Current Market Value in full settlement of such performance shares.

(c) Any Restriction Periods shall end and the Company shall pay each Participant an amount in cash equal to the Current Market Value of the Restricted Stock held by, or on behalf of, each Participant in exchange for such Restricted Stock.

(d) Any Deferral Period shall end and the Company shall pay to each Participant an amount in cash equal to the Current Market Value of the number of shares of Stock equal to the number of shares of Deferred Stock credited to such Participant in full settlement of any Deferred Stock Award.

(e) The Company shall pay to each Participant all amounts due, if any, deferred by or payable under Awards granted to such Participant under the Plan which are not Performance Shares, Restricted Stock or Deferred Stock, in accordance with the terms provided by the Committee at the time of deferral or grant.

(f) For purpose of this Section 15, "Current Market Value" means the highest Fair Market Value during the period commencing 30 days prior to the Change in Control and ending 30 days after the Change in Control (the "reference period"); provided that, if the Change in Control occurs as a result of a tender offer or exchange offer, or a merger, purchase of assets or stock, or another transaction approved by shareholders of the Company, Current Market Value means the higher of (i) the highest Fair Market Value during the reference period, or (ii) the highest price paid per share of Stock pursuant to such tender offer, exchange offer or transaction.

SECTION 16

MISCELLANEOUS

(a) Nothing in this Plan or any Award granted hereunder shall confer upon any employee any right to continue in the employ of any Participating Company or interfere in any way with the right of any Participating Company to terminate his or her employment at any time.

(b) No Award payable under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of any Participating Company for the benefit of its employees unless the Company shall determine otherwise.

(c) No Eligible Individual or Participant shall have any claim to an Award until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments of Awards provided for under the Plan shall be paid by the Company either by issuing shares of Stock or by delivering cash from the general funds of the Company or other property of the Company; provided, however, that such payments shall be reduced by the amount of any payments made to the Participant or his or her dependents, beneficiaries or estate from any trust or special or separate fund established in connection with this Plan. The Company shall not be required to establish a special or separate fund or other segregation of assets to assure such payments, and, if the Company shall make any investments to aid it in meeting its obligations hereunder, the Participant shall have no right, title, or interest whatever in or to any such investments except as may otherwise be expressly provided in a separate written instrument relating to such investments.

(d) Absence on leave approved by a duly constituted officer of the Company shall not be considered interruption or termination of employment for any purposes of the Plan; provided, however, that no Award may be granted to an employee while he or she is absent on leave.

(e) If the Committee shall find that any person to whom any Award, or portion thereof, is payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor,

then any payment due him or her (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his or her spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Company therefor.

(f) The right of any Participant or other person to any Award payable under the Plan may not be assigned, transferred, pledged or encumbered, either voluntarily or by operation of law, except as provided in Section 11 with respect to the designation of a Beneficiary or as may otherwise be required by law or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder or unless the Committee determines that an Award may be transferred to a Family Member or Family Trust or other transferee. If, by reason of any attempted assignment, transfer, pledge, or encumbrance or any bankruptcy or other event happening at any time, any amount payable under the Plan would be made subject to the debts or liabilities of the Participant or his or her Beneficiary or would otherwise devolve upon anyone else and not be enjoyed by the Participant or his or her Beneficiary or transferee, Family Trust or Family Member, then the Committee may terminate such person's interest in any such payment and direct that the same be held and applied to or for the benefit of the Participant, his or her Beneficiary, taking into account the expressed wishes of the Participant (or, in the event of his or her death, those of his or her Beneficiary) in such manner as the Committee may deem proper.

(g) Copies of the Plan and all amendments, administrative rules and procedures and interpretations shall be made available for review to all Eligible Individuals at all reasonable times at the Company's administrative offices.

(h) The Committee may cause to be made, as a condition precedent to the payment of any Award, or otherwise, appropriate arrangements with the Participant or his or her Beneficiary, for the withholding of any federal, state, local or foreign taxes. The Committee may in its discretion permit the payment of such withholding taxes by authorizing the Company to withhold shares of Stock to be issued, or the Participant to deliver to the Company shares of Stock owned by the Participant or Beneficiary, in either case having a Fair Market Value equal to the amount of such taxes, or otherwise permit a cashless exercise.

(i) All elections, designations, requests, notices, instructions and other communications from an Eligible Individual, Participant, Beneficiary or other person to the Committee, required or permitted under the Plan, shall be in such form as is prescribed from time to time by the Committee and shall be mailed by first class mail or transmitted by facsimile copy or delivered to such location as shall be specified by the Committee.

(j) The terms of the Plan shall be binding upon the Company and its successors and assigns.

(k) Captions preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision hereof.

(l) The Plan and the grant, exercise and carrying out of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to all required or otherwise appropriate approvals and authorizations by any governmental or regulatory agency or commission. The Company shall have no obligation of any nature hereunder to any Eligible Individual, Participant or any other person in the absence of all necessary or desirable approvals or authorizations and shall have no obligation to seek or obtain the same.

(m) Whenever possible, each provision of this Plan and any Award Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any such provision is held to be ineffective, invalid, illegal or unenforceable in any respect under the applicable laws or regulations of the United States or any state, such ineffectiveness, invalidity, illegality or unenforceability will not affect any other provision but this Plan and any such agreement will be reformed, construed and enforced so as to carry out the intent hereof or thereof and as if any invalid or illegal provision had never been contained herein.

(n) The Committee, in its discretion, may defer the payment of an Award, if such payment would cause the annual remuneration of a Participant, who is a covered employee under Section 162(m) of the Code, to exceed $1,000,000.

(o) The Plan shall be construed and governed under the laws of the State of Delaware.

SECTION 17

EFFECTIVE DATE AND STOCKHOLDER APPROVAL

The Effective Date of the Plan shall be May 18, 2000, subject to approval by the holders of a majority of the Company's common stock at the 2001 Annual Meeting. Any Awards granted prior to the 2001 Annual Meeting will be subject to the receipt of such approval. No Awards will be granted under the Plan after the expiration of ten years from the Effective Date.

BASIC EQUITY ACQUISITION CONTRACT

BETWEEN

CITIBANK, N.A. AND CITIZENS UTILITIES COMPANY

The purpose of this Basic Equity Acquisition Contract (the "Master Confirmation"), dated as of February 24, 2000, is to set forth certain terms and conditions for equity purchase transactions that Citizens Utilities Company ("Counterparty") will enter into with Citibank, N.A. ("Citibank"). Each such transaction (a "Transaction") entered into between Citibank and Counterparty that is to be subject to this Master Confirmation shall be evidenced by a written confirmation substantially in the form of Exhibit A hereto, with such modifications thereto as to which Counterparty and Citibank mutually agree (a "Confirmation"). This Master Confirmation and each Confirmation together constitute a "Confirmation" as referred to in the Agreement specified below.

This Master Confirmation and a Confirmation evidence a complete binding agreement between you and us as to the terms of the Transaction to which this Master Confirmation and such Confirmation relates. In addition, you and we agree to use our best efforts promptly to negotiate, execute and deliver an ISDA Master Agreement (Multicurrency-Cross Border) (the "ISDA Agreement") in the form published by the International Swaps and Derivatives Association, Inc. ("ISDA"), with such modifications as you and we shall in good faith agree (as modified, the "Agreement"). Upon the execution by you and us of the Agreement, this Master Confirmation and each Confirmation will supplement, form a part of, and be subject to the Agreement. A copy of the ISDA Agreement has been, or promptly after the date hereof will be, delivered to you. Prior to execution of the Agreement, this Master Confirmation and each Confirmation hereunder, together with all other documents referring to the ISDA Agreement (each a "Confirmation") confirming transactions (each a "Transaction") entered into between you and us (notwithstanding anything to the contrary in a Confirmation), shall supplement, form a part of, and be subject to an agreement in the form of the ISDA Agreement as if we had executed an agreement in such form (but without any Schedule) on the Trade Date of the first such Transaction between you and us.

The ISDA Agreement, this Master Confirmation and each Confirmation will be governed by the laws of the State of New York.

1. In the event of any inconsistency between this Master Confirmation, on the one hand, and the ISDA Agreement, or when executed, the Agreement, on the other hand, this Master Confirmation will control for the purpose of the Transaction to which a Confirmation relates. In the event of any inconsistency between the definitions and provisions of the ISDA Agreement, the Agreement (when executed) and this Master Confirmation, on the one hand, and a Confirmation, on the other hand, the Confirmation will govern. With respect to a Transaction, capitalized terms used herein that are not otherwise defined shall have the meaning assigned to them in the Confirmation relating to such Transaction or, if not defined therein, in the ISDA Agreement or, when executed, the Agreement.

2. Each party will make each payment specified in this Master Confirmation or a Confirmation as being payable by it, not later than the due date for value on that date in the place of the account specified below or otherwise specified in writing, in freely transferable funds and in a manner customary for payments in the required currency. This Master Confirmation and the Agreement, together with the Confirmation relating to a Transaction, shall constitute the written agreement between Counterparty and Citibank with respect to such Transaction.

3. Each Transaction to which a Confirmation relates is a Basic Equity Acquisition Contract ("BEACON") transaction, the terms of which include:

4. General Definitions:

Actual Dividends: means, for any Transfer Date and subject to paragraph9(e) ("Funding Cost Adjustment"), the amount of all dividends

(other than dividends resulting in an adjustment pursuant to paragraph 8(c) ("Adjustment Events") and other than dividends transferred to Counterparty pursuant to paragraph 9(f) ("Dividends")) paid before the day on which the Unwind Period commences, to which would be entitled a holder of a number of Common Shares equal to the applicable Daily Transfer Amount (or portion thereof) outstanding on the applicable ex-dividend date divided by the weighted average of the Tranche Prices Per Share for each Tranche Amount included in such Daily Transfer Amount (or portion thereof).

BEACON Account(s): means the account(s) in which Citibank shall record any Common Shares, Actual Dividends, interest on the Actual Dividends that are cash dividends, and other amounts. Counterparty shall be entitled to any remaining cash amounts or property in the BEACON Account on the last Trading Day in an Unwind Period, provided that Counterparty has fully satisfied all of its payment obligations with respect to Citibank pursuant to this Master Confirmation and there is no remaining Outstanding Aggregate Amount. The BEACON Account(s) will be captioned: "Master BEACON, February 24, 2000, Citizens Utilities Company."

Business Day: means a day (other than a Saturday or a Sunday) on which commercial banks generally are open for business in New York City.

Carrying Rate: means on any day with respect to any Tranche Amount (i) until but not including the Initial Reset Date specified in the applicable Confirmation, the Tranche Initial Funding Rate for that Tranche Amount plus the Carrying Spread specified in the applicable Confirmation and (ii) during each period thereafter, LIBOR determined as of the beginning of such period plus the Carrying Spread specified in the applicable Confirmation.

Closing Price: means, with respect to a Trading Day, the closing price per Common Share on the principal Market on such day as reported by Bloomberg L. P. ("Bloomberg") or (A) if such price is not reported by Bloomberg, then as reported by such other recognized source selected by Citibank on the relevant day or (B) if the Common Shares cease to be listed on a national securities exchange or included in a quotation system, then the price as determined by Citibank in a commercially reasonable manner.

Common Shares: means shares of Counterparty's common stock, par value $.25 per share.

LIBOR: means the rate per annum for U.S. dollar LIBOR (determined on the basis of the actual number of days elapsed over a 360-day year) for the appropriate reference period, as determined by Citibank, appearing (except as provided in the following sentence) on Telerate Page 3750 or any replacement of that page, two London Banking Days prior to the start of a relevant period, provided that if the rate cannot be so determined, it shall be determined as if USD-LIBOR-Reference Banks (as defined in the 1991 ISDA Definitions) had been specified for purposes of determining the rate. If the relevant period is one week or less, the reference period shall be one week, and the rate shall be as specified on Reuters Screen LIBO Page. LIBOR shall otherwise be determined by linear interpolation if the relevant period does not correspond exactly to a period for which rates appear on Telerate Page 3750 or its replacement. Except for the period ending on the Maturity Date, or if Counterparty notifies Citibank with an acceptable alternative period within 7 Trading Days prior to the applicable Reset Date, or unless the parties otherwise agree, the relevant period for determining LIBOR shall be three months. Citibank agrees it will not unreasonably

withhold its acceptance of such alternative period.

London Banking Day: Means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

Principal Market: means the New York Stock Exchange or the principal national securities exchange or quotation system on which the Common Shares may be listed or otherwise included in the future should they cease to be quoted on such exchange or quotation system. All references to closing prices or sales prices for the Common Shares shall be to such prices on the Principal Market.

Trading Day: means a day on which the Principal Market is open for trading.

5. Initiation of a Transaction; Increasing Transaction Amount; Fees:

(a) Initiation of a Transaction. From time to time, Citibank may (but shall not be obligated to) agree to initiate a new Transaction at Counterparty's request. Counterparty shall specify in its request for a new Transaction a proposed Trade Date, Initial Reset Date, and Maturity Date for such Transaction. As promptly as practicable following the agreement to initiate a new Transaction, Citibank shall send Counterparty a Confirmation which shall include the Trade Date, Initial Reset Date, Notice Date, Optional Unwind Date, Maturity Date, Carrying Spread, Tranche Fee Rate and Commitment Fee to which the parties have agreed. Counterparty shall promptly either (i) sign such Confirmation indicating agreement thereto and return it to Citibank or (ii) notify Citibank of any disagreement with respect to the Confirmation.

(b) Increasing Transaction Amount. Except as hereinafter provided, on any Trading Day (including the Trade Date) prior to the Initial Reset Date specified in the applicable Confirmation, Counterparty and Citibank may agree to increase the number of Common Shares under such Transaction. As used herein, "Tranche Date" means, with respect to a Transaction, each Trading Day (including, if applicable, the Trade Date) on which Common Shares are added to such Transaction in accordance with this paragraph (b) and "Tranche Amount" means, for each Tranche Date, the number of Common Shares added to such Transaction on such date multiplied by the Tranche Price Per Share (as defined

below) for such date. Citibank agrees that it will not unreasonably reject any request by Counterparty for a Tranche Amount, provided that (i) at any time, the sum of the Outstanding Aggregate Amounts (as defined below) for all Transactions shall not exceed $100,000,000, (ii) at any time, the sum of the aggregate numbers of Common Shares specified or to be specified on BEACON Account Schedule A for all Transactions shall not exceed 7,500,000 (subject to adjustment pursuant to paragraph 8(c) ("Adjustment Events")), (iii) Citibank may postpone a request in its absolute discretion for up to five Trading Days and (iv) a Tranche Amount may not be accumulated for more than one Transaction on a single day.

(c) Outstanding Aggregate Amount. The term "Outstanding Aggregate Amount" means, in respect of a Transaction as of any date, a dollar amount equal to the sum of all original Tranche Amounts for such Transaction minus the sum of the Daily Transfer Amounts for each related Transfer Date (each as defined in paragraph 6) occurring prior to such date.

(d) Procedure for Updating BEACON Account Schedule A. As promptly as practicable following any Tranche Date, Citibank and Counterparty shall update the BEACON Account Schedule A to the applicable Confirmation using the following procedure. Citibank shall send Counterparty a revised BEACON Account Schedule A which shall include the price per Common Share (the "Tranche Price Per Share"), and the rate to be used to calculate the funding cost to the third Trading Day after the Initial Reset Date (the "Tranche Initial Funding Rate") to which the parties have agreed for the related Tranche Amount. The Tranche Price Per Share shall include an amount equal to the Tranche Fee Rate specified in the

applicable Confirmation. Counterparty shall promptly either (i) sign such revised BEACON Account Schedule A indicating agreement to Citibank's revisions thereof and return it to Citibank or (ii) notify Citibank of any disagreement with respect to Citibank's revisions to BEACON Account Schedule A.

(e) Fees. Counterparty shall, by the third Trading Day following the Trade Date for a Transaction, pay to Citibank a Commitment Fee equal to the amount, if any, specified in the applicable Confirmation.

(f) Suspension of Transactions. Notwithstanding anything to the contrary set forth in this paragraph 5, the obligation of Citibank to accumulate additional Tranche Amounts shall be suspended on any date when (i) a Share Price Event or Credit Event (each as defined in paragraph 7) has occurred on or before such date or (ii) an Event of Default, Potential Event of Default or Termination Event with this Transaction as an Affected Transaction has occurred and is continuing.

6. Unwind Period Settlement Obligations:

(a) Counterparty Unwind Period Settlement Option. Counterparty shall be entitled to direct by timely written notice to Citibank whether Settlement of the parties' respective obligations for a particular Unwind Period shall be by (i) "Full Physical Settlement," (ii) "Net Share Settlement" or (iii) "Net Cash Settlement" (or if Counterparty fails to so direct, it shall be Full Physical Settlement according to the provisions below in paragraph (b)). If Counterparty directs Net Share Settlement or Net Cash Settlement, Counterparty shall provide notice of such direction (a "Net Settlement Notice") to Citibank not less than twenty Trading Days prior to the commencement of the relevant Unwind Period. A Net Settlement Notice shall be revocable by Counterparty through the close of business on the eleventh Trading Day prior to the commencement of the relevant Unwind Period. Upon (x) receipt by Citibank of a notice revoking a direction for Net Share Settlement or Net Cash Settlement, or (y) failure of the Counterparty to direct a settlement method by the close of business on the tenth Trading Day prior to the commencement of the relevant Unwind Period, Counterparty shall be deemed to have elected Full Physical Settlement. With respect to an Unwind

Period in connection with a Partial Termination Event, Share Price Event or Credit Event, Counterparty may elect Full Physical Settlement, Net Share Settlement or Net Cash Settlement on the first Business Day after receipt of notice from Citibank specifying the date of commencement of such Unwind Period and, after receipt of timely election of a settlement method from Counterparty, Citibank may, in response to a request by Counterparty to defer commencement of such Unwind Period, but shall not be required to, defer commencement of such Unwind Period to a date determined and designated by Citibank in a notice to Counterparty. The commencement of such Unwind Period can not be suspended by Counterparty other than pursuant to Section 7(f). The methods for determining the beginning and length of the "Unwind Period" for a "Maturity Termination" as well as for a "Share Price Event," a "Credit Event," an "Optional Unwind" and a "Partial Termination" are set forth in paragraph 7.

Where: "Unwind Period" means a number of days designated by Citibank or as determined in paragraph 7 in which Citibank transfers Common Shares to the Counterparty or otherwise sells Common Shares in settlement or partial settlement of this Transaction. (b) Full Physical Settlement. If Counterparty does not otherwise direct Citibank, Full Physical Settlement shall take place with respect to an Unwind Period. Under Full Physical Settlement, on each Transfer Date in such Unwind Period, Citibank shall transfer to Counterparty a number of Common Shares equal to the Citibank Share Amount for such Transfer Date against payment by Counterparty to Citibank of cash equal to the Forward Amount for such Transfer Date.

(c) Net Share Settlement. If Counterparty so directs Citibank, Net Share Settlement will take place with respect to an Unwind Period. Under Net Share Settlement, on each Transfer Date in such Unwind Period,

(i) Citibank shall sell for cash a number of the Common Shares sufficient to yield proceeds equal to the Forward Amount divided by the Determination Price (but not to exceed the Citibank Share Amount) for the related Transfer Date, and

(A) hold such cash proceeds in the BEACON Account,

(B) and record a reduction (but not below zero) in the number of Common Shares in the BEACON Account equal to the number of Common Shares sold;

(ii) Citibank shall compute the "Counterparty Share Amount," which shall be the Forward Amount for such Transfer Date divided by the Determination Price for such Transfer Date;

(iii) (A) if the Citibank Share Amount minus the Counterparty Share Amount (the "Net Share Amount") is positive, then Citibank shall transfer to Counterparty a number of the Common Shares equal to the Net Share Amount, and

(B) if the Net Share Amount is negative, then Counterparty shall transfer into the BEACON Account a number of Common Shares equal to the excess of the Counterparty Share Amount over the Citibank Share Amount and Citibank shall immediately sell for cash such transferred Common Shares and hold such cash proceeds in the BEACON Account; and

(iv) Counterparty shall pay to Citibank an amount of cash equal to the Forward Amount.

(d) Net Cash Settlement. If Counterparty so directs Citibank, Net Cash Settlement will take place with respect to an Unwind Period. Under Net Cash Settlement, on each Transfer Date in such Unwind Period,

(i) Citibank shall sell (or be deemed to have sold) for cash at the Determination Price a number of the Common Shares equal to the Citibank Share Amount for the related Transfer Date and;

(A) hold such cash proceeds in the BEACON Account, and

(B) record a reduction (but not below zero) in the number of Common Shares in the BEACON Account equal to the number of Common Shares sold; and

(ii) Counterparty shall pay to Citibank an amount of cash equal to the Forward Amount.

WHERE:

"Citibank Share Amount" means, for any Transfer Date, the Daily Transfer Amount for such Transfer Date divided by the weighted average of the Tranche Prices Per Share for each Tranche Amount included in such Daily Transfer Amount.

"Daily Transfer Amount" means, for any Transfer Date, the portion of the Outstanding Aggregate Amount subject to the related Unwind Period divided by the number of Unwind Period Days for such Unwind Period (each determined in accordance with paragraph 7). Tranche Amounts shall be allocated to the Daily Transfer Amount for any Transfer Date as determined by Citibank.

"Forward Amount" means, for any Transfer Date, a dollar amount equal to (i) the Daily Transfer Amount for such Transfer Date plus (ii) Carrying Costs for such Transfer.

"Transfer Date" means, in respect of each Unwind Period Day, the third Trading Day after such Unwind Period Day.

"Unwind Period Day" means each Trading Day in an Unwind Period.

"Carrying Costs" means, for any Transfer Date and subject to paragraph 9(e) ("Funding Cost Adjustment"), an amount equal to interest on the Daily Transfer Amount for such Transfer Date at the applicable Carrying

Rate, compounded periodically each time LIBOR is reset on an actual/360 basis, for the period from and including the third Trading Day after the Tranche Date for each Tranche Amount included in such Daily Transfer Amount to but excluding such Transfer Date.

"Determination Price" means, (i) for any Transfer Date where Counterparty has elected either Net Cash Settlement, or Net Share Settlement, the volume weighted average price (net of brokerage costs) of the Common Shares as traded on the New York Stock Exchange on the relevant Unwind Period Day.

(e) Final Dividend Amount. In connection with each Unwind Period, Citibank shall transfer to Counterparty, promptly after the related dividend payment date and in the same form in which the dividend was made, the amount of all dividends (other than dividends resulting in an adjustment pursuant to

paragraph 8(c) ("Adjustment Events")) with an ex-dividend date before the last Trading Day in such Unwind Period and a dividend payment date on or after the first Trading Day in such Unwind Period to which a holder of a number of Common Shares equal to the Remaining Share Amount on the applicable ex-dividend date would be entitled.

WHERE:

"Remaining Share Amount" means, for any ex-dividend date, (i) the portion of the Outstanding Aggregate Amount that is the subject of the Unwind Period (determined in accordance with paragraph 7) outstanding on such ex-dividend date divided by the weighted average of the Tranche Prices Per Share for each Tranche Amount included in such portion of the Outstanding Aggregate Amount minus (ii) the Citibank Share Amount for each Transfer Date with a related Unwind Period Day occurring on or before such ex-dividend date.

(f) Citibank Unwind Period Settlement Right. If Counterparty fails to comply with or perform any agreement or obligation contained in paragraph 10(c) ("Securities Laws and Registration--Registration Statement") or paragraph 10(e) ("Securities Laws and Registration--Due Diligence") or Counterparty's representations contained in paragraph 10(d) ("Securities Laws and Registration--Representations") are incorrect or misleading in any material respect, Citibank and its affiliates shall be entitled (in addition to any other remedies under the Agreement or otherwise) in connection with a Transfer Date:

(i) to eliminate Counterparty's right to direct Net Share Settlement or Net Cash Settlement and effect Full Physical Settlement. Citibank shall give Counterparty notice of any such action; or

(ii) to the extent Counterparty effects Physical Share Settlement in accordance with Section 6(b), to sell Common Shares in the BEACON Account or Common Shares received from Counterparty hereunder (including pursuant to this clause (ii)) on a private placement basis and apply the proceeds of such sale towards the payment of the Forward Amount for such Transfer Date and if Common Shares are so sold, Counterparty shall transfer to Citibank an amount of cash such that the aggregate actual net proceeds of the Common Shares so sold plus such cash amount is equal to the Forward Amount for such Transfer Date. If Counterparty does not deliver such amount of cash, Counterparty shall transfer to Citibank promptly upon request the number of Common Shares Citibank reasonably determines is adequate to realize actual net proceeds in such amount, and Counterparty's obligation to transfer Common Shares under this clause (ii) shall be a continuing one until Citibank or its affiliates have received actual net proceeds equal to the Forward Amount for such Transfer Date. Counterparty represents that each of its filings under the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act") or other applicable securities laws that are required to be filed have been filed and that, as of the dates thereof there is and, as of each day on which Citibank or its affiliates

sell Common Shares pursuant to this clause (ii), as supplemented by any information provided by Counterparty to Citibank, there will be no misstatement of material fact or omission of a material fact required to be stated therein or necessary to make the statements therein not misleading. Citibank and its affiliates shall be entitled to disclose any material non-public information regarding Counterparty in their possession to purchasers in such a private placement.

7. Unwind Periods:

(a) Maturity Termination. By the close of business in New York on the Notice Date specified in the applicable Confirmation, Counterparty shall propose to Citibank a Trading Day on which the Unwind Period ending on the Maturity Date specified in the applicable Confirmation will commence, such that the length of such Unwind Period is from 1 to 75 consecutive Trading Days inclusive (a "Maturity Termination"). If Citibank does not agree with Counterparty's proposal, the parties shall negotiate in good faith and, in the event the parties cannot agree by the tenth Business Day after the Notice Date, the Unwind Period shall commence on a Trading Day determined by Citibank such that the expected number of Trading Days in the Unwind Period ending on the Maturity Date shall be 40. An Unwind Period will commence on such Trading Day with respect to the entire Outstanding Aggregate Amount.

(b) Optional Unwind. At any time, Counterparty (i) may notify Citibank of its desire to effect a transfer with respect to any portion or all of the Outstanding Aggregate Amount for any one or more Transactions having a Notice Date (as specified in the applicable Confirmation) after the proposed Unwind Period commencement date over such number of Trading Days, from 1 to 75 consecutive Trading Days inclusive, as Counterparty may determine (an "Optional Unwind") and (ii) shall include in such notice an irrevocable indication of its election pursuant to paragraph 6(a) ("Counterparty Unwind Period Settlement Option"). Citibank shall not unreasonably reject the proposed portion of such Outstanding Aggregate Amount, Unwind Period length, or commencement date of the Unwind Period relating to such Optional Unwind; provided that the provisions of paragraph 6(a) regarding notice and method of settlement shall apply to any Optional Unwind after Counterparty gives notice of its desire to effect an Optional Unwind. If any such term is not reasonably acceptable to Citibank, the parties shall negotiate in good faith to modify the proposed term, provided that if the parties cannot agree regarding the Unwind Period length, the number of Trading Days in the Unwind Period shall be 40. Citibank shall allocate the portion of the Outstanding Aggregate Amount that is to be the subject of the Unwind Period to one or more Transactions having a Notice Date after the Unwind Period commencement date as it determines appropriate. If the first Trading Day in the Unwind Period is before the Optional Unwind Date, if any, specified in the applicable Confirmation, Counterparty shall pay Citibank by the second Business Day following such Trading Day an amount equal to the present value (calculated by Citibank using a discount rate equal to LIBOR minus 0.125% per annum) of the Carrying Spread that would have been earned on the portion of the Outstanding Aggregate Amount subject to such Optional Unwind had it remained outstanding through such date.

(c) Partial Termination Event. A "Partial Termination Event" shall occur if on any day (i) the Transaction Equity for such day exceeds 4.9% of the number of outstanding Common Shares on such day or (ii) the Net Transfer Balance for such day exceeds the Available Common Shares for such day, in each case determined on an aggregate basis for all outstanding Transactions. Upon the occurrence of a Partial Termination Event, Citibank shall be entitled to commence an Unwind Period with respect to a portion of the Outstanding Aggregate Amount for all Transactions equal to the amount determined by Citibank so that after completion of the Unwind Period related to the Partial Termination Event, (x) in the case of (i) above, the Transaction Equity would not exceed 4.9% of the number of outstanding Common Shares and (y) in the case of (ii) above, the Net Transfer Balance would not exceed the Available Common Shares. Citibank shall allocate the portion of such Outstanding Aggregate Amount that is to be the subject of the Unwind Period to one or more Transactions as it determines appropriate. Such Unwind Period shall commence on a Trading Day and end on and include a Trading Day, each as designated by Citibank in a notice to Counterparty delivered at least two Business Days prior to the commencement date

of the Unwind Period designated in such notice. At the option of Citibank upon

notice to Counterparty, an Unwind Period that has commenced with respect to a Transaction shall terminate on the Trading Day prior to the start of the Unwind Period for such Partial Termination Event.

WHERE:

"Transaction Equity" means, with respect to any day, a number of Common Shares equal to the sum of (i) the Counterparty Share Amount for such day (determined using the Closing Price for such day and assuming an Unwind Period of one day) and (ii) the number of Common Shares held by Citibank or its affiliates on such day for other transactions with Counterparty.

"Net Transfer Balance" means, with respect to any day, a number of Common Shares equal to the Counterparty Share Amount for such day (determined using the Closing Price for such day and assuming an Unwind Period of one day) minus the Citibank Share Amount for such day (assuming an Unwind Period of one day).

"Available Common Shares" means, with respect to any day, a number of Common Shares equal to (i) the number of authorized Common Shares on such day minus (ii) the sum of (x) the number of outstanding Common Shares on such day and (y) the number of Common Shares reserved for other purposes.

(d) Suspension of Unwind Period. Counterparty may, by notice to Citibank by 8:30 a.m. New York time on any Trading Day, suspend an Unwind Period for up to 5 days in the aggregate based on the advice of counsel respecting applicable federal securities laws that such Unwind Period should be suspended. As promptly as practicable after such suspension, Citibank will adjust any term of this Transaction relating to an Unwind Period, Maturity Date or other Trading Day or otherwise to the extent appropriate to effectuate the fundamental economic terms of this Transaction.

(e) Unwind Periods in Effect. For purposes of "Optional Unwind" and "Maturity Termination," and unless Citibank (in the case of "Share Price Event," "Credit Event" or "Partial Termination Event") elects to terminate an Unwind Period in effect in accordance with the last sentence of such paragraphs, any Daily Transfer Amount for which an Unwind Period is in effect shall be deemed not outstanding for purposes of determining the Outstanding Aggregate Amount to be subject to such an Unwind Period.

(f) Share Price Event. A "Share Price Event" shall occur if the Closing Price on any Trading Day is equal to or less than $8.00 per share (subject to adjustment pursuant to paragraph 8(c) ("Adjustment Events")). Upon the occurrence of a Share Price Event, Citibank shall be entitled to commence an Unwind Period with respect to the entire Outstanding Aggregate Amount two Business Days after delivery of notice by Citibank to Counterparty of such event. Such Unwind Period shall commence on a Trading Day and end on and include a Trading Day, each as designated by Citibank. At the option of Citibank, any Unwind Period that had commenced prior to the start of the Unwind Period for such Share Price Event and not terminated shall terminate on the Trading Day prior to the start of the Unwind Period for such Share Price Event.

(g) Credit Event. A "Credit Event" shall occur if (i) Counterparty's unsecured and unsubordinated long-term debt rating (not supported by third party credit enhancement), if any, falls to or below BBB- by Standard & Poor's Ratings Services (including its successors, "S&P"), Baa3 by Moody's Investors Service, Inc. (including its successors, "Moody's") or the equivalent rating by another nationally recognized statistical rating agency or in any case is suspended,

withdrawn or otherwise unavailable, or (ii) an Event of Default described in Section 5(a)(i), (ii), (iii), (iv), (v) or (vi) of the Agreement (other than an

Event of Default under Section 5(a)(i), (ii), (iii) or (iv) that does not arise with respect to this Master Confirmation or a Transaction hereunder where the Counterparty is the Affected Party, or a Termination Event described in Section 5(b) of the Agreement (other than an Additional Termination Event Described in Section 10(f) hereof) where the Counterparty is an Affected Party. Upon the occurrence and continuation of a Credit Event, Citibank shall be entitled to commence an Unwind Period with respect to the entire Outstanding Aggregate Amount. Such Unwind Period shall commence on a Trading Day and end on and include a Trading Day, each as designated by Citibank. At the option of Citibank, any Unwind Period that had commenced prior to the start of the Unwind Period for such Credit Event and not terminated shall terminate on the Trading Day prior to the start of the Unwind Period for such Credit Event. Notwithstanding the provisions of Section 6 of the Agreement, upon the occurrence of an Event of Default or Termination Event described in clause (ii) above where the Counterparty is an Affected Party, the provisions of Section 6 of the Agreement will not be applicable, other than Section 6(b)(i), (ii) and (iii) to the extent applicable.

8. Disruptions and Adjustments:

(a) Market Disruption Events. If on any day that would otherwise be a Trading Day Citibank determines that there has been a material suspension or material limitation of trading in the Common Shares on the Principal Market, or that trading in securities in general on the Principal Market has been materially suspended or materially limited (a "Market Disruption Event"), then that day shall be deemed not to be a Trading Day (in whole or in part), and the next Trading Day shall be postponed to the first succeeding Trading Day on which, in Citibank's determination, there is no Market Disruption Event. As promptly as practicable after the occurrence of a Market Disruption Event, Citibank will adjust any term of this Transaction relating to an Unwind Period, Maturity Date or other Trading Day or otherwise to the extent appropriate to effectuate the fundamental economic terms of this Transaction.

(b) Disruption of Transfer. If on any date there occurs an event beyond the control of the parties as a result of which The Depository Trust Company or any successor depository cannot effect a transfer of the Common Shares pursuant to this Transaction, the party obligated to transfer the Common Shares shall use its best efforts to cause the Common Shares to be transferred as promptly as practicable to the other party in any commercially reasonable manner. Each party agrees that if transfer of the Common Shares on any Transfer Date is subject to any restriction imposed by a regulatory authority, the parties will negotiate in good faith a procedure to effect transfer of such Common Shares in a manner that complies with any relevant rules of such regulatory authority.

(c) Adjustment Events. In the event of (i) a subdivision, consolidation or reclassification of the Common Shares into a different number or kind of shares of stock of Counterparty, (ii) a dividend on the Common Shares paid in Common Shares, (iii) a merger or other transaction whereby the outstanding Common Shares are exchanged for another class of securities, or securities of another issuer, or (iv) any other similar event (an "Adjustment Event"), then in each case, Citibank shall make appropriate adjustments to the terms of this Transaction, and/or amend the definition of Common Shares or Share Price Event, such that the fundamental economic terms of this Transaction are equivalent to those in effect immediately prior to the Adjustment Event.

9. Miscellaneous:

(a) Early Termination. The parties agree that for purposes of Section 6(e) of the Agreement, Second Method and Loss will apply to this Transaction. The parties further agree that for purposes of calculating Citibank's Loss in

connection with this Transaction, Citibank or any of its affiliates shall dispose of any Common Shares in the BEACON Account over a period consisting of (i) in the case of an Early Termination Date resulting from an Event of Default, any number of Trading Days as Citibank may determine and (ii) in the case of an Early Termination Date resulting from a Termination Event, any number of Trading Days as Citibank may determine and to which Counterparty shall not unreasonably object.

(b) Netting of Obligations; Rounding. The respective Common Share transfer and cash payment obligations on any day of Counterparty, on the one hand, and Citibank on the other hand, whether under a single or multiple Transactions, shall be netted. The number of Common Shares required to be transferred hereunder by either party shall be rounded down to the nearest number of whole shares, such that neither party shall be required to transfer any fractional shares.

(c) Agreement regarding Common Shares. Each party agrees with the other that, in respect of any Common Shares transferred to the other party such shares will, at the time transfer, be free of liens and other encumbrances, and, in the case of Counterparty, such shares shall be, upon such transfer, duly and validly authorized, issued and outstanding, fully paid and nonassessable, and subject to no adverse claims of any other party. Citibank shall record any Common Shares in the BEACON Account.

(d) Default Interest. If a party defaults in the performance of any obligation required to be settled by transfer, it will indemnify the other party on demand, in accordance with the practice of the Principal Market for the Common Shares, for any costs, losses or expenses (including the costs of borrowing Common Shares, if applicable) resulting from such default and, in addition, shall indemnify the other party for interest computed at the Default Rate for the period commencing on the Transfer Date and ending on the date such default is cured. A certificate signed by the transferee setting out such costs, losses or expenses in reasonable detail shall be conclusive evidence that they have been incurred, absent manifest error.

(e) Funding Cost Adjustment. If for any reason the relevant interest period does not correspond with the reference period used for purposes of calculating Carrying Costs, Citibank shall adjust the terms of this Transaction appropriately to reflect any additional funding costs incurred, or any reduction in funding costs received, by Citibank.

(f) Dividends. Citibank shall record Actual Dividends in the BEACON Account. Interest shall accrue at LIBOR less 0.125% on Actual Dividends that are cash dividends, commencing with the dividend payment date and such interest shall also be recorded in the BEACON Account. Citibank shall transfer to Counterparty, promptly after the related dividend payment date and in the same form in which the dividend was made, the amount of all dividends (other than cash dividends and dividends resulting in an adjustment pursuant to paragraph 8(c) ("Adjustment Events")) to which a holder of a number of Common Shares equal to the Dividend Share Amount on the applicable ex-dividend date would be entitled.

WHERE:

"Dividend Share Amount" means, for any ex-dividend date, a number of Common Shares equal to (i) the portion of the Outstanding Aggregate Amount outstanding on such ex-dividend date that is not, and has not been, the subject of an Unwind Period (determined in accordance with paragraph 7) when such dividend is paid divided by (ii) the weighted average of the Tranche Prices Per Share for each Tranche Amount

included in such portion of the Outstanding Aggregate Amount.

(g) Increased Costs. If Citibank determines that from the Trade Date of the relevant Transaction (i) due to either (x) the introduction of or any change in or in the interpretation of any law or regulation or (y) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to Citibank or its affiliates of engaging in this Transaction or related transactions, or (ii) compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) increases or would increase the amount of any capital required or expected to be maintained by Citibank or any affiliate of Citibank as a direct or indirect consequence of this Transaction ("Increased Costs"), then Counterparty shall from time to time until this Transaction is no longer outstanding (whether through Optional Unwind or otherwise), promptly upon demand by Citibank, convey to Citibank additional amounts sufficient to compensate

Citibank for such Increased Costs as are incurred; provided, however, that Counterparty's obligation to pay such additional amounts shall be limited to 15 percent of the Carrying Costs of this Transaction. Such additional amounts may, at Counterparty's option, be paid in U.S. dollars or be satisfied by transfer of a number of Common Shares having an equivalent value; provided, however, that Counterparty shall be entitled to satisfy such obligation by transfer of Common Shares only if it provides twenty Trading Days' notice and complies with its obligations and makes the representations set forth in paragraph 10 "Securities Laws and Registration") as if such transfer were in connection with Transfer Date to which Net Share Settlement or Net Cash Settlement applied for purposes of paragraph 6(a) ("Counterparty Unwind Period Settlement Option"). A certificate as to the amount of Increased Costs, submitted to Counterparty by Citibank, shall be conclusive and binding for all purposes absent manifest error. In the event that Citibank determines that it has incurred Increased Costs which exceed 15 percent of the Carrying Costs of this Transaction (an "Increased Cost Event"), Citibank shall be entitled to commence an Unwind Period with respect to the entire Outstanding Aggregate Amount. Such Unwind Period shall commence on a Trading Day and end on and include a Trading Day, each as designated by Citibank. At the option of Citibank, any Unwind Period that had commenced prior to the start of the Unwind Period for such Increased Cost Event and not terminated shall terminate on the Trading Day prior to the start of the Unwind Period for such Increased Cost Event.

(h) Transfer. Notwithstanding Sections 7 or 10(b) of the Agreement, Citibank shall assign its rights and obligations hereunder to make or receive cash payments and transfer of Common Shares to a Citibank Affiliate (one or more affiliates of Citibank, wholly-owned, directly or indirectly, by Citigroup Inc., or any successor thereto); provided that Counterparty shall have recourse to Citibank in the event of the failure by a Citibank Affiliate to perform any of such obligations hereunder. Notwithstanding the foregoing, recourse to Citibank shall be limited to recoupment of Counterparty's monetary damages and Counterparty hereby waives any right to seek specific performance by Citibank of its obligations hereunder. Such failure after any applicable grace period shall be an Additional Termination Event with this Transaction as the sole Affected Transaction and Citibank as the sole Affected Party.

(i) Consent to Recording. Each party (i) consents to the recording of the telephone conversations of trading and marketing personnel of the parties and their affiliates in connection with this Transaction and (ii) agrees to obtain any necessary consent of, and give notice of such recording to, such personnel of it and its affiliates.

(j) Severability; Illegality. If compliance by either party with any provision of this Transaction would be unenforceable or illegal, (i) the parties shall negotiate in good faith to resolve such unenforceability or illegality in a manner that preserves the economic benefits of the transactions contemplated hereby and (ii) the other provisions of this Transaction shall not be invalidated, but shall remain in full force and effect.

(k) Calculation Agent.Citibank shall make all calculations, adjustments and determinations required pursuant to this Transaction. Citibank's good faith calculations, adjustments and determinations shall be binding absent manifest error.

(l) Cash Payments. All references herein to "dollars" or "$" are to U.S. dollars. All amounts payable in cash shall be payable in dollars in immediately available funds.

(m) Waiver of Trial by Jury. EACH OF COUNTERPARTY AND CITIBANK HEREBY IRREVOCABLY WAIVES (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS STOCKHOLDERS) ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS TRANSACTION OR THE ACTIONS OF CITIBANK OR ITS AFFILIATES IN THE NEGOTIATION, PERFORMANCE OR ENFORCEMENT HEREOF.

(n) Financial Statements. Counterparty will provide to Citibank promptly upon request copies of its most recent annual report containing audited or certified financial statements.

(o) Delivery of Opinion. On the date hereof, Counterparty will provide

to Citibank an opinion of counsel regarding this Master Confirmation and the Transactions contemplated hereby in form and substance reasonably satisfactory to Citibank. Upon the request of Citibank, Counterparty will provide to Citibank such an opinion in connection with particular Transactions on or prior to the Trade Date thereof.

(p) Voting of Common Shares. Citibank and its affiliates shall not exercise any voting rights with respect to any Common Shares recorded in the BEACON Account. This provision shall not preclude Citibank or its affiliates from voting Common Shares that are not held in connection with a Transaction. The provisions of this paragraph shall not remain in force or effect (i) during an Unwind Period, unless Counterparty has elected or been deemed to have elected Full Physical Settlement in accordance with the provisions of paragraph 6(a) or 6(b) and performed in accordance with Section 6(b), or (ii) at any time an Event of Default or Termination Event has occurred and is continuing and with respect to which Counterparty is the Defaulting Party or an Affected Party.

(q) Tax Reporting. Citibank and the Counterparty agree that the requirement of the Counterparty to pay the Forward Amount is an obligation described in, and shall be reported in accordance with the requirements of, Subtitle A, Ch. 1P, Part V, Subpart A of the Internal Revenue Code of 1986, as amended. Citibank shall furnish Counterparty with all information necessary for Counterparty to file its tax returns in such a manner.

10. Securities Laws and Registration:

(a) Compliance with Securities Laws. Counterparty agrees:

(i) with respect to each Tranche Date, that if it were to have effected transactions in the Common Shares on such Tranche Date, whether on the Principal Market or otherwise, such transactions would not have violated any applicable securities law;

(ii) that it is not, on any Tranche Date, engaged in a distribution, as such term is used in Regulation M under the Securities Act, of any securities of the Counterparty; and

(iii) that it is not entering into any Tranche to create actual or apparent trading activity in the Common Shares (or any security convertible into or exchangeable for Common Shares) or to raise or depress or to manipulate the price of the Common Shares (or any shares convertible into or exchangeable for Common Shares).

(b) Triggers for Shelf Registration. Unless Counterparty has (A) given notice of its desire to effect an Optional Unwind with respect to the entire Outstanding Aggregate Amount for all Transactions upon terms reasonably satisfactory to Citibank and (B) irrevocably directed Full Physical Settlement pursuant to paragraph 6(a) ("Counterparty Unwind Period Settlement Option"), Counterparty shall file the Registration Statement referred to in paragraph (c) below within five days of the occurrence of either (x) the Closing Price on any Trading Day being equal to or less than $10.00 per share (subject to adjustment pursuant to paragraph 8(c) ("Adjustment Events")) or (y) Counterparty's unsecured and unsubordinated long-term debt rating (not supported by third party credit enhancement) falling to or below BBB by S&P, Baa2 by Moody's or the equivalent rating by another nationally recognized statistical rating agency or in any case being suspended or withdrawn, and thereafter use its best efforts to have the Registration Statement declared effective as soon as possible and remain effective over the remaining term of this Transaction.

(c) Registration Statement. Unless in connection with an Unwind Period, Counterparty directs Full Physical Settlement pursuant to paragraph 6(a) ("Counterparty Unwind Period Settlement Option"), Counterparty agrees to make available to Citibank and its affiliates an effective registration statement

(the "Registration Statement") pursuant to Rule 415 under the Securities Act and one or more prospectuses as necessary to allow Citibank and its affiliates to comply with the applicable prospectus delivery requirements (the "Prospectus") for the resale by Citibank and its affiliates of the Common Shares in the BEACON Account (or such greater number as Citibank shall reasonably specify), such Registration Statement to be effective and Prospectus to be current for each day in the Unwind Period and for at least ten Trading Days after the Unwind Period (excluding days on which the Unwind Period has been suspended pursuant to paragraph 7(f) ("Suspension of Unwind Period")). It is understood that the Registration Statement and Prospectus may cover a number of Common Shares equal to all Common Shares acquired by Citibank or its affiliates in connection with this Master Agreement plus all Common Shares transferred by Counterparty pursuant to this Transaction. Citibank shall provide, by a reasonable time in advance, such information regarding Citibank and its affiliates as Counterparty, upon advice from counsel, reasonably determines is required to be included in the Prospectuses. Counterparty shall pay the applicable registration fee and all costs in connection with the preparation of the Registration Statement and the Prospectus including, without limitation, Citibank's legal expenses in connection with the preparation of the Registration Statement and the Prospectus and the cost of printing the Prospectus. Citibank agrees that except as Counterparty shall otherwise agree, it and its affiliates shall sell Common Shares pursuant to the Prospectus only on the Principal Market, and Counterparty agrees to take all required action so that all Common Shares covered by the

Registration Statement are eligible for sale on the Principal Market and otherwise to take such actions reasonably requested by Citibank to facilitate the disposition of the Common Shares.

(d) Representations. Counterparty represents (A) on the Trade Date of this Transaction, (B) on each day on which the Transaction amount is being increased, and (C) unless Counterparty directs Full Physical Settlement pursuant to paragraph 6(a) ("Counterparty Unwind Period Settlement Option"), on each day described in paragraph (c) above in connection with an Unwind Period, that (x) each of its filings under the Securities Act, the Exchange Act or other applicable securities laws that are required to be filed have been filed and that, as of the respective dates thereof and as of the date of this representation, there is no misstatement of material fact contained therein or omission of a material fact required to be stated therein or necessary to make the statements therein not misleading and (y) in the case of (B), a purchase by Counterparty of a number of Common Shares equal to the Tranche Amount for the related Tranche Date divided by the related Tranche Price Per Share, whether on the Principal Market or otherwise, would be in compliance with applicable law and all contractual obligations of Counterparty and its affiliates.

(e) Due Diligence. Unless by the close of business on the twentieth Trading Day prior to the commencement of the relevant Unwind Period Counterparty directs Full Physical Settlement pursuant to paragraph 6(a) ("Counterparty Unwind Period Settlement Option"), Counterparty agrees to provide to Citibank and its affiliates by the Trading Day before the commencement of the relevant Unwind Period opinions of counsel, comfort letters, officers' certificates and representations and such other documents as may be reasonably requested by Citibank. Counterparty also agrees that beginning (x) no later than such twentieth Trading Day before the commencement of the relevant Unwind Period and (y) on the date of occurrence of an event that obligates Counterparty to file a Registration Statement pursuant to paragraph (b) above, Citibank and its affiliates shall be entitled to perform such diligence as Citibank may reasonably request. In addition, from time to time, Citibank shall be entitled to attend, with notice, Counterparty's meetings with equity analysts and make reasonable inquiries of appropriate officers of Counterparty.

(f) Additional Termination Event. The failure by Counterparty to comply with its obligations under paragraphs (b), (c) and (e) above, if such failure is not remedied on or before the third Business Day after notice of such failure is given to Counterparty, shall constitute an Additional Termination Event with Counterparty as the sole Affected Party and this Transaction as the sole Affected Transaction.

11. Indemnification and Contribution:

(a) Indemnification by Counterparty. Counterparty agrees to indemnify and hold harmless Citibank, its affiliates, their respective directors, officers, employees, agents, advisors, brokers effecting sales of Common Shares on behalf of Citibank or its affiliates and representatives and each person who controls Citibank or its affiliates within the meaning of either the Securities Act or the Exchange Act against, (and Counterparty agrees that no indemnified party shall have any liability to Counterparty or any of its affiliates, officers, directors, or employees for, any liability (whether direct or indirect, in contract, tort or otherwise) for), any losses, claims, damages, liabilities or expenses, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions, claims, investigations or proceedings in respect thereof, whether commenced or threatened) (A) arise out of or relate to (x) actions or failures to act by

Counterparty (including any misstatement or alleged misstatement of a material fact contained in the Registration Statement or the Prospectus (or in any offering materials or supplemental information provided by or on behalf of Counterparty in connection with any sales on a private placement basis pursuant to paragraph 6(f) ("Citibank Unwind Period Settlement Option")), or in any amendment thereof or supplement thereto, or omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading) or (y) actions or failures to act by an indemnified party with the consent of or in reliance on Counterparty or (z) otherwise arise out of or relate to any breach or violation by Counterparty of, or misrepresentation by Counterparty under, the Master Confirmation, or allegation by a third party that Counterparty acted or failed to act in a manner that, as alleged, would have constituted such a breach, violation or misrepresentation. Counterparty agrees, promptly on demand, to reimburse each such indemnified party for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, expense or action. Notwithstanding anything to the contrary in the foregoing, Counterparty will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to Counterparty by or on behalf of Citibank specifically for use in connection with the preparation of the Prospectus or any supplement thereto. This indemnity agreement will be in addition to any liability that Counterparty may otherwise have.

(b) Indemnification by Citibank. Citibank agrees to indemnify and hold harmless Counterparty, its affiliates, their respective directors, officers, employees and agents, and each person who controls Counterparty within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from Counterparty to Citibank, but only with reference to written information furnished to Counterparty by or on behalf of Citibank specifically for use in the preparation of the Prospectus or any supplement thereto. This indemnity agreement will be in addition to any liability which Citibank may otherwise have.

(c) Legal Proceedings. Promptly after receipt by an indemnified party under paragraphs (a) or (b) above of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under paragraphs (a) or (b) above, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party will not relieve the indemnifying party from any liability that it may have to any indemnified party otherwise than under paragraphs (a) or (b) above or, in respect of paragraphs (a) or (b) above, to the extent that the indemnifying party was not materially prejudiced by such failure to notify. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent that it may elect by written notice transferred to the indemnified party promptly after receiving the aforesaid notice from such indemnified party to assume the defense thereof, with counsel satisfactory to such indemnified party; provided that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other

indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to represent such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under paragraphs (a) or (b) above for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (A) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of

more than one separate counsel (in addition to local counsel), representing the indemnified parties who are parties to such action), (B) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (C) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party; and except that, if clause (A) or (C) is applicable, such liability shall be only in respect of the counsel referred to in such clause (A) or (C). The indemnifying party shall not be liable for any transfer of any proceeding effected without its written consent, but if settled with such consent or if there shall be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such transfer or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability arising from such proceeding.

(d) Contribution. If the indemnification provided for above is unavailable to an indemnified party in respect of any losses, claims, damages, expenses or liabilities referred to herein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, expenses or liabilities, in such proportion as is appropriate to reflect not only the relative fault of Counterparty on the one hand and of Citibank on the other in connection with the statements or omissions that resulted in such losses, claims, damages, expenses or liabilities, but also any other relevant equitable considerations. The relative fault of Counterparty on the one hand and Citibank on the other shall be determined by reference to, among other things, whether the misstatement or alleged misstatement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by Counterparty or by Citibank and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include, subject to the limitations set forth above, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The parties agree that it would not be just and equitable if contribution pursuant to this paragraph (d) were determined by method of allocation that does not take account of the equitable considerations referred to in this paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

12. Representations:

(a) Each party represents (which representations will be deemed to be repeated on each Tranche Date) to the other party that:

(i) It is acting as principal for its own account and not as agent when entering into this Transaction;

(ii) It has sufficient knowledge and expertise to enter into this Transaction and it is entering into this Transaction in

reliance upon such tax, accounting, regulatory, legal, and financial advice as its deems necessary and not upon any view expressed by the other. It has made its own independent decision to enter into this Transaction, is acting at arm's length and is not relying on any communication (written or oral) of the other party as a recommendation or investment advice regarding this Transaction. It has the capability to

evaluate and understand (on its own behalf or through independent professional advice), and does understand, the terms, conditions and risks of this Transaction and is willing to accept those terms and conditions and to assume (financially and otherwise) those risks. It acknowledges and agrees that the other party is not acting as a fiduciary or advisor to it in connection with this Transaction. It is entering into this Transaction for the purposes of hedging its underlying assets or liabilities, or in connection with a line of business or a share repurchase program, and not for purposes of speculation; and

(iii) It is an "accredited investor" as defined in Section 2(15)(ii) of the Securities Act and an "eligible swap participant" as such term is defined in 17 C.F.R.ss 35.1(b)(2).

(b) Counterparty represents (which representations will be deemed to be repeated on each Tranche Date) to Citibank that:

(i) It understands no obligations of Citibank to it hereunder will be entitled to the benefit of deposit insurance and that such obligations will not be guaranteed by any affiliate of Citibank or any governmental agency;

(ii) Its financial condition is such that it has no need for liquidity with respect to its investment in this Transaction and no need to dispose of any portion thereof to satisfy any existing or contemplated undertaking or indebtedness. Its investments in and liabilities in respect of this Transaction, which it understands is not readily marketable, is not disproportionate to its net worth, and it is able to bear any loss in connection with this Transaction, including the loss of its entire investment in this Transaction;

(iii) It understands that this Transaction and, except as provided in paragraph 10 ("Securities Laws and Registration"), the transactions contemplated herein will not be registered under the Securities Act or any state securities law or other applicable federal securities law;

(iv) IT UNDERSTANDS THAT THIS TRANSACTION IS SUBJECT TO COMPLEX RISKS WHICH MAY ARISE WITHOUT WARNING AND MAY AT TIMES BE VOLATILE AND THAT LOSSES MAY OCCUR QUICKLY AND IN UNANTICIPATED MAGNITUDE AND IS WILLING TO ACCEPT SUCH TERMS AND CONDITIONS AND ASSUME (FINANCIALLY AND OTHERWISE) SUCH RISKS; and

(v) Its present intention is to direct Full Physical Settlement under paragraph 6(a) ("Counterparty Unwind Period Settlement Option") in connection with this Transaction.

(c) With respect to this Transaction, each representation under the Agreement made or deemed made on each date on which a Transaction is entered into shall be deemed made on each Tranche Date.

13. Accounts for Payment:

To Citibank: Citibank, N.A.
ABA# 021000089
For credit to Equity Derivatives
DDA# 00167679

To Counterparty: To be advised.

14. Transfer Instructions:

Unless otherwise directed in writing, any Common Shares to be transferred hereunder shall be transferred as follows:

To Citibank: To be advised.

To Counterparty: To be advised.

15. Addresses for Notices:

For purposes of Section 12(a) of the Agreement, unless otherwise directed in writing, all notices or communications to Counterparty or Citibank shall be delivered as specified in Part 4 of the Agreement.

Yours sincerely,

CITIBANK, N.A.

By: _____
Authorized Representative

By: _____
Authorized Representative

Confirmed as of the date first above written:

CITIZENS UTILITIES COMPANY

By: _____
Name:
Title:

EXHIBIT A
FORM OF
BEACON CONFIRMATION

CONFIRMATION

Date: _____

To: Citizens Utilities Company

Telefax No.: [ ]

Attention: [ ]

From: Citibank, N.A.

Telefax No.: _____

Transaction Reference Number: _____

The purpose of this communication is to set forth the terms and conditions of the above-referenced Transaction entered into on the Trade Date specified below (the "Transaction") between you and us. This communication, together with the Master Confirmation (as defined below), constitutes a "Confirmation" as referred to in the Master Confirmation.

1. The definitions and provisions contained in the Master Confirmation are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

2. This Confirmation supplements, forms a part of, and is subject to a Basic Equity Acquisition Contract ("BEACON") dated as of February 24, 2000 (the "Master Confirmation") between you and us. All provisions contained in the Agreement (as modified and as defined in the Master Confirmation) shall govern this Confirmation except as expressly modified below.

For the purposes of this Confirmation, "Citibank" means Citibank, N.A. and "Counterparty" means Citizens Utilities Company.

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3. The particular Transaction to which this Confirmation relates is a Basic Equity Acquisition Contract ("BEACON"), the terms of which are as follows:

Trade Date:	[ ].
Initial Reset Date:	[ ] [The three-month anniversary of the Tranche Date for the first Tranche Amount] (or, if such date is not a Trading Day, the next Trading Day).
Notice Date:	[ ] (or, if such date is not a Business Day, the next Business Day).
Optional Unwind Date:	[1 year after the Initial Tranche Date] (or, if such date is not a Trading Day, the next Trading Day).
Maturity Date:	[3 years after the Initial Tranche Date] (or, if such date is not a Trading Day, the next Trading Day).
Carrying Spread:	[0.95]% per annum.
Commitment Fee Amount:	[not applicable].
Tranche Fee Rate:	$[0.025].

4. Counterparty hereby agrees (a) to check this Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing correctly sets forth the terms of the agreement between us with respect to the particular Transaction to which this Confirmation relates by manually signing this Confirmation and providing any other information requested herein or in the Master Confirmation and immediately sending a facsimile transmission of an executed copy to Confirmation Unit 416-941-7432, with an executed copy sent to Citibank, N.A., Citibank Place, 123 Front Street West, Toronto, Ontario M5J2M3, Attention: Confirmation Unit.

Yours sincerely,

CITIBANK, N.A.

By:

Authorized Representative

By:

Authorized Representative

Confirmed as of the date first above written:

CITIZENS UTILITIES COMPANY

By:

Name:
Title:

BEACON Account Schedule A

[Date]

Citizens Utilities Company
[ ]
[ ]
[ ]
Attention: [ ]
Facsimile: [ ]

Counterparty hereby agrees (a) to check this Schedule A carefully and immediately upon receipt to confirm that pursuant to "Procedure for Updating Schedule A" of the Master Confirmation dated as of February 24, 2000, as supplemented by the Confirmation with a Trade Date of _____, _____, between Citibank, N.A. and Citizens Utilities Company (together, the "Confirmation") the Transaction amount has been increased as shown below and otherwise so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the following correctly sets forth the terms of the agreement between us by manually signing this Schedule A and immediately sending a facsimile transmission of an executed copy to Confirmation Unit 416-941-7432, with an executed copy sent to Citibank, N.A., Citibank Place, 123 Front Street West, Toronto, Ontario M5J2M3, Attention: Confirmation Unit. Capitalized terms used herein that are not otherwise defined shall be defined as provided in the Confirmation.

Citibank Reference Number	Tranche Date	Number of Common Shares	Tranche Price Per Share	Tranche Amount	Tranche Initial Funding Rate
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Yours sincerely,

CITIBANK, N.A.

By:

Authorized Representative

By:

Authorized Representative

Confirmed as of the date first above written:

CITIZENS UTILITIES COMPANY

By:

Name:

Title:

EXHIBIT 12

CITIZENS COMMUNICATIONS COMPANY
Statement Showing Computation of Ratio of Earnings to Fixed Charges
and Ratio of Earnings to Combined Fixed Charges
for the year ended December 31, 2000
(DOLLARS IN THOUSANDS)

		Ratio of Earnings to Fixed Charges	Ratio of Earnings to Combined Fixed Charges
	Pre-tax income before dividends on convertible preferred securities and discontinued operations	$ (49,993)	$ (49,993)
	Income or loss from equity investees	(1,935)	(1,935)
	Minority interest	(12,222)	(12,222)
	Pre-tax income from continuing operations before adjustment for minority interest in consolidated subsidiaries or income or loss from equity investees	(64,150)	(64,150)
	Fixed charges	206,650	216,713
(a)	Amortization of capitalized interest	-	-
	Distributed income of equity investees	800	800
	Interest capitalized	(4,766)	(4,766)
	Preference security dividend requirements of consolidated subsidiaries	(10,063)	(10,063)
(b)	Minority interest in pre-tax income of subsidiaries that have not incurred fixed charges	-	-
	Total earnings	128,471	138,534
	Ratio of earnings to fixed charges	0.62	
	Ratio of earnings to combined fixed charges		0.64

EXHIBIT NO. 21

21. SUBSIDIARIES (all wholly-owned, except where otherwise indicated)

Name	State of Incorporation
Citizen Solutions Company	Arizona
Citizens Business Services Company	Illinois
Citizens Cable Company	Delaware
Subsidiary of Citizens Cable Company:	
NCC Systems, Inc.	Texas
Citizens Capital Ventures Corp.	Delaware
Citizens Consumers Services, Inc.	California
Citizens Directory Services Company L.L.C.	Delaware
Citizens Directory Services Company, Inc.	Delaware
Citizens International Management Services Company	Delaware
Citizens Lake Water Company	Illinois
Citizens Mohave Cellular Company	Delaware
Citizens NEWCOM Company	Delaware
Citizens NEWTEL Company	Delaware
Citizens Public Works Service Company of Arizona	Minnesota
Citizens Resources Company	Delaware
Citizens Telecom Services Company L.L.C.	Delaware
Citizens Telecommunications Company	Delaware
Citizens Telecommunications Company of California, Inc.	California
Citizens Telecommunications Company of Colorado	Delaware
Citizens Telecommunications Company of Idaho	Delaware
Citizens Telecommunications Company of Illinois	Illinois
Citizens Telecommunications Company of	
Iowa	Delaware
Citizens Telecommunications Company of Minnesota, Inc.	Delaware
Citizens Telecommunications Company of Montana	Delaware
Citizens Telecommunications Company of Nebraska	Delaware
Citizens Telecommunications Company of Nevada	Nevada
Citizens Telecommunications Company of New York, Inc.	New York
Citizens Telecommunications Company of North Dakota	Delaware
Citizens Telecommunications Company of Oregon	Delaware
Citizens Telecommunications Company of Tennessee L.L.C.	Delaware
Citizens Telecommunications Company of the Golden State	California
Citizens Telecommunications Company of the Volunteer State L.L.C.	Delaware
Citizens Telecommunications Company of the White Mountains, Inc.	Delaware
Citizens Telecommunications Company of Tuolumne	California
Citizens Telecommunications Company of Utah	Delaware
Citizens Telecommunications Company of West Virginia	West Virginia
Citizens Telecommunications Company of Wyoming	Delaware
Citizens Utilities Company of California	California
Citizens Utilities Company of Illinois	Illinois
Citizens Utilities Company of Ohio	Ohio
Citizens Utilities Rural Company, Inc.	Delaware
Citizens Utilities Water Company of Pennsylvania	Pennsylvania
Citizens Water Resources Company of Arizona	Arizona
Citizens Water Resources Company	Delaware
Citizens Water Services Company of Arizona	Arizona
Conference-Call USA, Inc.	Delaware
CTC Green Company, Inc.	New York
CU CapitalCorp	Delaware
Subsidiary of CU CapitalCorp:	
Electric Lightwave, Inc. *	Delaware
CU Wireless Management L.L.C.	Delaware
Flowing Wells, Inc.	Indiana
Havasu Water Company, Inc.	Arizona
LGS Natural Gas Company	Louisiana
Navajo Communications Company, Inc.	New Mexico
Ogden Telephone Company	New York
Subsidiaries of Ogden Telephone Company:	
NewOp Communications Corporation	New York
Phone Trends, Inc.	New York
Rhinelander Telecommunications, Inc.	Wisconsin
Subsidiaries of Rhinelander Telecommunications, Inc.:	
New North Telecommunications, Inc.	Wisconsin
Rhinelander Telephone Company	Wisconsin
Subsidiaries of Rhinelander Telephone Company:	
Rib Lake Cellular for Wisconsin RSA #3, Inc.	Wisconsin
Rib Lake Telecom, Inc.	Wisconsin
Citizens Southwestern Capital Corporation	Delaware

Sun City Sewer Company	Arizona
Sun City Water Company	Arizona
Sun City West Utilities Company	Arizona
Tubac Valley Water Company, Inc.	Arizona

* Economic interest 85.497%, voting interest 97.87%.

Exhibit 23

Independent Auditors' Consent

The Board of Directors
Citizens Communications Company:

We consent to the incorporation by reference in the Registration Statement (No. 33-52873) on Form S-3, in the Registration Statement (No. 33-63615) on Form S-3, in the Registration Statement (No. 333-7047) on Form S-3, in the Registration Statement (No. 33-60729) on Form S-3, in the Registration Statement (No. 333-71821) on Form S-8, in the Registration Statement (No. 333-71597) on Form S-8, in the Registration Statement (No. 333-71029) on Form S-8, in the Registration Statement (No. 33-42972) on Form S-8, in the Registration Statement (No. 33-48683) on Form S-8, and in the Registration Statement (No. 33-54376) on Form S-8 of Citizens Communications Company of our report dated March 8, 2001, relating to the consolidated balance sheets of Citizens Communications Company and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000, which report appears in the December 31, 2000 annual report on Form 10-K of Citizens Communications Company.

KPMG LLP

New York, New York
March 8, 2001