SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202)424-7500
FACSIMILE (202) 424-7647

NEW YORK OFFICE
919 THIRD AVENUE
NEW YORK, NY 10022

November 11, 1999

DEPOSIT D211 DATE NOV 12 1999

VIA OVERNIGHT MAIL

Blanca S. Bayo, Director
Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

991704-TI

Re: Application of CTSI, Inc. for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of CTSI, Inc. ("CTSI") please find an original and eight (8) copies of CTSI's application for authority to provide interexchange telecommunications service between points within the State of Florida. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the two (2) enclosed extra copies of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact us. Thank you for your assistance in this matter.

Respectfully,

Ronald W. Del Sesto Jr.

Kathleen L. Greenan
Ronald W. Del Sesto, Jr.

Enclosures

cc: Mark DeFalco

MAILROOM
99 NOV 12 AM 10:43
FLORIDA PUBLIC SERVICE COMMISSION
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SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
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919 THIRD AVENUE
NEW YORK, NY 10022

November 11, 1999

Check received with filing and forwarded to ... for deposit. Fi... copy of check to ...
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Respectfully,

ORIGINAL DOCUMENT IS PRINTED ON CHEMICAL REACTIVE PAPER & HAS A MICROPRINTED BORDER

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K STREET, N.W. SUITE 300
WASHINGTON, DC 20007

CHECK DATE
11/11/99

CHECK NO. D 117104

Citibank DC Operating
1775 Pennsylvania Avenue, NW
Suite 440
Washington, DC 20006

CHECK AMOUNT
250.00*******

TWO HUNDRED FIFTY AND 00/100 Dollars

TWO SIGNATURES REQUIRED ON CHECK OVER $10,000.00

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISSION

OPERATING ACCOUNT

⑈117104⑈

DOCUMENT NUMBER-DATE
13943 NOV 12 99
FPSC-RECORDS/REPORTING

DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

Application Form for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida

Instructions

- This form is used as an application for an original certificate and for approval of assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or Type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

  Note: **No filing fee is required** for an assignment or transfer of an existing certificate to another certificated company.

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Telecommunications
  Bureau of Certification and Service Evaluation
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

1. This is an application for √ (check one):

(√) **Original certificate** (new company).

(   ) **Approval of transfer of existing certificate:**
Example, a certificated company purchases an existing certificated company and desires to retain the authority of both certificates.

(   ) **Approval of assignment of existing certificate:**
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

(   ) **Approval of transfer of control:**
Example, a company purchases 51 % of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

CTSI, Inc.

3. Name under which applicant will do business (fictitious name, etc.):

Commonwealth Telecom Services, Inc.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

300-H Laird Street

Wilkes-Barre, Pennsylvania 18702

5. Florida address (including street name & number, post office box, city, state, zip code):

N/A

6. Select type of business your company will be conducting √ (check all that apply):

(√) **Facilities-based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

(   ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

(√) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

(   ) **Switchless Rebiller** - company has no switch or *transmission facilities* but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

(   ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers resold service by enrolling unaffiliated customers.

(   ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

7. Structure of organization;

(   ) Individual (   ) Corporation
(√) Foreign Corporation (   ) Foreign Partnership
(   ) General Partnership (   ) Limited Partnership
(   ) Other ____________________

8. If individual, provide:

Name: ______________________________

Title: ______________________________

Address: ______________________________

City/State/Zip: ______________________________

Telephone No.: ____________________ **Fax No.:** ____________________

Internet E-Mail Address: ______________________________

Internet Website Address: ______________________________

9. **If incorporated in Florida**, provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State Corporate Registration number:**

   N/A ______________________________

10. **If foreign corporation**, provide proof of authority to operate in Florida:

    (a) **The Florida Secretary of State Corporate Registration number:**
    F99000005190 ______________________________

11. **If using fictitious name-d/b/a**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

    (a) **The Florida Secretary of State fictitious name registration number:** **N/A** ______________________________

12. **If a limited liability partnership**, provide proof of registration to operate in Florida:

    (a) **The Florida Secretary of State registration number:**
    N/A ______________________________

13. **If a partnership**, provide name, title and address of all partners and a copy of the partnership agreement. **N/A**

    Name: ______________________________

    Title: ______________________________

    Address: ______________________________
    City/State/Zip: ______________________________

Telephone No.: ____________ **Fax No.:** ____________

Internet E-Mail Address:____________

Internet Website Address:____________

14. **If a foreign limited partnership,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

    (a) **The Florida registration number: N/A** ____________

15. Provide **F.E.I. Number** (if applicable): **22-3498564**

16. Provide the following (if applicable):

    (a) Will the name of your company appear on the bill for your services?

    (√) Yes **( ) No**

    (b) If not, who will bill for your services?

Name: ____________

Title: ____________

Address: ____________

City/State/Zip: ____________

Telephone No.: ____________ **Fax No.:** ____________

(c) How is this information provided?
CTSI's customer bills are processed using CTSI software and hardware. Such bills contain CTSI's name, address and phone number.

17. Who will receive the bills for your service?

(√) Residential Customers (√) Business Customers
( ) PATs providers ( ) PATs station end-users
( ) Hotels& motels ( ) Hotel & motel guests
( ) Universities ( ) Universities dormitory residents
( ) Other: (specify) ____________

18. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: **Kathleen L. Greenan/Ronald W. Del Sesto, Jr.**

Title: **Counsel for CTSI, Inc., Swidler Berlin Shereff Friedman, LLP**

Address: **3000 K Street Suite 300**

City/State/Zip: **Washington D.C. N.W. 20007**

Telephone No.: **(202) 945-6923** **Fax No.:** **(202) 424-7645**

Internet E-Mail Address:
Klgreenan@swidlaw.com/RWDelsesto@swidlaw.com

Internet Website Address: **www.swidlaw.com**

(b) Official point of contact for the ongoing operations of the company:

Name: **Mark DeFalco**

Title: **Director of Regulatory Affairs**

Address: **300-A Laird Street**

City/State/Zip: **Wilkes-Barre, Pennsylvania 18702**

Telephone No.: **(570) 208-3291** **Fax No.:** **(570) 208-6396**

Internet E-Mail Address: **Mdef@epix.net**

Internet Website Address: **www.ct-enterprises.com**

(c) Complaints/Inquiries from customers:

Name: **Mark DeFalco**

Title: **Director of Regulatory Affairs**

Address: **300-H Laird Street**

City/State/Zip: **Wilkes-Barre, Pennsylvania 18702**

Telephone No.: **(570) 208-3291** **Fax No.:** **(570) 208-6396**

Internet E-Mail Address: **Mdef@epix.net**

Internet Website Address: **www.ct-enterprises.com**

19. List the states in which the applicant:

    (a) has operated as an interexchange telecommunications company.

    New York and Pennsylvania

    (b) has applications pending to be certificated as an interexchange telecommunications company.
    Alabama, Delaware, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, North Carolina, Ohio, South Carolina, Tennessee, Virginia, Vermont, Wisconsin, West Virginia

    (c) is certificated to operate as an interexchange telecommunications company.

    Maryland, New York, and Pennsylvania

    (d) has been denied authority to operate as an interexchange telecommunications company and the circumstances involved.

    CTSI has not been denied authority to operate as an interexchange telecommunications company.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

CTSI has not had regulatory penalties imposed for violation of telecommunications statutes and the circumstances involved.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

<u>CTSI has not been involved in any civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity in any state.</u>

20. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

    (a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, <u>please explain</u>.

NONE ____

____

    (b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, <u>give reason why not</u>.

Not applicable. ____

____

____

21. The applicant will provide the following interexchange carrier services, √ (check all that apply):

    a. ________ **MTS with distance sensitive per minute rates**

    ________ **Method of access is FGA**
    ________ **Method of access is FGB**
    ________ **Method of access is FGD**
    ________ **Method of access is 800**

    b. ________ **MTS with route specific rates per minute**

    ________ **Method of access is FGA**

________ **Method of access is FGB**
________ **Method of access is FGD**
________ **Method of access is 800**

c. ________ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**

________ **Method of access is FGA**
________ **Method of access is FGB**
________ **Method of access is FGD**
________ **Method of access is 800**

d. ________ **MTS for pay telephone service providers**

e. ________ **Block-of-time calling plan (Reach Out Florida, Ring America, etc.).**

f. ________ **800 service (toll free)**

g. ________ **WATS type service (bulk or volume discount)**

________ Method of access is via dedicated facilities
________ Method of access is via switched facilities

h. √_______ **Private line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc.)

i. ________ Travel service

________ Method of access is 950
________ Method of access is 800

j. ________ **900 service**

k. ________ **Operator services**

__________ Available to presubscribed customers

__________ Available to non presubscribed customers (for example, to patrons of hotels, students in universities, patients in hospitals).

__________ Available to inmates

I. **Services included are:**

√ Station assistance

√ Person-to-person assistance

√ Directory assistance

√ Operator verify and interrupt

√ Conference calling

22. Submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

23. Submit the following:

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;

2. income statement; and

3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **A written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **A written explanation** that the applicant has sufficient financial capability to maintain the requested service.

3. **A written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

B. Managerial capability; give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

C. Technical capability; give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Gary M Zingaretti
Signature

11/10/99
Date

Vice President of Industry Relations
Title

(570) 208-6400
Telephone No.

Address:

(570) 208-6511
Fax No.

300-H Laird Street

Wilkes-Barre, Pennsylvania 18702

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - CURRENT FLORIDA INTRASTATE NETWORK
D - AFFIDAVIT - FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES
- GLOSSARY

** APPENDIX A **

** APPENDIX B **

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be provided in one of the following ways (applicant, please √ check one):

(√) The applicant will **not** collect deposits nor will it collect payments for service more than one month in advance.

(   ) The applicant intends to collect deposits and/or advance payments for more than one month's service and will file and maintain a surety bond with the Commission in an amount equal to the current balance of deposits and advance payments in excess of one month. (The bond must accompany the application.)

UTILITY OFFICIAL:

Gary M Zingaretti
Signature

11/10/99
Date

Vice President of Industry Relations
Title

(570) 208-6400
Telephone No.

(570) 208-6511
Fax No.

Address:

300-H Laird Street

Wilkes-Barre, Pennsylvania 18702

**** APPENDIX C ****

CURRENT FLORIDA INTRASTATE SERVICES

Applicant **has** ( ) or **has not** (√) previously provided intrastate telecommunications in Florida.

If the answer is has, fully describe the following:

a) What services have been provided and when did these services begin?

N/A

b) If the services are not currently offered, when were they discontinued?

N/A

UTILITY OFFICIAL:

Gary M Zingaretti
Signature

11/10/99
Date

Vice President of Industry Relations
Title

(570) 208-6400
Telephone No.

Address:

(570) 208-6511
Fax No.

300-H Laird Street

Wilkes-Barre, Pennsylvania 18702

** APPENDIX D **

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

Gary M Lenzanitt
Signature

11/10/99
Date

Vice President of Industry Relations
Title

(570) 208-6400
Telephone No.

(570) 208-6511
Fax No.

Address:

300-H Laird Street

Wilkes-Barre, Pennsylvania 18702

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

ORIGINATING SERVICE: Provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate.

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

FLORIDA EAS FOR MAJOR EXCHANGES

Extended Service Area	in These Exchanges
PENSACOLA:	Cantonment, Gulf Breeze, Milton, Holley-Navarre. Pace
PANAMA CITY:	Lynn Haven, Panama City Beach, Youngstown-Fountain, Tyndall AFB.
TALLAHASSEE:	Crawfordville, Havana, Monticello, Panacea, Sopchoppy, St. Marks.
JACKSONVILLE:	Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg, Orange Park, Ponte Vedra, Julington.
GAINESVILLE:	Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry, Waldo.
OCALA:	Belleview, Citra, Dunnellon, Forest, Lady Lake, McIntosh, Oklawaha, Orange Springs, Salt Springs, Silver Springs Shores.

Extended Service Area in These Exchanges

DAYTONA BEACH: New Smyrna Beach

TAMPA:		
	Central	None
	East	Plant City
	North	Zephyrhills
	South	Palmetto
	West	Clearwater

CLEARWATER: St. Petersburg, Tampa-West, Tarpon, Springs.

ST. PETERSBURG: Clearwater.

LAKELAND: Bartow, Mulberry, Plant City Polk City, Winter Haven.

ORLANDO: Apopka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs, Reedy Creek, Geneva, Monteverde.

TITUSVILLE: Cocoa and Cocoa Beach.

COCOA: Cocoa Beach, Eau Gallie, Melbourne, Titusville.

MELBOURNE: Cocoa, Cocoa Beach, Eau Gallie, Sebastian

SARASOTA: Bradenton, Myakka, Venice

Extended Service Area	in These Exchanges
FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres, Sanibel-Captiva Islands.
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boynton Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach, Ft. Lauderdale.
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood, Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami, Perrine.
MIAMI:	Homestead, North Dade, Perrine

GLOSSARY

ACCESS CODE: A uniform four- or seven-digit code assigned to an individual IXC. The five-digit code has the form 1 OXXX and the seven-digit code has the form 950-XXXX.

BYPASS: Transmission facilities that go direct from the local exchange end user to an IXC point of presence, thus bypassing the local exchange company.

CARRIERS CARRIER: An IXC that provides telecommunications service, mainly bulk transmission service, to other IXCs only.

CENTRAL OFFICE: A local operating unit by means of which connections are established between subscribers' lines and trunk or toll lines to other central offices within the same exchange or other exchanges. Each three-digit central office code (NXX) used shall be considered a separate central office unit.

CENTRAL OFFICE CODE: The first three digits (NXX) of the seven-digit telephone number assigned to a customer's telephone exchange service.

COMMISSION: The Florida Public Service Commission.

COMPANY, TELEPHONE COMPANY, UTILITY: These terms are used interchangeably herein and refer to any person, firm, partnership or corporation engaged in the business of furnishing communication service to the public under the jurisdiction of the Commission.

DEDICATED FACILITY: A transmission circuit which is permanently for the exclusive use of a customer or a pair of customers.

END USER: Any individual, partnership, association, corporation, governmental agency or any other entity which (A) obtains a common line, uses a pay telephone or obtains interstate service arrangements in the operating territory of the company or (13) subscribes to interstate services provided by an IXC or uses the services of the IXC when the IXC provides interstate service for its own use.

EQUAL ACCESS EXCHANGE AREAS (EAEA): A geographic area, configured based on 1987 planned toll center/access tandem areas, in which local exchange companies are responsible for providing equal access to both carriers and customers of carriers in the most economically efficient manner.

EXCHANGE: The entire telephone plant and facilities used in providing telephone service to subscribers located in an exchange area. An exchange may include more than one central office unit.

EXCHANGE (SERVICE) AREA: The territory, including the base rate suburban and rural areas served by an exchange, within which local telephone service is furnished at the exchange rates applicable within that area.

EXTENDED AREA SERVICE: A type of telephone service furnished under tariff provision whereby subscribers of a given exchange or area may complete calls to, and receive messages from, one or more other contiguous exchanges without toll charges, or complete calls to one or more other exchanges without toll message charges.

FACILITIES BASED: An IXC that has its own transmission and/or switching equipment or other elements of equipment and does not rely on others to provide this service.

FOREIGN EXCHANGE SERVICES: A classification of exchange service furnished under tariff provisions whereby a subscriber may be provided telephone service from an exchange other than the one from which he would normally be served.

FEATURE GROUPS: General categories of unbundled tariffs to stipulate related services.

Feature Group A: Line side connections presently serving specialized Common carriers.

Feature Group B: Trunk side connections without equal digit or code dialing.

Feature Group C: Trunk side connections presently serving AT&T-C.

Feature Group D: Equal trunk access with prescription.

INTEREXCHANGE COMPANY (IXC): Any telephone company, as defined in Section 364.02(4), F.S. (excluding Payphone Providers), which provides telecommunications service between exchange areas as those areas are described in the approved tariffs of individual local exchange companies.

INTER-OFFICE CALL: A telephone call originating in one central office unit or entity but terminating in another central office unit or entity, both of which are in the same designated exchange area.

INTRA-OFFICE CALL: A telephone call originating and terminating within the same central office unit or entity.

INTRASTATE COMMUNICATIONS: Any communications in Florida subject to oversight by the Florida Public Service Commission as provided by the laws of the State.

INTRA-STATE TOLL MESSAGE: Those toll messages which originate and terminate within the same state.

LOCAL ACCESS AND TRANSPORT AREA (LATA): The geographic area established for the administration of communications service. It encompasses designated exchanges, which are grouped to serve common social, economic and other purposes

LOCAL EXCHANGE COMPANY (LEC): Any telephone company, as defined in Section 364.02(4), F.S., which, in addition to any other telephonic communication service, provides telecommunications service within exchange areas as those areas are described in the approved tariffs of the telephone company.

OPTIONAL CALLING PLAN: An optional service furnished under tariff provisions which recognizes a need of some subscribers for extended area calling without imposing the cost on the entire body of subscribers.

900 SERVICE: A service similar to 800 service, except this service is charged back to the customer based on first minute plus additional minute usage.

PIN NUMBER: A group of numbers used by a company to identify its customers.

PAY TELEPHONE SERVICE COMPANY: Any telephone company, other than a LEC, which provides pay telephone service as defined in Section 364.335(4), F.S.

POINT OF PRESENCE (POP): Bell-coined term which designates the actual (physical) location of an IXC's facility. Replaces some applications of the term "demarcation point."

PRIMARY SERVICE: Individual line service or party line service.

RESELLER: An IXC that does not have certain facilities but purchases telecommunications service from an IXC and then resells that service to others.

STATION: A telephone instrument consisting of a transmitter, receiver, and associated apparatus so connected as to permit sending and/or receiving telephone messages.

SUBSCRIBER, CUSTOMER: Terms used interchangeably to mean any person, firm, partnership, corporation, municipality, cooperative organization, or governmental agency supplied with communication service by a telephone company.

SUBSCRIBER LINE: The circuit or channel used to connect the subscriber station with the central office equipment.

SWITCHING CENTER: Location at which telephone traffic, either local or toll, is switched or connected from one circuit or line to another. A local switching center may be comprised of several central office units.

TRUNK: A communication channel between central office units or entities, or private branch exchanges.

EXHIBIT 1

FINANCIAL STATEMENTS

CTSI is financially qualified to provide telecommunications services in Florida. In particular, CTSI has access to the financing and capital necessary to conduct its telecommunications operations as specified in this Petition. Specifically, CTSI will rely upon the substantial financial resources of its parent, Commonwealth Telephone Enterprises, Inc. ("Commonwealth") to provide the initial capital investment and to fund operating costs. With the resources of Commonwealth, CTSI possesses the sound financial support necessary to effectively procure, install and operate the facilities and services requested in this Application. Attached along with Exhibit 1 is a copy of Commonwealth's SEC Form 10-K for the year ending December 31, 1998. This financial report demonstrates that CTSI possesses the capital necessary to meet CTSI's start-up costs.

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 (FEE REQUIRED)

For the fiscal year ended December 31, 1998

[_]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NO. 0-11053

COMMONWEALTH TELEPHONE ENTERPRISES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

PENNSYLVANIA	**23-2093008**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

100 CTE DRIVE, DALLAS, PENNSYLVANIA 18612-9774
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: 570-674-2700
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Common Stock, par value $1.00 per share
Class B Common Stock, par value $1.00 per share
(TITLE OF CLASS)

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. [X] Yes [_] No

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

Number of shares of the Registrant's Stock ($1.00 par value) outstanding at February 26, 1999

19,621,144 COMMON STOCK
2,460,355 CLASS B COMMON STOCK

Aggregate market value of Registrant's voting stock held by non-affiliates at February 26, 1999 computed by reference to closing price as reported by NASDAQ for Common Stock ($32.375 per share) and to the closing price as reported for Class B Common Stock ($31.00 per share), is as follows:

$328,762,233 COMMON STOCK
$39,379,114 CLASS B COMMON STOCK

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for 1999 Annual Meeting of Shareholders is incorporated by reference into Part I and Part III of this Form 10-K.

PART I

Item 1. Business

General

Commonwealth Telephone Enterprises, Inc. ("CTE" or "the Company"), consists primarily of Commonwealth Telephone Company ("CT"), which provides telephony service to approximately 276,000 access lines in rural parts of eastern Pennsylvania and CTSI, Inc. ("CTSI"), a Competitive Local Exchange Carrier ("CLEC"), which provides competitive telephony service to Tier II cities in geographically adjacent markets. The Company's other operations include Commonwealth Communications ("CC"), an engineering services business; epix(TM) Internet Services ("epix"), an Internet service provider; and Commonwealth Long Distance Company ("CLD"), a reseller of long-distance services.

CT benefits from a technologically advanced fiber-rich network, strong barriers to competition, favorable regulatory conditions and strong growth prospects. CT's market encompasses over 5,000 square miles in mountainous, rural Pennsylvania--a market that is protected from competition not only by its lack of concentration and low basic service rates, but also by regulatory hurdles to productive competition. CT's network has been upgraded to a 100% digital platform, facilitating the provisioning of vertical services and reducing operating costs. CT's access line growth rate of 6.9% between December 31, 1997 and December 31, 1998 has been fueled largely by an increase in residential second lines. Residential second line penetration increased from 14.5% at December 31, 1997 to 20.7% at December 31, 1998. CT believes it has good relationships with regulators and expects to benefit from recent developments in its regulatory position that will allow CT to implement basic service rate increases beginning in 1999 that are indexed to inflation, rather than the historical rate-of-return methodology. The Company believes that CT is less likely to face competition in its service area from alternate local exchange service providers due to several economic factors, including (i) the rural, low-density characteristics of its operating area, (ii) the high cost of entry to the market due to topography, (iii) the lack of concentration of medium and large business users and (iv) its competitive basic service rates. The Company further believes that CT's status as a Rural Telephone Company, which exempts it from many of the interconnection requirements of the Federal Telecommunications Act of 1996 (the "1996 Act"), provides a further barrier to competition.

CTSI, the Company's CLEC, formally commenced operations in 1997 and currently has over 43,000 access lines in service, of which over 90% are connected to the Company's switches and over 30% are served solely by the Company's own network. CTSI markets local and all distance telephone service and Internet access primarily to business customers in eastern Pennsylvania and southern New York state which are geographically adjacent to CT's service area. The target markets have a population density that is significantly greater than that of CT's markets. The Company believes that the geographical juxtaposition of these target markets with CT's service areas allows CTSI to effectively leverage CT's switching, billing and administrative infrastructure while also benefiting from the positive cash flow of CT, thereby enhancing CTSI's speed to market while reducing the risks typically associated with CLECs. The Company expects that modest penetration into CT's geographically adjacent markets will significantly increase the Company's combined access lines, revenue and future cash flow.

The Company's other businesses, CC, epix and CLD, offer a depth of expertise and products to the CT and CTSI customer base as well as create opportunities through cross-selling efforts. epix has 36,313 dial-up customers and also provides dedicated Internet access and website development and hosting services to business and residential customers. CLD serves as CT's and CTSI's long-distance service provider and also markets to and serves third parties. CC provides engineering design and consulting services primarily to external customers.

The following table reflects the development of installed access lines over the past five years:

	1994	1995	1996	1997	1998
CT access lines	218,737	227,235	240,255	258,803	276,644
CTSI access lines	--	--	804	18,018	43,422

The expansion and development of the Company's operations (including the construction and development of additional networks) will depend on, among other things, the Company's ability to assess markets, design fiber optic network backbone routes, install or lease fiber optic cable and other facilities, including switches, and obtain rights-of-ways and any required government authorizations and permits, all in a timely manner, at reasonable costs and on satisfactory terms and conditions.

Background

On September 30, 1997, C-TEC Corporation ("C-TEC") distributed 100 percent of the outstanding shares of common stock of its then wholly-owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock, par value $1.00 per share ("Common Stock") and C-TEC's Class B Common Stock, par value $1.00 per share ("Class B Common Stock") as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. RCN consisted primarily of C-TEC's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor; its existing New York, New Jersey and Pennsylvania cable television operations; a portion of its long-distance operations and its international investment in Megacable, S.A. de C.V. Cable Michigan consisted of C-TEC's Michigan cable operations, including its 62% ownership in Mercom, Inc. ("Mercom"). In connection with the Distribution, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. and amended its articles of incorporation to effect a two-for-three reverse stock split.

COMMONWEALTH TELEPHONE COMPANY

CT provides a full range of high-quality, low-cost telephone and related services over a state-of-the-art network in a 19 county, 5,191 square mile service territory in Pennsylvania. As of December 31, 1998, CT provided service to approximately 276,000 access lines and was the 10th largest independent Local Exchange Carrier ("LEC") in the United States based on access lines. In addition to providing local telephone service, CT provides long-distance services and network access to inter-exchange (long-distance) carriers ("IXC's"). CT offers value-added calling features including call waiting and voice mail; advanced calling services such as return call, repeat call and call trace; and caller identification services such as caller ID, call block and selective call acceptance/rejection. CT also delivers complex communications services such as video conferencing and distance learning. epix allows CT to provide product packaging, including basic telephone and Internet access. Through epix, CT creates cross-promotional opportunities for second lines, business upgrades and residential service packages. CT has certain revenues that have been qualified as non-regulated; these primarily include telecommunications equipment sales and services and billing and collection services for IXC's. CT has consistently achieved positive earnings growth over the past five years. Its EBITDA and operating income margins for the year ended December 31, 1998 were its highest ever. CT's capital expenditures are met entirely through internally generated funds.

CT was one of the first telephone companies in the United States. CT's history includes a record of innovation and leadership in the telecommunications industry, including the following: (i) CT was the first U.S. telephone company to purchase a digital switch; (ii) CT was the first Pennsylvania telephone company to install a working fiber optic cable; (iii) CT was the first U.S. telephone company to deploy host/remote switching architecture (an efficient way of extending capacity from a central office); and (iv) CT was the first Pennsylvania local exchange carrier to become an ISP.

CT operates 79 exchanges, each serving an average of 3,502 lines and 66 square miles. Its access lines are approximately 76% residential and 24% business. CT's business customer base is diverse in size as well as industry, with little concentration. The ten largest business customers combined accounted for 2.0% of 1998 total revenue, with the largest single customer accounting for 0.5%. Due to the rural, low-density characteristics of its operating area, the high cost of entry to the market due to topography, the lack of large business users and its low basic service rates, CT believes that compared to most other LECs, it is less likely to face competition in its existing service area from new local exchange service providers.

CT owns and maintains all of its facilities, including a state-of-the-art network featuring 100% digital switching, a modern service center and 100% interoffice fiber connectivity. CT's fully digital switching results in lower maintenance costs and greater speed to market for new products and services. In addition, the network is efficiently designed in a consolidated host switching architecture which allows multiple remote switching access for shared software and featuring functionality. The outside plant features approximately 70-80% gel filled cable, with the remainder comprised of air core cable.

CT's network architecture positions it well for additional broadband service deployment. One hundred percent of the interoffice trunking is on fiber optic facilities. CT has 1,402 miles of fiber distribution facilities that are 97% aerial construction. This technology provides CT with extensive capacity and bandwidth in outside plant facilities.

All of CT's customers have full access to multiple long-distance carriers, and daily toll message polling is performed by a centralized computer. Messages are transported out of CT's territory in an SS7 signaling format, and the equipment to provide SS7 capability is redundant to protect this valuable toll revenue stream. SS7 technology is a universal, high-speed link connecting CT's network with other networks and allows for high margin products such as caller ID and caller ID with name.

CT has installed sophisticated operating support systems to complement its network. The service center operation is supported by: (i) a mainframe service order, billing and collections system; (ii) a NORTEL Private Branch Exchange ("PBX") with adjunct automated call distribution systems to monitor demand and forecast future call loads; and (iii) a combination of PC and mainframe software for automated cable assignment systems and the Centralized Automated Loop Repair System ("CALRS") which performs trouble reporting and testing. At the heart of the network is a Network Control Center which provides for network surveillance 365 days a year, 24 hours a day. Every CT switched and toll fiber route is monitored, as well as the ISP network and CT customer PBXs.

This combination of systems allows CT to be a low cost, high quality provider of services. The network allows for uniform service provisioning and universal availability of calling features and voice mail. It also allows for the rapid development of new advanced calling services such as return call, repeat call, call trace and caller identification services such as caller ID, call block and selective call acceptance/rejection. In addition, the network supports complex services such as video conferencing, distance learning and the epix Internet service.

Commonwealth Telephone Company has consistently performed best among the top local exchange carriers in Pennsylvania relative to its commitment to outstanding customer service. With extremely low justified complaint rates and fast responses to consumer complaints, Commonwealth Telephone Company has been recognized as most effective in handling sensitive customer service issues in 7 of the last 9 years, based on Pennsylvania Public Utility Commission ("Pennsylvania PUC") data.

Regulation

CT expects to benefit from recent developments in its regulatory position, including the approval by the Pennsylvania Public Utility Commission of CT's Petition for Alternative Regulation and Network Modernization Plan, which will allow CT to implement rate increases, beginning in 1999, that are indexed to inflation rather than the traditional rate-of-return methodology. The Pennsylvania PUC has also confirmed CT's status as a Rural Telephone Company under the Federal Telecommunications Act of 1996 (the "1996 Act"), which provides CT with relief from interconnection requirements unless the requesting party is able to prove to the Pennsylvania PUC that interconnection is in the public interest. Under its alternative regulation plan approved in 1997, CT is protected by an exogenous event provision that recognizes and accounts for any state/federal regulatory or legislative changes that affect revenues or expenses.

On March 26, 1998, CT received approval of a rate re-balancing settlement filed before the Pennsylvania PUC. Effective April 1, 1998, CT was authorized to shift on a revenue-neutral basis, approximately $6,100,000 in annual revenue onto local telephone rates. Offsetting this increase to local service revenue were corresponding decreases in inter-exchange carrier access charges, the elimination or reduction of certain optional services (elimination of business touch tone charges, lowered custom calling rates for both residential and business customers) and the expansion of local calling areas. CT was also afforded the opportunity to upgrade all multi-party ("party line") service to single-party service. This rate rebalancing was the first major change affecting CT's local service rate structure in twenty years. CT is the largest incumbent local exchange carrier in Pennsylvania to successfully re-balance telephone rates.

CT is subject to the jurisdiction of the Federal Communications Commission ("FCC") with respect to interstate rates, services, access charges and other matters, including the prescription of a uniform system of accounts (interstate services, for the purpose of determining FCC jurisdiction, are communications that originate in one state and terminate in another state or foreign country). The FCC also prescribes the principles and procedures (referred to as separations procedures) used to separate investments, revenues, expenses, taxes and reserves between the interstate and intrastate jurisdictions. In addition, the FCC has adopted accounting and cost allocation rules for the separation of costs of regulated and non-regulated telecommunications services for interstate ratemaking purposes.

The FCC instituted a rulemaking in 1998 to amend access charge rules for rate-of-return Local Exchange Carriers ("LECs"). The FCC's proposal includes the modification of LEC transport rate structure, the reallocation of costs in the transport interconnection charge and amendments to reflect changes necessary to implement universal service. This rulemaking is an outstanding issue at the FCC. Therefore, it is not possible to determine the impacts, if any, on CT's results of operations.

Also in 1998, the FCC began a proceeding to consider a review of the FCC's authorized rate-of-return for the interstate access services provided by approximately 1,300 LECs, including CT. The FCC will determine if the prevailing rate corresponds to current market conditions. A decision is possible in 1999.

Competition

CT operates primarily as a monopoly service provider in its service area, and accordingly, faces only limited direct competition, mostly in its local (intraLATA) toll business. Like other LECs, CT faces some competition from long-distance providers of intraLATA toll services (primarily the large IXCs) and dedicated access services from competitive access providers ("CAPs"). As is the case generally with incumbent LECs, CT's local exchange business is not legally protected against competitive entry (although CT's status as a Rural Telephone Company provides it some relief from the interconnection obligations imposed on larger LECs). In addition, CT also faces, and will continue to face, competition from other current and potential market entrants, including CLECs, IXCs, cable television companies, electric utilities, microwave carriers, wireless telecommunications providers, Internet service providers and private networks built by large end users. However, due to the rural, low- density characteristics of its operating area, the high cost of entry to the market, the lack of large business customers and its low basic service rates, CT believes that compared to most other LECs, it is less likely to face competition in its existing service area.

CTSI

CTSI, which formally commenced operations in 1997, is a CLEC operating in geographically adjacent markets to CT's service area. CTSI is a full-service provider offering bundled local, all distance telephone, vertical services and Internet access. As of December 31, 1998, CTSI had installed 43,422 access lines.

CTSI seeks to take advantage of CT's proximity to more densely populated larger communities that are located adjacent to CT's service area. This population is concentrated in secondary cities with much higher densities than CT's current territory. In these adjacent, second tier markets, the Company estimates that there are over one million additional access lines. Through CTSI, the Company believes that it has the opportunity to achieve strong revenue growth with only a relatively small penetration into these areas. The Company believes that CTSI has several competitive advantages, including: (i) the ability to utilize the expertise, experience, network and positive cash flow of the Company, (ii) the ability to bundle services (local, all distance telephone, vertical services and Internet); (iii) the simplicity of one bill, a single point of contact and flat rates (local calls and long- distance); and (iv) 5-10% savings compared to similar LEC offerings.

Initially, CTSI's business plan is based on the physical extension of CT's existing infrastructure. To access markets adjacent to CT's service area, CTSI is building a series of fiber optic loops. CTSI provides services via remote switches linked to CT's central offices, which allows for speed to market. CTSI has focused its initial marketing efforts primarily on business customers and on the concept of success based capital spending, whereby capital is committed based upon demonstrable customer demand. Currently, CTSI serves five "edge-out" regional markets: Wilkes-Barre/Scranton, PA; Harrisburg, PA; Lancaster/Reading, PA; Binghamton, NY; and most recently Southeastern Pennsylvania's Bucks, Chester and Montgomery counties.

Due to the 1996 Act, all LECs, including Bell Atlantic, the primary LEC in the service areas initially targeted by CTSI, are required to: (i) permit resale of their service; (ii) provide number portability; (iii) provide dialing parity; (iv) provide access to their facilities; and (v) establish reciprocal compensation arrangements with other carriers for transporting and terminating each other's traffic. This enabling legislation permits CTSI to compete effectively with the larger LECs. CTSI has interconnection and resale agreements with Bell Atlantic and is currently located in 23 Bell Atlantic offices. In addition, CTSI has a limited interconnection agreement with GTE Corporation. The Bell Atlantic agreements are subject to renegotiation in 1999, which may result in changes to CTSI's cost of doing business.

Although CTSI's initial customer focus is on business customers, it is also extending its service to certain specific, high density, relatively affluent residential enclaves adjacent to its existing facilities. In these enclaves, CTSI is offering several bundled packages of local and all distance telephone, vertical services and Internet.

Regulation

Telecommunications services provided by CTSI and its networks are subject to regulation by federal, state and local government agencies. At the federal level, the FCC has jurisdiction over interstate services, including access charges as well as long-distance services. CTSI's rates, terms and conditions of service are filed with the FCC in tariffs and are subject to the FCC's complaint jurisdiction, but are not otherwise reviewed or prescribed by the FCC. State regulatory commissions exercise jurisdiction over intrastate service (including basic local exchange service and in-state toll services). Although specific regulatory requirements and practices vary from state to state, CTSI's rates and services are generally subject to much less regulatory scrutiny than those of incumbent LECs. CTSI currently offers local services pursuant to tariffs filed with the Pennsylvania and New York commissions, and has authority to offer such services in Maryland. Additionally, municipalities and other local government agencies may regulate limited aspects of CTSI's business, such as its use of rights-of-way.

ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to CLECs should apply to local telephone calls from an ILEC's customers to Internet service providers served by CLECs. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local, intrastate calls. CLECs have contended that the interconnection agreements provide no exception for local calls to Internet service providers and reciprocal compensation is therefore applicable. Currently, over 25 state commissions and several federal and state courts have ruled that reciprocal compensation arrangements do apply to calls to Internet service providers ("ISPs"), and no jurisdiction has ruled to the contrary. Certain of these rulings are subject to appeal. Additional disputes over the appropriate treatment of ISP traffic are pending in other states.

On February 26, 1999, the FCC released a Declaratory Ruling determining that ISP traffic is interstate for jurisdictional purposes, but that its current rules neither require nor prohibit the payment of reciprocal compensation for such calls. In the absence of a federal rule, the FCC determined that state commissions have authority to interpret and enforce the reciprocal compensation provisions of existing interconnection agreements and to determine the appropriate treatment of ISP traffic in arbitrating new agreements. The FCC also requested comment on alternative federal rules to govern compensation for such calls in the future. The Company's current interconnection agreements with Bell Atlantic have been interpreted by the state commissions in both Pennsylvania and New York to require payment of reciprocal compensation on ISP calls, although Bell Atlantic has asked the New York commission to reopen its proceeding and alter this interpretation in response to the FCC ruling. The Company's current interconnection agreements expire in the second half of 1999, and the Company cannot offer any assurance that the reciprocal compensation terms in future agreements will be favorable to the Company's interests. During 1998, CTSI recorded approximately $1,049,000 for reciprocal compensation revenues associated with ISP traffic.

Competition

The markets serviced by CTSI are extremely competitive. The services offered by CTSI in each market compete principally with the services offered by the incumbent LEC serving that area, primarily Bell Atlantic. Incumbent LECs have relationships with their customers, have the potential to subsidize services from their monopoly service revenues and benefit from favorable state and federal regulations. The incumbent LECs are generally larger and better financed than CTSI. In light of the passage of the 1996 Act and recent concessions by some of the Regional Bell Operating Companies ("RBOCs"), federal and state regulatory initiatives will provide increased business opportunities to CLECs, but incumbent LECs may obtain increased pricing flexibility for their services as competition increases. If, in the future, incumbent LECs are permitted by regulators to lower their rates substantially, engage in significant volume and term discount pricing practices for their customers, or charge CLECs significantly higher fees for interconnection to the incumbent LECs' networks, CTSI's competitive position would be adversely affected. For example, the FCC is considering a petition filed by incumbent LECs, including Bell Atlantic, which would provide additional flexibility to offer broadband data services through a separate subsidiary on a deregulated basis. Bell Atlantic is also seeking authority pursuant to Section 271 of the 1996 Act to offer long-distance services to its Pennsylvania customers along with local services. If approved by the FCC, this could allow Bell Atlantic to offer more attractive service packages to compete with CTSI's offerings.

CTSI also faces, and will continue to face, competition from other current and potential market entrants, including other CLECs, IXCs, cable television companies, electric utilities, microwave carriers, wireless telecommunications providers, Internet service providers and private networks built by large end users. A number of markets served by the Company already are served by one or more CLECs including NEXTLINK Communications, Inc. and Hyperion Telecommunications, Inc. Competition from CLECs and other companies is expected to increase in the future.

OTHER OPERATIONS

Commonwealth Communications

Commonwealth Communications ("CC") provides telecommunication engineering and technical services and designs, installs and manages telephone systems for corporations, hospitals and universities located principally in Pennsylvania. CC initially provided services only to the Company and its affiliates. Since 1989, however, CC has also provided such services to third parties. CC derives the majority of its revenues from unrelated third parties.

CLD

Since 1990, the Company's wholly-owned subsidiary, CLD, has conducted the business of providing long-distance telephone services (the "Long Distance Business"). Through a wholesale agreement with RCN Long Distance Company, CLD provides long-distance services to CT's and CTSI's customers. The Long Distance Business primarily represents that portion of the Company's long- distance operations that relate to customers in CT's service area. The remainder of the Company's long-distance operations were distributed to the Company's shareholders as a subsidiary of RCN Corporation.

epix(TM) Internet Services

epix, founded in 1994, is the Company's Internet service provider. epix primarily provides dial-up Internet access (36,313 customers at December 31, 1998) at a flat rate for residential users, and also provides full-period access for business users and associated services such as web page hosting.

RELATIONSHIP AMONG CTE, RCN AND CABLE MICHIGAN

The Distribution Agreement defines certain aspects of the relationship among CTE, RCN and Cable Michigan and provides for the allocation of certain assets and liabilities among CTE, RCN and Cable Michigan. CTE, RCN and Cable Michigan have also entered into a Tax Sharing Agreement dated as of September 5, 1997 (the "Tax Sharing Agreement") to define certain aspects of their relationship with respect to taxes and to provide for the allocation of tax assets and liabilities.

INDEMNIFICATION

RCN, Cable Michigan and CTE have agreed to indemnify one another against certain liabilities. RCN has agreed to indemnify CTE and its subsidiaries at the time of the Distribution (collectively, the "CTE Group") and the respective directors, officers, employees and Affiliates of each Person in the CTE Group (collectively, the "CTE Indemnitees") and Cable Michigan and its subsidiaries at the time of the Distribution (collectively, the "Cable Michigan Group") and the respective directors, officers, employees and Affiliates of each Person in the Cable Michigan Group (collectively, the "Cable Michigan Indemnitees") from and against any and all damage, loss, liability and expense ("Losses") incurred or suffered by any of the CTE Indemnitees or the Cable Michigan Indemnitees, respectively, (i) arising out of, or due to the failure of RCN or any of its subsidiaries at the time of the Distribution (collectively, the "RCN Group") to pay, perform or otherwise discharge any of the RCN Liabilities (as defined below); (ii) arising out of the breach by any member of the RCN Group of any obligation under the Distribution Agreement or any of the other Distribution Documents and (iii) in the case of the CTE Indemnitees arising out of the provision by the CTE Group of the services described below to the RCN Group except to the extent that such Losses result from the gross negligence or willful misconduct of a CTE Indemnitee. "RCN Liabilities" refers to (i) all liabilities of the RCN Group under the Distribution Agreement or any of the other distribution documents, (ii) all other liabilities of Cable Michigan, RCN or CTE (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the RCN Businesses prior to the effective time of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True RCN Liabilities") and (iii) 30% of the Shared Liabilities (as defined below).

Cable Michigan has agreed to indemnify the RCN Group and the respective directors, officers, employees and Affiliates of each Person in the RCN Group (collectively, the "RCN Indemnitees") and the CTE Indemnitees from and against any and all Losses incurred or suffered by any of the RCN Indemnitees or the CTE Indemnitees, respectively, (i) arising out of, or due to the failure of any Person in the Cable Michigan Group to pay, perform or otherwise discharge any of the Cable Michigan Liabilities (as defined below), (ii) arising out of the breach by any member of the Cable Michigan Group of any obligation under the Distribution Agreement or any of the other distribution documents, (iii) in the case of the CTE Indemnitees, arising out of the provision by the CTE Group of services to the Cable Michigan Group except to the extent that such Losses result from the gross negligence or willful misconduct of a CTE Indemnitee and (iv) in the case of the RCN Indemnitees, arising out of the provision by RCN of the services described below to the Cable Michigan Group except to the extent that such Losses result from the gross negligence or willful misconduct of an RCN Indemnitee. "Cable Michigan Liabilities" refers to (i) all liabilities of the Cable Michigan Group under the Distribution Agreement or any of the other distribution documents, (ii) all other liabilities of Cable Michigan, RCN or CTE (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date, to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the business of the Cable Michigan Group prior to the effective time of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True Cable Michigan Liabilities") and (iii) 20% of the Shared Liabilities (as defined below).

CTE has agreed to indemnify the Cable Michigan Indemnitees and the RCN Indemnitees from and against any and all Losses incurred or suffered by any of the Cable Michigan Indemnitees or the RCN Indemnitees, respectively, (i) arising out of, or due to the failure of any Person in the CTE Group to pay, perform or otherwise discharge any of the CTE Liabilities (as defined below), (ii) arising out of the breach by any member of the CTE Group of any obligation under the Distribution Agreement or any of the other Distribution Documents and (iii) in the case of the RCN Indemnitees, arising out of the provision by RCN of the services described below to the CTE Group except to the extent that such Losses result from the gross negligence or willful misconduct of an RCN Indemnitee. "CTE Liabilities" refers to (i) all liabilities of the CTE Group under the Distribution Agreement or any of the other Distribution Documents, (ii) all other liabilities of Cable Michigan, RCN or CTE (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date, to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the business of the CTE Group prior to the effective time of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True CTE Liabilities") and (iii) 50% of the Shared Liabilities (as defined below).

"Shared Liability" means any liability (whether arising before, on or after the Distribution Date) of Cable Michigan, RCN or CTE or their respective subsidiaries which (i)(a) arises from the conduct of the corporate overhead function with respect to CTE and its subsidiaries prior to the effective time of the Distribution with certain exceptions or (b) is one of certain fees and expenses incurred in connection with the Restructuring and (ii) is not a True CTE Liability, a True RCN Liability or a True Cable Michigan Liability.

RCN, Cable Michigan and CTE have also generally agreed to indemnify each other and each other's affiliates and controlling persons from certain liabilities under the securities laws in connection with certain information provided to shareholders in connection with the Distribution.

The Distribution Agreement also includes procedures for notice and payment of indemnification claims and provides that the indemnifying party may assume the defense of claims or suits brought by third parties for non-Shared Liabilities and may participate in the defense of claims or suits brought by third parties for Shared Liabilities. RCN is entitled to assume the defense of claims or suits brought by third parties for Shared Liabilities. Any indemnification paid under the foregoing indemnities is to be paid net of the amount of any insurance or other amounts that would be payable by any third party to the indemnified party in the absence of such indemnity.

The Company does not believe that any of the foregoing indemnities will have a material adverse effect on the business, financial condition or results of operations of the Company.

Employee Matters

Under the Distribution Agreement, RCN, Cable Michigan and CTE agreed generally to assume employee benefits-related liabilities with respect to its current, and in some cases, former employees.

Transitional Services and Agreements

RCN has agreed to provide or cause to be provided to the CTE Group certain specified services (management services) for a transitional period after the Distribution. The transitional services to be provided are the following: (i) accounting, (ii) payroll, (iii) management supervision, (iv) cash management, (v) human resources and benefit plan administration, (vi) insurance administration, (vii) legal, (viii) tax, (ix) internal audit and (x) other miscellaneous administrative services. The fee per year for these services was 3.5% of the first $175 million of revenue of the CTE Group and 1.75% of any additional revenue. The total fee for 1998 and 1997 was approximately $7,016,000 and $8,283,000, respectively.

During 1998, certain transitional services were transferred to CTE from RCN. The Company anticipates the majority of the remaining services to be transitioned to CTE by the end of 1999.

CTE has agreed to provide or cause to be provided to the RCN Group and the Cable Michigan Group financial data processing applications, lockbox services, storage facilities, LAN and WAN support services, building maintenance and other miscellaneous administrative services for a transitional period after the Distribution. The fees for such services and arrangements will be an allocated portion (based on relative usage) of the cost incurred by the Company to provide such services and arrangements. Subsequent to the sale of Cable Michigan to Avalon Cable of Michigan, Inc., CTE will continue to provide interim lockbox services to Avalon Cable of Michigan, Inc. until March 31, 1999 unless extended by either party.

The nature, scope and timing of the foregoing services are to be substantially consistent with the nature, scope and timing of the service provider's services prior to the Distribution, provided that the service provider shall not be obligated to hire additional or replacement employees, or increase the compensation of its existing employees, in order to provide the services. The services are to commence on the Distribution Date and will terminate upon 60 days notice by either the service provider or the relevant service recipient. A service recipient may also terminate individual services by giving 60 days notice to the applicable service provider.

The aforementioned arrangements are not the result of arm's length negotiation between unrelated parties as CTE, RCN and Cable Michigan have certain common officers and directors. Although the transitional service arrangements in such agreements are designed to reflect arrangements that would have been agreed upon by parties negotiating at arm's length, there can be no assurance that the Company would not be able to obtain similar services at a lower cost from unrelated third parties. Additional or modified agreements, arrangements and transactions may be entered into between the Company and either or both of RCN and Cable Michigan after the Distribution, which will be negotiated at arm's length.

Miscellaneous

There exist relationships among CTE, RCN and Cable Michigan (prior to November 6, 1998) that may lead to conflicts of interest. Each of CTE and RCN is effectively controlled by Level 3 Telecom. In addition, the majority of the directors and/or executive officers of CTE and RCN also hold one or more offices at other Group companies. See "Item 10: Directors and Executive Officers of the Registrant." The success of the Company may be affected by the degree of involvement of its officers and directors in the Company's business and the abilities of the Company's officers, directors and employees in managing both the Company and the operations of RCN. Potential conflicts of interest will be dealt with on a case-by-case basis taking into consideration relevant factors including the requirements of NASDAQ and prevailing corporate practices.

Tax Sharing Agreement

The Tax Sharing Agreement governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax returns filed with respect to tax periods, in the case of RCN and Cable Michigan, ending or deemed to end on or before the Distribution Date. Under the Tax Sharing Agreement, Adjustments (as defined in the Tax Sharing Agreement) to taxes that are clearly attributable to the Cable Michigan Group, the RCN Group or the CTE Group will be allocated solely to such group. Adjustments to all other tax liabilities will generally be allocated 50% to CTE, 20% to Cable Michigan and 30% to RCN.

Employees

The Company employed a total of 1,312 employees as of December 31, 1998.

As of December 31, 1998, approximately 38% of CTE employees were covered under collective bargaining agreements. On February 21, 1999, Commonwealth Telephone Company bargaining employees (34% of CTE employees) ratified a new labor contract with the Communications Workers of America that will remain in effect until November 30, 2002.

Item 2. Properties

The property of CTE consists principally of central office equipment, telephone lines, telephone instruments and related equipment, and land and buildings related to telephone operations. This plant and equipment is maintained in good operating condition for CT and CTSI operations. The properties of CT are subject to mortgage liens held by the National Bank for Cooperatives. CTE owns substantially all of its central office buildings, administrative buildings, warehouses and storage facilities. All of the telephone lines are located either on private or public property. Locations on private land are by easements or other arrangements.

Item 3. Legal Proceedings

On February 8, 1999, the Company redeemed the shares of its Preferred Stock Series A and Preferred Stock Series B at their stated value. This was pursuant to a settlement agreement between the Company and the Yee Family Trusts with respect to the action filed on September 30, 1997 by the Yee Family Trusts as holders of the Company's Preferred Stock Series A and Preferred Stock Series B. The Yee Family Trusts have dismissed with prejudice the action against all defendants, including the Company, RCN Corporation and Cable Michigan, Inc.

In the normal course of business, there are various legal proceedings outstanding, including both commercial and regulatory litigation. In the opinion of management, these proceedings will not have a material adverse effect on the results of operations or financial condition of the Company.

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

The Annual Meeting of Shareholders was held on May 14, 1998. Matters submitted to and approved by Shareholders included:

1) The election of the following Directors to serve for a term of three years:

Nominee

Michael I. Gottdenker Frank M. Henry Eugene Roth John J. Whyte

The terms of the following directors continued after the meeting: David C. McCourt, David C. Mitchell, Daniel E. Knowles, Walter Scott, Jr., James Q. Crowe, Richard R. Jaros, Stuart E. Graham, Michael J. Mahoney and Bruce C. Godfrey.

2) The ratification of the selection of PricewaterhouseCoopers, LLP as the Company's independent auditors for the year ending December 31, 1998:

For	Against	Abstain
36,617,692	105,248	6,843

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instructions G(3) of Form 10-K, the following list is included as an un-numbered Item in Part I of this Report in lieu of being included in the definitive proxy statement relating to the Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (A) of the Securities Exchange Act of 1934 (the "1934 Act").

Executive Officers of the Registrant

David C. McCourt............................ 42 Chairman of the Board of Directors and Director of the Company since October 1993; Chief Executive Officer of RCN and Director of RCN since September 1997; Chief Executive Officer of the Company from October 1993 to December 1998; Director, Chairman and Chief Executive Officer of Cable Michigan from September 30, 1997 to

November 1998; President, Chief Executive Officer and Director of Level 3 Telecom Holdings, Inc. formerly Kiewit Telecom Holdings, Inc.; Chairman, Chief Executive Officer and Director of Mercom from October 1993 to November 1998; Director of MFS Communications Company, Inc. from July 1990 to December 1996; President and Director of Metropolitan Fiber Systems/McCourt, Inc., a subsidiary of MFS Telecom, Inc., since 1988; Director of Cable Satellite Public Affairs Network ("C-SPAN") since June 1995; Director of WorldCom, Inc. from December 1996 to March 1998; and Director of Kiewit Diversified Group, Inc., now Level 3 Communications, Inc., since August 1997.

Michael I. Gottdenker	34	Director, President and Chief Executive Officer of the Company since December 1998; Director, President and Chief Operating Officer of the Company from September 1997 to December 1998; Executive Vice President of the Company from September 1995 to September 1997; Executive Vice President of Commonwealth Communications from August 1996 to September 1997; Vice President of New Business Development at Revlon Consumer Products Corporation ("Revlon") from 1994 to 1995; General Manager of Revlon's State Beauty Supply from 1993 to 1994; Director of Corporate Finance for Revlon from 1992 to 1993; Associate, Real Estate Finance Department at Salomon Brothers Inc from 1988 to 1991; and Financial Analyst, Corporate Finance Department at Salomon Brothers Inc from 1986 to 1988.
John Butler	37	Executive Vice President and Chief Financial Officer of the Company since October 1998; Director (last position held)--Media and Communications Finance Group of First Union Capital Markets from September 1994 to October 1998; Assistant Vice President--Utility Banking Group of CoBank from June 1992 to September 1994; Assistant Vice President (last position held) --Communications Companies Division of The First National Bank of Chicago from June 1989 to May 1992; Senior Accountant for Arthur Andersen and Company from June 1984 to August 1987.
James DePolo..................................	54	Executive Vice President of the Company and CT since September 1997; Executive Vice President of CTSI since July 1998; senior management positions at Metropolitan Fiber Systems, Inc. (MFS) from 1994 to 1997, including Division President--MFS Intelenet, President--Realcom, and Vice President of Sales and Operations--UUNet; senior management positions at Sprint Communications from 1985 to 1993, including Vice President and General Manager--Alternate Channels, Vice President of Marketing--Western Business Market Group, Vice President of Strategic Marketing, Vice President and General Manager--West Division and Vice President of Sales & Marketing--West Division; Director of Engineering, Marketing and Sales--West Division for Satellite Business Systems from 1983 to 1985.

John J. Jones	32	Executive Vice President, General Counsel and Corporate Secretary of the Company and RCN since July 1998; Vice President, General Counsel and Corporate Secretary of Designer Holdings, Ltd. from January 1996 to December 1997; Private law practitioner at the law firm Skadden, Arps, Slate, Meagher & Flom from September 1991 to August 1995.
Rita M. Brown	46	Vice President and General Manager Commonwealth Communications since October 1998; Vice President of Network Services of Commonwealth Telephone Company from February 1996 to October 1998; other management positions at Commonwealth Telephone Company from 1973 to February 1996, including Director of Network Services.
Donald P. Cawley	40	Vice President and Controller of the Company since September 1997; Vice President and Controller of Commonwealth Telephone Company since February 1996; and Controller of Commonwealth Telephone Company from March 1992 to February 1996.
Stuart L. Kirkwood	45	Vice President of Technology of the Company since February 1998; Vice President of New Business Development for Commonwealth Communications from July 1996 to February 1998; and Vice President of Operations for Commonwealth Communications from January 1991 to July 1996.
Michael Loftus	50	Vice President of New Business Development of the Company since October 1998; Vice President of CC from September 1997 to October 1998; Vice President of Operations of Commonwealth Communications from March 1997 to September 1997 and Operations Manager from September 1996 to March 1997; City Manager/Director of Operations of Realcom Office Communications, Inc. from December 1994 to September 1996; Operations Officer for the United States Marine Corps from February 1994 to November 1994; and General Manager of Binder Group Enterprises, Inc. from November 1990 to January 1994.
James F. Samaha	33	Vice President of Finance of the Company since April 1998; senior management positions at TCG, Inc. from 1993 to 1998 including Director of Corporate Development and Manager of Operations.
David G. Weselcouch	43	Vice President of Investor Relations of the Company since March 1998; Director--Investor Relations of GTE Corporation from 1993 to 1998; Manager--Capital Markets Development and Administration of GTE Corporation from 1989 to 1993; Administrator--Financial Strategies of GTE Corporation from 1988 to 1989.
Gary Zingaretti	34	Vice President of Industry Relations of the Company since September 1997; Vice President--Regulatory of ICORE, Inc., a telecommunications consulting firm, from August 1996 to September 1997; and Manager of Revenue of the Company from February 1992 to August 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock is traded on the NASDAQ National Market (Symbol:CTCO); the Company's Class B Common Stock is traded on the NASDAQ SmallCap Market (Symbol:CTCOB).

There were approximately 1,268 holders of Registrant's Common Stock and 348 holders of Registrant's Class B Common Stock on February 26, 1999. The Company has maintained a no cash dividend policy since 1989. The Company does not intend to alter this policy in the foreseeable future. Other information required under Item 5 of Part II is set forth in Note 18 to the Consolidated Financial Statements included in Part IV Item 14(a)(1) of this Form 10-K.

On October 28, 1998, the Company completed a Stock Rights Offering of 3,678,612 shares of Common Stock. Shareholders of record at the close of business on September 25, 1998 received one transferable subscription right for every five shares of Common Stock or Class B Common Stock held. Rights holders were permitted to purchase one share of Common Stock for each right held at a subscription price of $21.25 per share. Each right also carried the right to "oversubscribe" at the subscription price for shares of Common Stock that were not purchased pursuant to the initial exercise of rights. The available shares were allocated to the holders exercising the oversubscription privilege pro rata based on the number of shares requested.

Level 3 Telecom Holdings, Inc. which owned approximately 48% of the outstanding Common Stock and 49% of the outstanding Class B Common Stock prior to the Rights Offering, exercised the 1,776,065 rights it received in respect of the shares it held.

At the Company's annual shareholders' meeting on October 1, 1997, the shareholders approved an amendment to the Company's Articles of Incorporation, as amended, to effect a two-for-three reverse stock split (the "Reverse Stock Split") of the Common Stock and the Class B Common Stock. The Reverse Stock Split was effective as of the close of business on October 9, 1997. Pursuant to the Reverse Stock Split, every three shares of Common Stock were converted into two shares of Common Stock and every three shares of Class B Stock were converted into two shares of Class B Stock. All share and per share data, stock option data and market prices of the Company's Common Stock have been restated to reflect this Reverse Stock Split. Other information required under Item 5 of Part II is set forth in Note 18 to the Consolidated Financial Statements included in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

Information required under Item 6 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data required under Item 8 of Part II are set forth in Part IV Item 14 (a)(1) of this Form 10-K.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two years preceding December 31, 1998, there has been neither a change of accountants of the Registrant nor any disagreement on any matter of accounting principles, practices or financial statement disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required under Item 10 of Part III with respect to the Directors of Registrant is set forth in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act and is hereby specifically incorporated herein by reference thereto.

The information required under Item 10 of Part III with respect to the executive officers of the Registrant is set forth at the end of Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION

The information required under Item 11 of Part III is set forth in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under Item 12 of Part III is included in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under Item 13 of Part III is included in the definitive proxy statement relating to Registrant' Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORT ON FORM 8-K

ITEM 14. (A)(1) FINANCIAL STATEMENTS

Consolidated Statements of Operations for Years Ended December 31, 1998, 1997 and 1996 Consolidated Statements of Cash Flows for Years Ended December 31, 1998, 1997 and 1996 Consolidated Balance Sheets--December 31, 1998 and 1997 Consolidated Statements of Changes in Common Shareholders' Equity for Years Ended December 31, 1998, 1997 and 1996 Notes to Consolidated Financial Statements Reports of Independent Accountants

ITEM 14. (A)(2) FINANCIAL STATEMENT SCHEDULES

Description

Condensed Financial Information of Registrant for the Years Ended December 31, 1998, 1997 and 1996 (Schedule I)

Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1998, 1997 and 1996 (Schedule II)

All other financial statement schedules not listed have been omitted since the required information is included in the Consolidated Financial Statements or the Notes thereto, or are not applicable or required.

ITEM 14. (A)(3) EXHIBITS

Exhibits marked with an asterisk are filed herewith and are listed in the index to exhibits of this Form 10-K. The remainder of the exhibits have been filed with the Commission and are incorporated herein by reference.

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

(a) Distribution agreement among C-TEC Corporation, RCN Corporation and Cable Michigan, Inc. is incorporated herein by reference to Exhibit 2.1 to Amendment No. 2 to Form 10/A of RCN Corporation dated September 15, 1997 (Commission File No. 0-22825).

(b) Articles of Merger between C-TEC Corporation and Commonwealth Communications, Inc. dated September 29, 1997 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, (Commission File No. 0-11053).

(3) Articles of Incorporation and By-laws

(a) Articles of Incorporation of Registrant as amended and restated April 24, 1986 and as further amended on November 25, 1991 are incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, (Commission File No. 0-11053).

(b) Amendment to Articles of Incorporation dated September 21, 1995 are incorporated herein by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, (Commission File No. 0-11053).

(c) Amendment of Articles of Incorporation dated October 1, 1997 is herein incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, (Commission File No. 0-11053).

(d) Amendment of Articles of Incorporation dated October 8, 1997 is herein incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, (Commission File No. 0-11053).

(e) By-laws of Registrant, as amended through October 28, 1993 are incorporated herein by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, (Commission File No. 0-11053).

(f) Amendments to By-laws of Registrant (Article I, Section I and Article II, Section 4) dated as of December 13, 1994 are incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, (Commission File No. 0-11053).

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(a) Loan Agreement dated as of March 29, 1994, made by and between Commonwealth Telephone Company and the National Bank for Cooperatives is incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended March 31, 1994, (Commission File No. 0-11053).

(b) Credit Agreement dated as of June 30, 1997 by and among C-TEC Corporation, the Lenders and First Union National Bank, as administrative agent for the Lenders is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, (Commission File No. 0-11053).

(10) Material Contracts

(a) C-TEC Corporation, 1994 Stock Option Plan is incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended March 31, 1994, (Commission File No. 0-11053).

(b) C-TEC Corporation, Common-Wealth Builder Employee Savings Plan is incorporated herein by reference to Exhibit 28(b) to Form S-8 Registration Statements (as amended) of Registrant filed with the Commission, Registration No. 2-98306 and 33-13066.

(c) Performance Incentive Compensation Plan is incorporated herein by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986, (Commission File No. 0-11053).

(d) C-TEC Corporation 1994 Stock Option Plan, as amended, is incorporated herein by reference to Form S-8 Registration Statement of Registrant filed with the Commission, Registration No. 33-64563.

(e) C-TEC Corporation Executive Stock Purchase Plan is incorporated herein by reference to Form S-8 Registration of Registrant filed with the Commission, Registration No. 33-64677.

(f) Merger Agreement dated September 23, 1994 among C-TEC Cable Systems, Inc., C-TEC Cable Systems of Pennsylvania, Twin County Trans Video, Inc., Bark Lee Yee, Stella C. Yee, Susan C. Yee, Raymond C. Yee, Kenneth C. Yee and Robert G. Tallman as trustee for that certain trust created pursuant to a trust agreement dated December 17, 1992 is incorporated herein by reference to Exhibit 10 to the Company's report on Form 8-K dated November 10, 1994, (Commission File No. 0-11053).

(g) Amendment Agreement dated as of March 30, 1995 and Second Amendment Agreement dated as of May 15, 1995 to Merger Agreement dated September 23, 1994 among C-TEC Cable Systems, Inc., C-TEC Cable Systems of Pennsylvania, Inc., Twin County Trans Video, Inc., Bark Lee Yee, Stella C. Yee, Susan C. Yee, Raymond C. Yee, Kenneth C. Yee and Robert G. Tallman as trustee for that certain trust created pursuant to a trust agreement dated December 17, 1992 is incorporated herein by reference to the Company's report on Form 8-K dated June 1, 1995, (Commission File No. 0-11053).

(h) Stock Purchase Agreement dated as of March 27, 1996 between RCN Corporation and C-TEC Corporation is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, (Commission File No. 0-11053).

(i) Exchange Agreement among RCN Corporation, RCN Holdings, Inc. and C- TEC Corporation dated as of December 28, 1995 and Side Letter dated as of December 28, 1995 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year December 31, 1995 (Commission File No. 0-11053).

(j) Tax sharing agreement among C-TEC Corporation, RCN Corporation and Cable Michigan, Inc. is incorporated herein by reference to Exhibit 10.1 to Amendment No. 2 to Form 10/A of RCN Corporation dated September 5, 1997, (Commission File No. 0-22825).

(k) Assumption Agreement dated September 30, 1997 by and among Registrant, Cable Michigan, Inc. and First Union Bank is incorporated herein by reference to Exhibit 99 to the Company's report on Form 10-Q for the quarter ended September 30, 1997 (Commission File No. 0-11053).

(l) Registration Rights Agreement dated October 23, 1998 among Registrant, Walter Scott, Jr., James Q. Crowe and David C. McCourt is incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated October 28, 1998, (Commission File No. 0-11053).

*(m) 1997 Non-Management Directors' Stock Compensation Plan effective February 12, 1997, as amended.

*(21) Subsidiaries of the Registrant

Subsidiaries of Registrant as of December 31, 1998.

*(23) Consent of Independent Accountants

*(24) Powers of Attorney

*(27) Financial Data Schedule

(99) Additional Exhibits

(a) Undertakings to be incorporated by reference into Form S-8 Registration Statement Nos. 2-98305, 33-5723, 2-98306 and 33-13066 are incorporated herein by reference to Exhibit 28(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1987, (Commission File No. 0-11053).

(b) Report on Form 11-K with respect to the Common-Wealth Builder Plan will be filed as an amendment to this report on Form 10-K.

ITEM 14. (B) REPORT ON FORM 8-K

On October 1, 1998, the Company filed a report on Form 8-K to announce a Common Stock Rights Offering whereby 3,678,612 shares of Common Stock were offered to shareholders. Each shareholder of record of the Company's Common Stock and Class B Common Stock at the close of business on September 25, 1998 received one transferable subscription right for every five shares of Common Stock or Class B Common Stock held. Rights holders were allowed to purchase one share of Common Stock for each right held at a subscription price of $21.25 per share.

On October 28, 1998, the Company filed a report on Form 8-K to announce the expiration of its Common Stock Rights Offering on October 23, 1998.

On February 8, 1999, the Company filed a report on form 8-K to announce the redemption on February 8, 1999 of the Preferred Stock Series A and Preferred Stock Series B at their stated value, an aggregate of $52 million, plus accrued dividends.

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.

Commonwealth Telephone Enterprises, Inc.

Date: March 31, 1999

By: /s/ John Butler

JOHN BUTLER
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

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 AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
PRINCIPAL EXECUTIVE AND ACCOUNTING OFFICERS:		
/s/ David C. McCourt DAVID C. MCCOURT	Chairman of the Board of Directors	March 31, 1999
/s/ Michael I. Gottdenker MICHAEL I. GOTTDENKER	President and Chief Executive Officer	March 31, 1999
/s/ John Butler JOHN BUTLER	Executive Vice President and Chief Financial Officer	March 31, 1999
/s/ Donald P. Cawley DONALD P. CAWLEY	Vice President and Controller	March 31, 1999
DIRECTORS:		
/s/ David C. McCourt DAVID C. MCCOURT		March 31, 1999
/s/ Michael I. Gottdenker MICHAEL I. GOTTDENKER		March 31, 1999
/s/ James Q. Crowe JAMES Q. CROWE		March 31, 1999
/s/ Bruce C. Godfrey BRUCE C. GODFREY		March 31, 1999
/s/ Stuart E. Graham STUART E. GRAHAM		March 31, 1999

SIGNATURE	TITLE	DATE
/s/ Frank M. Henry FRANK M. HENRY		March 31, 1999
/s/ Richard R. Jaros RICHARD R. JAROS		March 31, 1999
/s/ Daniel E. Knowles DANIEL E. KNOWLES		March 31, 1999
/s/ Michael J. Mahoney MICHAEL J. MAHONEY		March 31, 1999
/s/ David C. Mitchell DAVID C. MITCHELL		March 31, 1999
/s/ Eugene Roth EUGENE ROTH		March 31, 1999
/s/ Walter Scott, Jr. WALTER SCOTT, JR.		March 31, 1999
/s/ John J. Whyte JOHN J. WHYTE		March 31, 1999

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this annual report is forward-looking, such as information relating to the effects of future regulation and competition and statements made as to plans to construct and develop additional markets. Such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future differently than expressed in any forward- looking statements made by, or on behalf of, the Company. These risks and uncertainties include, but are not limited to, uncertainties relating to the Company's ability to penetrate new markets and the related cost of that effort, economic conditions, acquisitions and divestitures, government and regulatory policies, the pricing and availability of equipment, materials and inventories, technological developments and changes in the competitive environment in which the Company operates.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto:

On September 30, 1997, the Company distributed 100 percent of the outstanding shares of common stock of its wholly-owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of the Company's Common Stock and the Company's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among the Company, RCN and Cable Michigan. RCN consisted primarily of the Company's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor; its existing New York, New Jersey and Pennsylvania cable television operations; a portion of its long-distance operations; and its international investment in Megacable, S.A. de C.V. Cable Michigan, Inc. consisted of the Company's Michigan cable operations, including its 62% ownership in Mercom, Inc.

In accordance with Accounting Principles Board Opinion No. 30--"Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Company has restated its results prior to September 30, 1997 to reflect RCN and Cable Michigan as discontinued operations.

As part of the Company's restructuring, the Company changed its name to Commonwealth Telephone Enterprises, Inc. (from C-TEC Corporation) and effected a two-for-three reverse stock split. All share and per share data, stock option data and market prices of the Company's Common Stock have been restated to reflect this reverse stock split. Commonwealth Telephone Enterprises, Inc. consists of Commonwealth Telephone Company ("CT"), the nation's tenth largest independent local exchange carrier; CTSI, Inc. ("CTSI"), a competitive local exchange carrier; and other operations ("Other"), which include Commonwealth Communications ("CC"), an engineering services business; epix(TM) Internet Services ("epix"); and Commonwealth Long Distance Company ("CLD"), a reseller of long-distance services.

OVERVIEW 1998 VS 1997

For the year ended December 31, 1998, the Company's consolidated sales increased 14.8% and were $225,734 and $196,596 for the years ended December 31, 1998 and 1997, respectively. Higher sales of CT of $10,728, CTSI of $16,908 and Other of $1,502 contributed to the increase. Operating income before depreciation and amortization ("EBITDA") was $81,612 as compared to $72,677 in 1997. The increase in EBITDA of $8,935 is primarily due to increased sales of CT and a reduction in management fees of $1,267. Income from continuing operations was $20,455 and $22,184 for the years ended December 31, 1998 and 1997, respectively. The decrease of $1,729 reflects higher depreciation and amortization expense of $6,166 and increased interest expense of $2,781, partially offset by the increased EBITDA discussed above. Net income to common shareholders for the year ended December 31, 1998 was $8,090 or $.36 per diluted average common share as compared to net loss to common shareholders of ($18,214) or ($.81) per diluted average common share for the year ended December 31, 1997. Net income to common shareholders for the year ended December 31, 1998 includes a charge representing the acceleration of preferred stock accretion plus accrued dividends pursuant to a settlement agreement between the Company and the Yee Family Trusts dated February 8, 1999 in the amount of ($8,116) or ($.36) per diluted average common share. Net loss to common shareholders for the year ended December 31, 1997 includes discontinued operations of ($36,149) or ($1.61) per diluted average common share.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

OVERVIEW 1997 VS 1996

For the year ended December 31, 1997, the Company's sales increased 5.4% and were $196,596 and $186,506 for the years ended December 31, 1997 and 1996, respectively. Higher sales of CT of $8,963, CTSI of $5,240 and epix of $2,481, were partially offset primarily by lower sales of CC. Operating income before depreciation and amortization ("EBITDA") was $72,677 as compared to $75,466 in 1996. Higher costs associated with the development of CTSI were partially offset by higher EBITDA of CT of $6,993. Income from continuing operations before extraordinary charge was $22,184 and $25,869 for the years ended December 31, 1997 and 1996, respectively. The decrease of $3,685 primarily reflects the lower EBITDA of $2,789 discussed above, higher depreciation and amortization of $3,826 and lower other income of $1,245 partially offset by a lower provision for income taxes of $4,500. Net loss to common shareholders was ($18,214), or ($0.81) per diluted average common share, for the year ended December 31, 1997 as compared to net income to common shareholders of $6,411, or $0.29 per diluted average common share, for the year ended December 31, 1996. Net loss to common shareholders includes discontinued operations of ($36,149) in 1997. Net income to common shareholders includes discontinued operations of ($13,556) and an extraordinary charge of ($1,928) in 1996.

Selected data by business segment was as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
SALES			
Commonwealth Telephone Company	$155,266	$144,538	$135,575
CTSI, Inc	22,237	5,329	89
Other	48,231	46,729	50,842
Total	$225,734	$196,596	$186,506

Operating income before depreciation and amortization is commonly used in the communications industry to analyze companies on the basis of operating performance, leverage and liquidity. Operating income before depreciation and amortization is not intended to represent cash flows from operating, investing or financing activities as determined in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Operating income before depreciation and amortization is not a measurement under U.S. GAAP and may not be comparable with other similarly titled measures of other companies.

	FOR THE YEARS ENDED DECEMBER 31,		
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	1998	1997	1996
Commonwealth Telephone Company	$88,785	$80,880	$73,887
CTSI, Inc	(9,103)	(9,981)	(941)
Other	1,930	1,778	2,520
Total	$81,612	$72,677	$75,466

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31,		
	1998	1997	1996
CT access lines	276,644	258,803	240,255
CTSI access lines	43,422	18,018	804

1998 VS 1997

Sales--Sales primarily includes telephone access, local service, toll, vertical service revenue and includes telecommunications design and engineering revenue and Internet access revenue.

Sales were $225,734 and $196,596 for the years ended December 31, 1998 and 1997, respectively. The increase of $29,138 or 14.8%, is due to higher sales of CT of $10,728, CTSI of $16,908 and Other of $1,502. The increase in sales of CT is attributable to higher interstate access revenue of $3,299 resulting from the growth in access lines of 17,841 or 6.9% and access minutes, higher state access revenue of $4,208 due to an increase in IntraLATA and InterLATA minutes as a result of the growth in access lines. Local service revenue increased $1,783 due to the increase in access lines. Vertical service revenue increased $1,281 primarily as a result of increased Caller ID and Voice Mail revenue of $976. The growth in access lines is primarily due to the Company's successful marketing of residential second line sales resulting in an increase in residential second line penetration from 14.5% in 1997 to 20.7% in 1998. CTSI sales were $22,237 and $5,329 for the years ended December 31, 1998 and 1997, respectively. This increase of $15,996 in local service, access and long-distance business revenues and $912 in residential sales is a result of CTSI's continued penetration in the Wilkes-Barre/Scranton, Harrisburg and Lancaster/Reading, PA markets and expansion into the Binghamton, NY market during the first quarter of 1998. At December 31, 1998 CTSI had 43,422 installed access lines as compared to 18,018 installed access lines at December 31, 1997, an increase of 141%. Increased epix sales of $3,381 or 57.5% for the year ended December 31, 1998 vs 1997 reflects the continued demand for high-speed Internet access and website development and consulting services. epix customers were 36,313 and 27,258 for the years ended December 31, 1998 and 1997, respectively, an increase of 33.2%. CC sales increased $1,768 or 7.5% as a result of an increase in non-recurring Premises Distribution System (wiring and cable projects) revenue of $2,954, partially offset by a decrease in Data Communications revenue of $1,545. The operating results of CC are subject to fluctuations due to its less predictable revenue streams, market conditions and the effect of competition on margins. CLD sales declined $3,645 or 21% as customers switched to alternate long distance providers due to CLD's above average rates. The Company expects this trend to continue.

Costs and expenses, excluding depreciation, amortization and management fees ("costs and expenses")--Costs and expenses primarily include access charges, and other direct costs of sales, payroll and related benefits, advertising, software and information system services (MIS), and general and administrative expenses.

Total costs and expenses were $137,106 and $115,636 for the years ended December 31, 1998 and 1997, respectively, an increase of $21,470 or 18.6%. The increase is primarily due to increased network costs, circuit rental costs, and employee-related expenses associated with the increased penetration into the four CTSI markets discussed above and the late 1998 fourth quarter expansion into the Southeastern Pennsylvania market. Costs and expenses of CT were $61,659 for the year ended December 31, 1998 as compared to $57,134 for the year ended December 31, 1997. Contributing to the increase of $4,525 or 7.9% is an increase in payroll and benefits resulting from incentive plan payouts based on Company results, annual salary increases and additional customer service and outside technician positions. MIS expenses associated with Year 2000 consulting also contributed to the increase. CC costs and expenses increased $853 primarily due to higher cost of goods sold associated with higher sales. epix costs and expenses increased $2,864 or 49% as a result of increased transport, advertising and employee related costs associated with the growth of epix. CLD costs and expenses declined $2,968 due to lower expenses relating to lower sales.

Management fees--Management fees were $7,016 and $8,283 for the years ended December 31, 1998 and 1997, respectively, a decrease of $1,267 or 15.3%. The decrease is primarily due to 1997 restructuring charges that did not recur in 1998.

Depreciation and amortization--Depreciation and amortization primarily reflects depreciation on telephony operating plant. Depreciation and amortization was $37,382 for the year ended December 31, 1998 as compared to $31,216 for the year ended December 31, 1997. The increase is due to a higher depreciable plant balance as a result of CT and CTSI capital expenditures in 1997 and 1998.

Interest expense--Interest expense includes interest on CT's mortgage note payable to the National Bank for Cooperatives, interest on CTE's revolving credit facility and amortization of debt issuance costs. Interest expense was $12,714 and $9,933 for the years ended December 31, 1998 and 1997, respectively. The increase is due to interest on borrowings of $75,000 in the third quarter of 1997 against the revolving credit facility, the proceeds of which were used to fund an equity contribution to RCN prior to the Distribution and additional borrowings in 1998 of $35,500 primarily to fund CTSI's expansion. Interest on the mortgage note payable to the National Bank for Cooperatives declined due to scheduled principal payments totaling $9,010 during 1998.

Income taxes--The Company's effective tax rates from continuing operations were 44.3% and 41.1% for the years ended December 31, 1998 and 1997, respectively. For an analysis of the change in income taxes, see Note 13 to the Consolidated Financial Statements.

1997 VS 1996

Sales--Sales were $196,596 and $186,506 for the years ended December 31, 1997 and 1996, respectively. The increase of $10,090, or 5.4%, is primarily due to higher sales of Commonwealth Telephone Company of $8,963. The increase in CT sales includes higher local service revenue of approximately $2,000, which resulted from an increase in access lines of 18,548, or 7.7% due principally to a successful residential second line promotion and higher vertical services revenue. Network access revenue increased approximately $6,700 which includes higher interstate access revenue of approximately $3,500 due to growth in access lines and rate of return adjustments partially offset by a lower average rate per minute. The increase in network access revenue also includes higher intrastate access revenue of approximately $3,200 primarily due to growth in access minutes and a higher average rate per minute. Also contributing to the increase in sales in 1997 as compared to 1996 is higher revenue of CTSI of $5,240, which represents the start-up of the Company's competitive local telephony operations. At December 31, 1997, CTSI had 18,018 installed access lines as compared to 804 installed access lines at December 31, 1996. epix sales increased $2,481 in 1997 as compared to 1996 which reflects the growing popularity of, and demand for, high-speed Internet access. The above increases were partially offset by lower sales of CC which resulted from a high volume of less predictable Premises Distribution Systems contracts during 1996 which did not recur in 1997. The nature of CC's business is inherently risky due to project cost estimates, subcontractor performance and economic conditions. At December 31, 1997, CC had a minimal sales backlog.

Costs and expenses, excluding depreciation, amortization and management fees ("costs and expenses")--Costs and expenses were $115,636 and $102,658 for the years ended December 31, 1997 and 1996, respectively, an increase of $12,978, or 12.6%. The increase is primarily due to higher costs of $13,757 associated with development of CTSI. Costs and expenses of Commonwealth Telephone Company increased $2,740, or 5.0%.

Payroll and related benefits increased as a result of a one-time postemployment benefit adjustment in the first quarter of 1996 which did not recur in 1997. Additionally contributing to the increase in payroll and related benefits were higher overtime resulting from a successful residential second line promotion, headcount additions and normal salary increases. Advertising expenses, primarily for vertical services and residential second line promotion, and information systems services expenses, primarily for Year 2000 consulting, also contributed to the increase in costs and expenses. These increases were partially offset primarily by lower access charges resulting from a decrease in the average local transport rate charged by a neighboring local carrier.

Costs and expenses of other operations decreased $3,519, or 7.5%, primarily due to lower costs of sales of CC, which are directly associated with its decrease in sales.

Depreciation and amortization--Depreciation and amortization primarily reflects depreciation on incumbent local telephony operating plant. Depreciation and amortization was $31,216 for the year ended December 31, 1997 as compared to $27,390 for the year ended December 31, 1996. The increase is primarily associated with a full year of depreciation in 1997 on capital expenditures of $86,812 made in 1996 and depreciation on capital expenditures of $123,432 in 1997.

Interest expense--Interest expense includes interest on CT's mortgage note payable to the National Bank for Cooperatives, interest on CTE's revolving credit facility and amortization of debt issuance costs. Interest expense was $9,933 and $9,577 for the years ended December 31, 1997 and 1996, respectively. The increase of $356 or 3.7%, is primarily due to interest on borrowings of $75,000 in the third quarter of 1997 against the revolving credit facility, the proceeds of which were used to fund an equity contribution to RCN prior to the Distribution, partially offset by lower interest expense on the mortgage note payable to the National Bank for Cooperatives. Interest on the mortgage note payable decreased primarily due to scheduled principal payments totaling $9,010 during 1997.

Other income, net--Other income was $1,041 for the year ended December 31, 1997 as compared to $2,286 for the year ended December 31, 1996. The decrease is primarily related to the receipt, in the second quarter of 1996, of a royalty fee of approximately $1,700. This fee represented the remaining minimum royalty fee on cellular software products sold through January 1, 1998 owed to the Company by the buyer of the assets of the Company's Information Services Group and corporate data processing function which were sold in 1991.

Income taxes--The Company's effective income tax rates for continuing operations were 41.1% and 43.6% for the years ended December 31, 1997 and 1996, respectively. For an analysis of the change in income taxes, see Note 13 to the Consolidated Financial Statements.

Discontinued operations--Discontinued operations represents the results of operations of RCN and Cable Michigan prior to the Distribution. Discontinued operations were ($36,149) and ($13,556) for the years ended December 31, 1997 and 1996, respectively. The higher loss in 1997 is primarily the result of lower EBITDA of RCN resulting from increased expenses associated with the development of the bundled services business, including advertising, payroll and related benefits and origination and programming costs. Additionally, RCN paid $10,000 in nonrecurring charges associated with the termination of a marketing services agreement held by Freedom, New York L.L.C. ("Freedom"). RCN's interest income decreased primarily as a result of lower average cash balances which resulted from the acquisition of Freedom and capital expenditures associated with network expansion. RCN incurred an extraordinary charge of $3,210 due to its prepayment of Senior Secured Notes. Offsetting these expense increases was a decrease in interest expense resulting from the required principal payment of $18,750 on 9.65% Senior Secured Notes in December 1996. Interest expense also declined in 1997 as a result of RCN's payment of $940 to Level 3 Telecom Holdings, Inc. (formerly Kiewit Telecom Holdings, Inc.) in 1996 in connection with the August 1996 acquisition of Level 3 Telecom Holdings, Inc.'s 80.1% interest in Freedom. Such amount represents compensation to Level 3 Telecom Holdings, Inc. for forgone interest on the amount it had invested in Freedom.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

Extraordinary item--In 1996, as a result of filing an alternative regulation plan with the Pennsylvania Public Utility Commission ("PUC"), CT determined that it no longer met the criteria for the continued application of the accounting required by Statement of Financial Accounting Standards No. 71 -- "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). In accordance with SFAS 71, the effects of SFAS 109 on CT were deferred on the balance sheet as regulatory assets and liabilities which represented the anticipated future regulatory recognition of SFAS 109. In this filing, CT requested approval of a change from cost-based, rate-of-return regulation to incentive-based regulation using price caps. CT believed approval of the plan was probable and, as a result, discontinued application of SFAS 71 and wrote off the previously recorded regulatory assets and liabilities, resulting in an extraordinary charge of $1,928.

Since CT performs an annual study to determine the remaining economic useful lives of regulated plant and adjusts them, when necessary, for both financial reporting and regulatory purposes, discontinuation of the application of SFAS 71 did not impact recorded fixed assets values.

CT received approval for an Alternative Regulation and Network Modernization Plan ("the Plan") in January 1997.

LIQUIDITY AND CAPITAL RESOURCES

	DECEMBER 31,	
	1998	1997
Cash and temporary cash investments	$16,968	$14,017
Working capital	$(6,420)	$(4,018)
Long-term debt (including current maturities)	$125,848	$176,357

Cash and temporary cash investments were $16,968 at December 31, 1998 as compared to $14,017 at December 31, 1997. The Company's working capital ratio was .92 to 1 at December 31, 1998 as compared to .95 to 1 at December 31, 1997.

In July 1997, the Company obtained a $125,000 committed revolving credit facility which provides credit availability through July 2002. In September 1997, the Company borrowed $75,000 against this facility to fund an equity contribution to RCN prior to the Distribution. During 1998, the Company borrowed $35,500 primarily to fund CTSI's expansion. In October, 1998 the Company used the proceeds generated from the Stock Rights Offering to reduce outstanding debt on the revolving credit facility by $77,000. (Refer to below.)

The Company currently has adequate resources to meet its short-term obligations, including cash on hand of $17 million and $91.5 million of availability under its revolving credit facility at December 31, 1998 ($39.0 million available at February 28, 1999 (see Note 20)). The Company presently intends to judge the success of its initial rollout of the CTSI business in deciding whether to undertake additional capital expenditures to further expand the network to additional areas. The Company expects that the further expansion of the CTSI business will require significant capital to fund the network development and operations, including funding the development of its fiber optic networks and funding operating losses. The Company's operations have required and will continue to require substantial capital investments for the design, construction and development of additional networks and services. In addition to cash generated from operations and existing credit facilities, sources of funding for the Company's further capital requirements may include financing from public offerings or private placements of equity and/or debt securities and bank loans. There can be no assurance that additional financing will be available to the Company or, if available, that it can be obtained on a timely basis and on acceptable terms. Failure to obtain such financing could result in the delay or curtailment of the Company's development and expansion plans and expenditures.

The Company anticipates that future cash flows will be used principally to support operations and finance growth of the business and, thus, the Company does not intend to pay cash dividends on the Company Common Stock in the foreseeable future. The payment of any cash dividends in the future will be at the discretion of the Company's Board of Directors. The declaration of any dividends and the amount thereof will depend on a number of factors, including the Company's financial condition, capital requirements, funds from operations, future business prospects and such other factors as the Company's Board of Directors may deem relevant.

As a result of factors such as the significant expenses associated with the development of new networks and services, the Company anticipates that its operating results could vary significantly from period to period.

In October 1998, the Company completed a Rights Offering of 3,678,612 shares of its Common Stock and shareholders fully subscribed for all shares of Common Stock offered. Shareholders of record at the close of business on September 25, 1998, received one transferable subscription right for every five shares of Common Stock or Class B Common Stock held. Rights holders were permitted to purchase one share of Common Stock for each right held at a subscription price of $21.25 per share. The Company used the net proceeds of the Rights Offering to reduce outstanding debt on its revolving credit facility by $77,000.

Regulatory Issues

The Federal Communications Commission ("FCC") instituted a rulemaking in 1998 to amend access charge rules for rate-of-return Local Exchange Carriers ("LECs"). The FCC's proposal includes the modification of LEC transport rate structure, the reallocation of costs in the transport interconnection charge and amendments to reflect changes necessary to implement universal service. This rulemaking is an outstanding issue at the FCC. Therefore, it is not possible to determine the impacts, if any, on CT's results of operations.

Also in 1998, the FCC began a proceeding to consider a review of the FCC's authorized rate-of-return for the interstate access services provided by approximately 1,300 LECs, including CT. The FCC will determine if the prevailing rate corresponds to current market conditions. A decision is possible in 1999.

Under its alternative regulation plan approved in 1997, CT is protected by an exogenous events provision that recognizes and accounts for any state/federal regulatory or legislative changes which affect revenues or expenses, thereby allowing CT to rebalance rates to compensate for changes in revenues and/or expenses due to such exogenous events.

No assurances can be given as to what future actions Congress, the FCC or other regulatory authorities may take and the effects thereof on the Company and its results of operations.

Pennsylvania Public Utility Commission

On March 26, 1998, CT received approval of a re-balancing settlement filed before the Pennsylvania Public Utility Commission. Effective April 1, 1998, CT was authorized to shift, on a revenue-neutral basis, approximately $6,100 in annual revenue onto local telephone rates. Offsetting this increase to local service revenue were corresponding decreases in inter- exchange carrier access charges, the elimination or reduction of certain optional services (elimination of business touch tone charges, lowered custom calling rates for both residential and business customers) and the expansion of local calling areas. CT was also afforded the opportunity to upgrade all multi-party ("party line") service to single-party service. This rebalancing was the first major change affecting CT's local service rate structure in 20 years. CT is the largest incumbent local exchange carrier in Pennsylvania to successfully re-balance telephone rates.

Year 2000 Readiness Disclosure

The Company has certain financial, administrative and operational systems which are not Year 2000 compliant. The Company has performed a study to identify those specific systems which require remediation and developed a plan to correct such situations in a timely fashion. The plan includes procedures which are designed to ensure that those systems for which the company is dependent on external vendors' remediation efforts will be Year 2000 compliant by the end of 1999. The Company has identified the following plan phases: (i) awareness, which includes defining the problems presented; (ii) inventory, which includes a detailed evaluation, by system, of the size and complexity of Year 2000 problems, if any; (iii) assessment, which consists of evaluating the Year 2000 compliance status of the inventory, through contact with vendors, and the solutions required; (iv) renovation, which includes the actual repair, upgrade, replacement or re-engineering of various systems; (v) validation, which includes testing of affected systems; (vi) implementation, whereby renovated systems are placed in production; and (vii) post implementation, which includes contingency planning.

For those internal systems that require corrective action, the Company has contracted with its information systems services provider to rewrite the relevant programming code. During 1998, the Company converted its suite of financial systems to an Oracle system. Such system is expected to ensure Year 2000 compliance in financial applications, enable the Company to process and report its financial transactions more efficiently and provide a greater level of detailed information to facilitate management's analysis which is critical to its business decisions.

The Company is employing a team approach across its MIS, financial and operational groups in addressing the above issues, as well as utilizing the assistance of external consultants in the case of the Oracle implementation.

The Company completed renovation of its mission-critical systems and expects non-critical systems renovation to be completed by the end of the first quarter of 1999. Testing of major operational system components already has begun, with further tests in 1999. There have been no mission critical Information Technology (IT) projects deferred as a result of the Year 2000 efforts.

The Year 2000 compliance status of interconnected third party networks is not yet fully known. The Company has made and expects to continue to make inquiry of interconnected third party networks and industry work groups addressing the Year 2000 issues concerning testing and compliance. While the Company understands that members of the US public switched telephone network are, individually and collectively, working on remediation and testing of Year 2000 issues, there can be no assurances that remediation or test results will be complete or available for all configuration of interconnected software and equipment used by the Company in connection with the network.

The most reasonably likely risks of failure by the Company or its supplier to resolve the Year 2000 problem would be an inability to provide services for the Company's customers and an inability on the part of the

Company to timely process service requests and billings for its customers. As a result, while the Company believes its plan for Year 2000 remediation and testing of its operational telephone networks is on schedule, the Company is unable to determine the impact that any system interruption in interconnected third party networks would have on the Company's business, financial condition and results of operations.

The Company has, over many years, sold, leased and maintained telephone equipment manufactured by third parties and owned by the Company's customers, known as Customer Premise Equipment ("CPE"), which is attached to the Company's network. Certain CPE, including Private Branch Exchanges ("PBXs"), include date-sensitive features, such as voice messaging and customer-owned cost accounting systems. These systems or features may encounter Year 2000 processing problems resulting in system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

Currently the Company is engaging with customers in various phases of their Year 2000 problems and solutions, and manufacturer or customer decisions to provide or install such solutions. Whether manufacturers or owners will make or complete necessary CPE repairs on a timely basis is not yet fully known. As a result, the Company is unable to determine the impact that any CPE interruption would have on the Company's business, financial condition and results of operations.

Although the total costs to remedy the Year 2000 issues cannot be precisely estimated and may change over time, the Company incurred costs of $3,831 during 1998 (which included $2,587 of capitalizable costs) and anticipates spending $500 in 1999. These costs will be expensed as incurred, unless new systems are purchased that should be capitalized in accordance with generally accepted accounting principles. Some of the costs represent ongoing investments in systems upgrades, the timing of which is being accelerated in order to facilitate Year 2000 compliance. In some instances, such upgrades will position the Company to provide more and better quality services to its customers than they currently receive. The Company expects to fund these costs with cash provided by operations.

There is no assurance that the Company's Year 2000 compliance plan will progress as intended. While the Company continues to refine its Year 2000 remediation efforts and the associated costs, based on the information most currently available as noted above, the Company does not believe that its future costs of Year 2000 remediation will be material. The Company is in the process of developing a comprehensive contingency plan in the event of network, system or hardware failure. The Company anticipates completion of its comprehensive contingency plan by the end of the second quarter, 1999.

The above discussion contains statements that are "forward-looking." The above information is based on CTE's current best estimates, which were derived using numerous assumptions. Given the complexity of these issues and possible as yet unidentified risks, actual results may vary materially from those anticipated and discussed above. Specific factors that might cause such differences include, among others, the availability and cost of personnel trained in this area, the ability to locate and correct all affected computer codes, the timing and success of remedial efforts of our third party suppliers and similar uncertainties. No assurance can be given that third parties, on whom the Company depends for essential services (such as electric utilities, interexchange carriers, software and hardware equipment suppliers, etc.), will convert their critical systems and processes in a timely manner. Failure or delay by any of these parties could significantly disrupt the Company's business, financial condition or results of operations.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

SELECTED FINANCIAL DATA

THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS
FOR THE YEARS ENDED DECEMBER 31,

	1998	1997	1996	1995	1994
Sales	$225,734	$196,596	$186,506	$174,191	$160,272
Income from continuing operations	20,455	22,184	25,869	31,206	17,033
Diluted earnings per average common share from continuing operations	0.36	0.80	0.99	1.38	1.13
Dividends per share	--	--	--	--	--
Total assets	432,942	373,667	627,653	639,132	572,277
Long-term debt, net of current maturities	116,838	167,347	101,356	110,366	119,376
Redeemable preferred stock*	52,000	42,517	40,867	39,493	257

* See Note 20 Subsequent Events in the accompanying notes to Consolidated Financial Statements.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)		
Sales	$225,734	$196,596	$186,506
Costs and expenses, excluding management fees and depreciation and amortization	137,106	115,636	102,658
Management fees	7,016	8,283	8,382
Depreciation and amortization	37,382	31,216	27,390
Operating income	44,230	41,461	48,076
Interest and dividend income	3,197	3,422	3,501
Interest expense	(12,714)	(9,933)	(9,577)
Other income, net	200	1,041	2,286
Income from continuing operations before income taxes	34,913	35,991	44,286
Provision for income taxes	16,264	15,460	19,960
Income from continuing operations before equity in unconsolidated entities	18,649	20,531	24,326
Equity in income of unconsolidated entities	1,806	1,653	1,543
Income from continuing operations before extraordinary charge	20,455	22,184	25,869
Discontinued operations	--	(36,149)	(13,556)
Income (loss) before extraordinary charge	20,455	(13,965)	12,313
Extraordinary charge:			
Discontinuation of the application of regulatory accounting	--	--	(1,928)
Net income (loss)	20,455	(13,965)	10,385
Preferred stock dividend and accretion requirements	12,365	4,249	3,974
Net income (loss) to common shareholders	$8,090	$(18,214)	$6,411
Basic earnings per average common share:			
Income from continuing operations before extraordinary charge	$0.37	$0.82	$1.00
Discontinued operations	--	$(1.65)	$(0.62)
Extraordinary charge--discontinuation of application of SFAS 71	--	--	$(0.09)
Net income available for common shareholders	$0.37	$(0.83)	$0.29
Average common shares outstanding	22,058,101	22,000,625	21,984,743
Diluted earnings per average common share:			
Income from continuing operations before extraordinary charge	$0.36	$0.80	$0.99
Discontinued operations	--	$(1.61)	$(0.61)
Extraordinary charge--discontinuation of application of SFAS 71	--	--	$(0.09)
Net income available for common shareholders	$0.36	$(0.81)	$0.29

Average common shares and common stock equivalents outstanding	22,664,264	22,374,367	22,142,108

See accompanying notes to Consolidated Financial Statements.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Current Assets		
Cash and temporary cash investments	$16,968	$14,017
Accounts receivable, net of reserve for doubtful accounts of $1,885 in 1998 and $1,098 in 1997	24,830	23,824
Accounts receivable from related parties	3,850	3,743
Unbilled revenues	12,498	11,015
Material and supply inventory, at average cost	11,397	8,000
Prepayments and other	1,778	5,671
Deferred income taxes	7,816	5,170
Total current assets	79,137	71,440
Property, plant and equipment, net of accumulated depreciation of $251,226 in 1998 and $223,051 in 1997	338,947	287,956
Investments	8,898	8,815
Deferred charges and other assets	5,960	5,456
Total assets	$432,942	$373,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$9,010	$9,010
Accounts payable	34,092	24,738
Advance billings and customer deposits	4,516	3,540
Accrued taxes	3,064	1,498
Accrued interest	556	638
Accounts payable to related parties	1,580	7,944
Accrued expenses	32,739	28,090
Total current liabilities	85,557	75,458
Long-term debt	116,838	167,347
Deferred income taxes	44,094	42,030
Deferred investment tax credits	--	56
Other deferred credits	9,717	8,328
Redeemable preferred stock	52,000	42,517
Commitments and contingencies (see Note 15)		
Common shareholders' equity	124,736	37,931
Total liabilities and shareholders' equity	$432,942	$373,667

See accompanying notes to Consolidated Financial Statements.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (THOUSANDS OF DOLLARS)

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income (loss).	$20,455	$(13,965)	$10,385
Gain on pension curtailment/settlement	--	--	(4,292)
Extraordinary items.	--	--	1,928
Depreciation and amortization.	37,382	94,269	97,653
Loss on sale of discontinued operations.	--	--	550
Deferred income taxes and investment tax credits, net.	(638)	(5,240)	(6,409)
Gain on sale of Florida cable operations	--	(2,571)	--
Gain on sale of partnership interest	--	(661)	--
Provision for loss on accounts receivable.	787	3,292	4,542
Equity in (income) loss of unconsolidated entities.	(1,806)	656	739
Decrease in minority interest.	--	(3,757)	(2,491)
Other non-cash items	370	94	244
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unbilled revenues.	(3,383)	(1,859)	(783)
Material and supply inventory.	(3,397)	(4,378)	(1,062)
Accounts payable	2,990	3,049	8,562
Accrued expenses and taxes	6,215	(3,737)	11,383
Other, net.	4,768	(2,066)	(1,319)
Other.	1,272	(419)	(1,139)
Net cash provided by operating activities.	65,015	62,707	118,491
Cash flows from investing activities:			
Additions to property, plant and equipment	(87,897)	(123,432)	(86,812)
Purchase of short-term investments	--	--	(75,091)
Sales and maturities of short-term investments	--	46,935	149,086
Acquisitions, net of cash acquired	--	(30,490)	(30,090)
Purchase of loan receivable.	--	--	(13,088)
Proceeds from sale of Florida cable operations.	--	3,496	--
Proceeds from sale of partnership interest.	--	1,900	--
Other.	1,114	(801)	2,443
Net cash used in investing activities.	(86,783)	(102,392)	(53,552)
Cash flows from financing activities:			
Redemption of long-term debt	(86,010)	(165,689)	(55,260)
Proceeds from the issuance of common stock	693	183	664
Net proceeds of common stock rights offering	77,418	--	--
Issuance of long-term debt	35,500	333,000	19,000
Preferred dividends.	(2,882)	(1,950)	(2,600)
Cash contribution from joint venture partner	--	4,116	--
Payment made for debt issuance costs	--	(763)	--
Cash of discontinued operations.	--	(191,335)	--
Net cash used in financing activities.	24,719	(22,438)	(38,196)

Net increase (decrease) in cash and temporary cash investments	$2,951	$(62,123)	$26,743
Cash and temporary cash investments at beginning of year:			
Continuing operations	$14,017	$11,004	$8,354
Discontinued operations	--	65,136	41,043
	$14,017	$76,140	$49,397
Cash and temporary cash investments at end of year:			
Continuing operations	$16,968	$14,017	$11,004
Discontinued operations	--	--	65,136
	$16,968	$14,017	$76,140
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$12,005	$33,997	$26,594
Income Taxes	$15,911	$9,069	$14,640

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

In 1996, the Company acquired an 80.1% interest in Freedom New York, L.L.C. The acquisition was accounted for as a purchase. A summary of the acquisition is as follows:

Cash paid	$28,906
Liabilities assumed	7,621
Deferred tax asset recognized	(167)
Minority interest recognized.	6,188
Fair value of assets acquired	$42,548

In March 1997, the Company acquired the portion of Freedom which it did not already own. The transaction was accounted for as a purchase. A summary of the transaction is as follows:

Cash paid	$40,000
Non-capitalizable costs	(10,000)
Reduction of minority interest	(3,812)
Fair value of assets.	$26,188

In September 1997, in connection with the transfer of the Company's investment in Mercom to Cable Michigan, Cable Michigan assumed the Company's $15,000 Term Credit Facility.

Accretion in the carrying value of redeemable preferred stock charged to retained earnings for the year ended December 31, 1998 and 1997 was $9,483 and $1,649, respectively. 1998 includes $7,834 as a result of the redemption of the Preferred Stock Series A and Preferred Stock Series B. This charge represents an acceleration of the accretion that would have been recognized over the remaining term of the Preferred Stock.

Certain intercompany accounts receivable and payable and intercompany note balances were transferred to additional paid-in capital in connection with the Distribution.

See accompanying notes to Consolidated Financial Statements.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS OF DOLLARS)

	COMMON PAR VALUE	CLASS B PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	COMMON STOCK OF PARENT HELD BY SUBSIDIARIES	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 1995	$12,926	$8,096	$369,167	$123,124	$(5,288)	$(135,384)	$372,641
Net income				10,385			10,385
Preferred dividends				(2,600)			(2,600)
Conversions	389	(389)					--
Accretion of redeemable preferred stock				(1,374)			(1,374)
Stock plan transactions			160		574		734
Other			(10)				(10)
Common stock of parent held by subsidiary returned to treasury stock					(135,384)	135,384	--
Balance, December 31, 1996	13,315	7,707	369,317	129,535	(140,098)	--	379,776
Net loss from 1/1/97 through 9/30/97				(18,127)			(18,127)
Net income from 10/1/97 through 12/31/97				4,162			4,162
Preferred dividends				(1,950)			(1,950)
Conversions	2,479	(2,479)					--
Stock plan transactions	3		5		338		346
Accretion of redeemable preferred stock				(1,649)			(1,649)
Adjustment for the distribution			(217,730)	(108,223)			(325,953)
Other	90	1,262	(551)	2	523		1,326
Balance, December 31, 1997	15,887	6,490	151,041	3,750	(139,237)	--	37,931
Net income				20,455			20,455
Preferred dividends				(2,882)			(2,882)
Conversions	245	(245)					--
Common stock rights offering	3,679		73,739				77,418
Stock plan transactions			(1,797)		2,490		693
Accretion of redeemable preferred stock				(9,483)			(9,483)
Other	3		601				604
Balance, December 31, 1998	$19,814	$6,245	$223,584	$11,840	$(136,747)	$--	$124,736

See accompanying notes to Consolidated Financial Statements.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	COMMON STOCK				CLASS B COMMON STOCK			
	SHARES ISSUED	TREASURY STOCK	COMMON STOCK OF PARENT HELD BY SUBSIDIARY	SHARES OUTSTANDING	SHARES ISSUED	TREASURY STOCK	COMMON STOCK OF PARENT HELD BY SUBSIDIARY	SHARES OUTSTANDING
Balance, December 31, 1995	12,926,619	175,599	(85,465)	12,665,555	8,095,790	202,243	(2,388,271)	5,505,276
Conversions	388,948			388,948	(388,948)			(388,948)
Accretion of redeemable preferred stock.								
Stock plan transactions		(29,000)		29,000				
Other								
Common stock of parent held by subsidiary returned to treasury stock.		128,198	85,465	(42,733)		3,582,406	2,388,271	(1,194,135)
Balance, December 31, 1996	13,315,567	274,797	--	13,040,770	7,706,842	3,784,649	--	3,922,193
Conversions	2,478,628			2,478,628	(2,478,628)			(2,478,628)
Stock plan transactions	3,284	(11,228)		14,512				
Accretion of redeemable preferred stock.								
Adjustment for the distribution								
Other	89,568			89,568	1,261,550			1,261,550
Balance, December 31, 1997	15,887,047	263,569	--	15,623,478	6,489,764	3,784,649	--	2,705,115
Conversions	244,760			244,760	(244,760)			(244,760)
Stock plan transactions		(68,235)		68,235				
Accretion of redeemable preferred stock.								
Common stock rights offering	3,678,612			3,678,612				
Other	3,231			3,231				
Balance, December 31, 1998	19,813,650	195,334	--	19,618,316	6,245,004	3,784,649	--	2,460,355

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)

1. Background and Basis of Presentation

The consolidated financial statements of Commonwealth Telephone Enterprises, Inc. ("CTE" or "the Company") include the accounts of its wholly-owned subsidiaries, Commonwealth Telephone Company ("CT"), the nation's tenth largest independent local exchange carrier ("ILEC"); CTSI, Inc, a competitive local exchange carrier ("CLEC"); and other operations ("Other") which include Commonwealth Communications ("CC"), an engineering services business; epix(TM) Internet Services ("epix"); and Commonwealth Long Distance Company ("CLD") a reseller of long-distance services. All significant intercompany accounts and transactions are eliminated.

On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly-owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C- TEC's Common Stock, par value $1.00 per share ("Common Stock") and C-TEC's Class B Common Stock, par value $1.00 per share ("Class B Common Stock") as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C- TEC, RCN and Cable Michigan. RCN consisted primarily of C-TEC's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor; its existing New York, New Jersey and Pennsylvania cable television operations; a portion of its long-distance operations; and its international investment in Megacable, S.A. de C.V. Cable Michigan, Inc. consisted of C-TEC's Michigan Cable operations, including its 62% ownership in Mercom, Inc. In connection with the Distribution, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. and amended its articles of incorporation to effect a two for three reverse stock split.

CTE, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, and governing various ongoing relationships, including the provision of support services (management fees), among the three companies, including a distribution agreement and a tax-sharing agreement.

In accordance with Accounting Principles Board Opinion No. 30--"Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Company has restated its results of operations prior to September 30, 1997, to reflect RCN and Cable Michigan as discontinued operations.

2. Summary of Significant Accounting Policies

Use of Estimates--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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition--Local telephone service revenue is recorded as earned based on tariffed rates. Telephone network access and long-distance service revenues are derived from access charges, toll rates and settlement arrangements. CT's interstate access charges are subject to a pooling process with the National Exchange Carrier Association (NECA). Final interstate revenues are based on nationwide average costs applied to certain demand quantities.

Internet access service revenues are recorded based on contracted fees.

Long-distance telephone service revenues are recorded based on minutes of traffic processed and tariffed rates or contracted fees.

Revenue from local telephone, Internet access and long-distance telephone services is earned and recorded when the services are provided.

Long-term contracts of Commonwealth Communications are accounted for on the percentage-of-completion method. Estimated sales and earnings are recognized as equipment is installed or contract services rendered, with estimated losses, if any, charged to income currently.

Advertising Expense--Advertising costs are expensed as incurred. Advertising expense charged to operations was $3,948, $4,090 and $1,036 in 1998, 1997 and 1996, respectively.

Stock-Based Compensation--The Company applies Accounting Principles Board Opinion No. 25--"Accounting for Stock Issued to Employees" ("APB 25") in accounting for its stock plans. The Company has adopted the disclosure--only provisions of Statement of Financial Accounting Standards No. 123--"Accounting for Stock-Based Compensation" ("SFAS 123"). All share and per share data, stock option data and market prices of the Company's Common Stock and Class B Common Stock have been restated to reflect the Reverse Stock Split (Note 11).

Earnings Per Share--Basic earnings per share amounts are based on net income after deducting preferred stock dividend requirements and the charges to retained earnings for the accretion in value of preferred stock divided by the weighted average number of shares of Common Stock and Class B Common Stock outstanding during each year. All share and per share data, stock option data and market prices of the Company's Common Stock and Class B Common Stock have been restated to reflect the Reverse Stock Split (Note 11). Also, all share and per share data have been restated to reflect the additional 3,678,612 shares issued in the October 1998, Common Stock Rights Offering.

Diluted earnings per share are based on net income after deducting preferred stock dividend requirements and the charges to retained earnings for the accretion in value of preferred stock divided by the weighted average number of shares of Common Stock and Class B Common Stock outstanding during each year after giving effect to stock options considered to be dilutive common stock equivalents. For the years ended December 31, 1998, 1997 and 1996, the conversion of redeemable preferred stock into common stock is not assumed, since the effect is anti-dilutive. All share and per share data, stock option data and market prices of the Company's Common Stock and Class B Common Stock have been restated to reflect the Reverse Stock Split (Note 11). Also, all share and per share data have been restated to reflect the additional 3,678,612 shares issued in the October 1998, Common Stock Rights Offering.

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Income from continuing operations before extraordinary charge	$20,455	$22,184	$25,869
Preferred stock dividends(1).	2,882	2,600	2,600
Subtotal.	17,573	19,584	23,269
Accretion of preferred stock(1)	9,483	1,649	1,374
Total	$8,090	$17,935	$21,895
Basic earnings per average common share:			
Average shares outstanding.	22,058,101	22,000,625	21,984,743
Income per average common share	$0.37	$0.82	$1.00
Diluted earnings per average common share:			
Average shares outstanding.	22,058,101	22,000,625	21,984,743
Dilutive shares resulting from stock options	606,163	373,742	157,365
Redeemable preferred stock(2)	--	--	--
	22,664,264	22,374,367	22,142,108
Income per average common share	$0.36	$0.80	$0.99

(1) Includes accrued dividends and accretion of $282 and $7,834, respectively (See Note 20).

(2) In 1998, 1997 and 1996, the conversion of redeemable preferred stock into 1,457,143 shares of common stock using the "if converted" method is anti- dilutive.

Cash and Temporary Cash Investments--For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be temporary cash investments. Temporary cash investments are stated at cost which approximates market.

Property, Plant and Equipment and Depreciation--Property, plant and equipment reflects the original cost of acquisition or construction, including payroll and related costs such as taxes, pensions and other fringe benefits, and certain general administrative costs. Major replacements and betterments are capitalized. Repairs of all property, plant and equipment are charged to expense as incurred.

Depreciation on telephone plant is based on the estimated remaining lives of the various classes of depreciable property and straight-line composite rates. The average rates were approximately 7.08%, 6.70% and 6.38% in 1998, 1997 and 1996, respectively. The range of depreciable plant asset lives is three to thirty-seven years. At the time telephone plant is retired, the original cost, plus cost of removal, less salvage, is charged to accumulated depreciation. For all other property, plant and equipment, gain or loss is recognized on retirements and dispositions.

Deferred Charges and Other Assets--Deferred charges and other assets principally include costs incurred to obtain financing and prepaid pension cost.

Income Taxes--The Company and its subsidiaries report income for federal income tax purposes on a consolidated basis.

The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109--"Accounting for Income Taxes" ("SFAS 109"). The statement requires the use of an asset and liability approach for financial accounting and reporting for income taxes. An asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial reporting basis and tax basis of assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Investments tax credits ("ITC") have been deferred in prior years and are being amortized over the average lives of the applicable property. Investment tax credits are fully amortized as of December 31, 1998.

Accounting for Impairments--Long-lived assets and certain identifiable intangibles to be held and used by any entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the net future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected net future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles expected to be held and used is based on the fair value of the asset.

No impairment losses have been recognized by the Company.

3. SEGMENT INFORMATION

The company operates in two principal business segments: Commonwealth Telephone Company ("CT"), the nation's tenth largest independent Incumbent Local Exchange Carrier ("ILEC") which has been operating in various rural Pennsylvania markets since 1897; and CTSI, Inc. ("CTSI"), a Competitive Local Exchange Carrier ("CLEC") which formally commenced operations in 1997. Additionally, CTE operates three support businesses that provide expertise to its two principal operating segments. These businesses consist of Commonwealth Communications ("CC"), a telecommunications engineering and consulting business; epix(TM) Internet Services ("epix"); and Commonwealth Long Distance Company ("CLD"), a facilities-based long-distance reseller. CT provides local and long-distance telephone service to residential and business customers in a 19-county service territory in rural northeastern and central Pennsylvania. CT also provides network access and billing/collection services to interexchange carriers and sells telecommunications products and services. CTSI is a competitive local exchange carrier operating in five markets, offering bundled local and long-distance telephone, Internet and vertical services. CC provides telecommunications engineering and technical services and designs, installs and manages telephone systems for corporations, hospitals and universities located principally in Pennsylvania. epix is an Internet service provider. CLD provides long-distance telephone services to CT's and CTSI's customers. No single external customer contributes ten percent or more of CTE's consolidated revenues. Revenue from local telephone, Internet access and long-distance telephone service is earned and recorded when the services are provided. Long- term contracts of CC are accounted for on the percentage of completion method.

"Operating income (loss) before depreciation and amortization" for 1998, 1997 and 1996, includes $7,016, $8,283 and $8,382, respectively for management fees.

COMMONWEALTH TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Financial information by business segment is as follows:

FOR THE YEAR ENDED DECEMBER 31, 1998

	CT	CTSI	OTHER	CONSOLIDATED
Sales	$164,113	$22,542	$51,111	$237,766
Elimination of intersegment sales	8,847	305	2,880	12,032
External sales	155,266	22,237	48,231	225,734
Operating income (loss) before depreciation and amortization	88,785	(9,103)	1,930	81,612
Depreciation and amortization	29,702	4,873	2,807	37,382
Operating income (loss)	59,083	(13,976)	(877)	44,230
Interest income (expense)	(4,291)	--	(5,226)	(9,517)
Other income (expense)	(366)	674	(108)	200
Income from continuing operations before income taxes	54,426	(13,302)	(6,211)	34,913
Provision (benefit) for income taxes	22,617	(4,008)	(2,345)	16,264
Identifiable assets	304,891	92,159	35,892	432,942
Capital expenditures	37,459	46,380	4,058	87,897

FOR THE YEAR ENDED DECEMBER 31, 1997

	CT	CTSI	OTHER	CONSOLIDATED
Sales	$155,636	$5,659	$51,716	$213,011
Elimination of intersegment sales	11,098	330	4,987	16,415
External sales	144,538	5,329	46,729	196,596
Operating income (loss) before depreciation and amortization	80,880	(9,981)	1,778	72,677
Depreciation and amortization	27,857	1,039	2,320	31,216
Operating income (loss)	53,023	(11,020)	(542)	41,461
Interest income (expense)	(5,046)	177	(1,642)	(6,511)
Other income (expense)	(312)	114	1,239	1,041
Income from continuing operations before income taxes	47,665	(10,729)	(945)	35,991
Provision (benefit) for income taxes	19,723	(3,645)	(618)	15,460
Identifiable assets	287,081	48,321	38,265	373,667
Capital expenditures	30,739	36,615	56,078*	123,432

FOR THE YEAR ENDED DECEMBER 31, 1996

	CT	CTSI	OTHER	CONSOLIDATED
Sales	$147,783	$89	$60,008	$207,880
Elimination of intersegment sales	12,208	--	9,166	21,374
External sales	135,575	89	50,842	186,506
Operating income (loss) before depreciation and amortization	73,887	(941)	2,520	75,466
Depreciation and amortization	25,975	9	1,406	27,390
Operating income (loss)	47,912	(950)	1,114	48,076
Interest income (expense)	(5,329)	--	(747)	(6,076)
Other income (expense)	(128)	(3)	2,417	2,286
Income from continuing operations before income taxes	42,455	(953)	2,784	44,286
Provision (benefit) for income taxes	16,626	(333)	3,667	19,960
Identifiable assets	285,183	6,724	335,746**	627,653
Capital expenditures	28,834	6,692	51,286*	86,812

* Primarily includes capital expenditures of discontinued operations. **Includes net assets of discontinued operations of $318,493 in 1996.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

4. BUSINESS COMBINATIONS

The following business combinations were transacted by wholly-owned subsidiaries of C-TEC. The acquired businesses were transferred to RCN or Cable Michigan in connection with the restructuring.

On August 30, 1996, FNY Holding Company, Inc. ("FNY"), acquired from Level 3 Telecom Holdings, Inc., (formerly Kiewit Telecom Holdings, Inc.), C-TEC's controlling shareholder at the time, an 80.1% interest in Freedom New York, L.L.C. and all related rights and liabilities ("Freedom") for cash consideration of approximately $29,000. In addition, FNY assumed liabilities of approximately $7,600. (In March 1996, Freedom had acquired the wireless cable television business of Liberty Cable Television.) The acquisition was accounted for as a purchase, and accordingly, Freedom is included in the Company's Consolidated Financial Statements from the date of purchase through the date of the Distribution.

FNY allocated the purchase price paid on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. There was no excess cost over fair value of net assets acquired.

Contingent consideration of $15,000 was payable in cash and was to be based upon the number of net eligible subscribers, as defined, in excess of 16,563 delivered to the Company. The contingent consideration is not included in the acquisition cost total above, but was to have been recorded when and if the future delivery of subscribers occurred. In addition, FNY paid $922 to Level 3 Telecom Holdings, Inc. which represents compensation for foregone interest on the amount invested by Level 3 Telecom Holdings, Inc. in Freedom. This amount has been charged to operations.

On March 21, 1997, the Company paid $15,000 in full satisfaction of contingent consideration payable for the acquisition of Freedom. Additionally, pursuant to the terms of the Freedom Operating Agreement, the assets of RCN Telecom Services of New York, Inc., a wholly-owned subsidiary of RCN, were contributed to Freedom, in which the Company had an 80.1% ownership interest prior to such contribution. Subsequent to this contribution, the Company paid $15,000 to acquire the minority ownership of Freedom. These amounts were primarily allocated to excess cost over fair value of net assets acquired and are being amortized over a period of approximately six years. The Company also paid $10,000 to terminate a marketing services agreement between Freedom and an entity controlled by Freedom's former minority owners. The Company charged this amount to operations for the quarter ended March 31, 1997.

5. DISCONTINUED OPERATIONS

Pursuant to the Distribution discussed in Note 1 to the Consolidated Financial Statements, the Company has accounted for the RCN and Cable Michigan operations as discontinued operations. All activity up to the date of disposition has been accounted for as discontinued operations.

Sales of discontinued operations were $152,772 in 1997 and $180,802 in 1996.

Results of discontinued operations is comprised of the following:

	FOR THE YEARS ENDED DECEMBER 31,	
	1997	1996
(Loss) gain on disposal of discontinued operations	$(13,745)	$(160)
(Loss) from discontinued operations	(22,404)	(13,396)
Total discontinued operations	$(36,149)	$(13,556)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	DECEMBER 31,	
	1998	1997
CT.	$483,679	$454,139
CTSI.	89,209	43,306
Other	17,285	13,562
Total property, plant and equipment	590,173	511,007
Less accumulated depreciation	(251,226)	(223,051)
Property, plant and equipment, net	$338,947	$287,956

Depreciation expense was $37,382, $31,216 and $27,390 for the years ended December 31, 1998, 1997 and 1996, respectively.

7. INVESTMENTS

Investments are as follows:

	DECEMBER 31,	
	1998	1997
Rural Telephone Bank Stock	$6,409	$6,409
Partnership.	2,451	2,376
Other.	38	30
Total Investments.	$8,898	$8,815

Investment carried on the equity method consists of the following:

	PERCENTAGE OWNED	
	DECEMBER 31,	
	1998	1997
Yellow Book, USA, L.P. Partnership.	50.00%	50.00%

Partnership between the Company and Yellow Book, USA, L.P. ("Yellow Book") whereby Yellow Book provides directory publishing services, including yellow pages advertising sales for eight telephone directories.

8. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets consist of the following:

	DECEMBER 31,	
	1998	1997
Unamortized debt issuance costs.	$804	$972
Prepaid pension cost	4,420	3,729
Prepaid professional services.	--	162
Executive stock purchase plan.	97	--
Other.	639	593
Total.	$5,960	$5,456

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

9. DEBT

a. Long-term debt--Long-term debt outstanding is as follows:

	DECEMBER 31,	
	1998	1997
Credit Agreement--National Bank for Cooperatives 6.95% due 2009	$92,348	$101,357
Revolving Credit Facility	33,500	75,000
Total	125,848	176,357
Due within one year	9,010	9,010
Total long-term debt	$116,838	$167,347

In July 1997, the Company entered into a $125,000 revolving credit facility which matures June 2002. Throughout 1998, the Company borrowed an additional $35,500 on the facility primarily to fund CTSI's expansion. On October 28, 1998, the Company received approximately $77,000 in proceeds from its Common Stock Rights Offering. The proceeds were used to reduce the outstanding borrowings on the revolving credit facility to $33,500 at December 31, 1998. The weighted average interest rate at December 31, 1998 on the revolving credit facility was 6.09%. The facility contains restrictive covenants which, among other things, require the Company to maintain certain debt to cash flow, interest coverage and fixed charge coverage ratios and a certain level of net worth and place certain limitations on additional debt and investments. The Company does not believe that these covenants will materially restrict its activities.

On February 8, 1999, CTE borrowed $52,500 against its revolving credit facility at a LIBOR interest rate of 5.44% to redeem outstanding preferred stock and accrued dividends associated with the Yee Family Trusts litigation settlement (see Note 20).

In March 1994, the Company entered into a $135,143 credit agreement with the National Bank for Cooperatives (CoBank) at interest rates chosen by the Company based on a number of options. Principal and interest are payable monthly. This agreement contains restrictive covenants, which, among other things, require the maintenance of a specified debt to cash flow ratio. As of December 31, 1998, the weighted average interest rate was 6.95% on borrowings of $92,348.

The funds from the CoBank agreement were used to prepay outstanding borrowings under various mortgage notes and security agreements with the United States of America through the Rural Electrification Administration, the Rural Telephone Bank (RTB) and the Federal Financing Bank on the closing date. In accordance with the terms of the mortgage notes and security agreements, the Company was required to purchase common stock of the RTB, equal to approximately 5% of the amount borrowed. In connection with the prepayment, the Company converted all outstanding RTB Class B stock to RTB Class C stock. Such stock is entitled to cash dividends.

The Company's holdings of RTB stock are included in the investments on the Company's balance sheets. Substantially all the assets of the Company are subject to the lien of the CoBank Agreement described above.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Maturities and sinking fund requirements on long-term debt for each year ending December 31, 1999 through 2003 are as follows:

YEAR	AGGREGATE AMOUNTS
1999	$9,010
2000	$9,010
2001	$9,010
2002	$42,510
2003	$9,010

b. Short-Term Debt--At December 31, 1998, the Company had unused committed lines of credit that provided for borrowings of up to $5,000 at LIBOR plus 1% (6.07% at December 31, 1998). Short-term unsecured borrowings may be made under this line of credit. The amounts available under this line of credit are reduced by outstanding letters of credit ($750 at December 31, 1998). This line of credit is cancelable at the option of the bank or the Company.

There are no commitment or facility fees associated with maintaining availability of the above-mentioned lines of credit.

10. REDEEMABLE PREFERRED STOCK

In connection with the 1995 acquisition of Twin County Trans-Video, Inc. ("Twin County"), the shareholders approved the issuance of 4,100,000 shares of Preferred Series A and 1,100,000 shares of Preferred Series B shares (collectively the "Preferred Stock"). Such shares were issued in September 1995 and were outstanding at December 31, 1997 and 1996. The shares were subsequently redeemed on February 8, 1999.

The Preferred Stock has a stated value of $10 per share and is entitled to receive $10 per share in liquidation. Dividends on the Preferred Stock are cumulative at 5% per annum beginning January 1, 1996 and must be paid in the event of liquidation before any distribution to holders of Common Stock and Class B Stock. The Company paid dividends on the redeemable preferred stock of $2,600 in 1998, $1,950 in 1997 and $2,600 in 1996.

The Preferred Stock was recorded at fair value on the date of issuance. The excess of the stated value over the carrying value is being accreted by periodic charges to retained earnings over the life of the issue. Such accretion aggregated $1,649, $1,649 and $1,374 in 1998, 1997 and 1996, respectively.

On February 8, 1999, the Company redeemed the shares of its Preferred Stock Series A and Preferred Stock Series B at their stated value, an aggregate of $52,000, plus accrued dividends. This was pursuant to a Settlement Agreement between the Company and the Yee Family Trusts with respect to the action filed on September 30, 1997 by the Yee Family Trusts, as holders of the Company's Preferred Stock Series A and Preferred Stock Series B. The Yee Family Trusts have dismissed with prejudice the action against all defendants, including the Company, RCN Corporation and Cable Michigan, Inc. (see Note 20).

11. COMMON SHAREHOLDERS' EQUITY AND STOCK PLANS

Common Stock--The Company has authorized 85,000,000 shares of $1 par value Common Stock and 15,000,000 shares of $1 par value Class B Stock at December 31, 1998 and 1997.

At the Company's annual shareholders' meeting on October 1, 1997, the shareholders approved an amendment to the Company's Articles of Incorporation, as amended, to effect a two for three reverse stock split (the "Reverse Stock Split") of the Common Stock and the Class B Common Stock. The Reverse Stock Split was effective as of the close of business on October 9, 1997. Pursuant to the Reverse Stock Split, every three shares of Common Stock were converted into two shares of Common Stock and every three shares of Class B Stock were converted into two shares of Class B Stock. Accordingly, approximately $9,162 was transferred from common stock to additional paid-in capital to reflect this Reverse Stock Split. All share and per share data, stock option data and market prices of the Company's Common Stock have been restated to reflect this Reverse Stock Split. The Reverse Stock Split had no effect on authorized shares or the Redeemable Preferred Stock.

In December 1995, the Company acquired from Level 3 Telecom Holdings, Inc. (formerly Kiewit Telecom Holdings, Inc.) all the issued and outstanding shares of common stock of RCN Holdings, Inc. ("Holdings"). Holdings was a wholly- owned subsidiary of Level 3 Telecom Holdings, Inc. that owned 85,465 shares of Common Stock of the Company and 2,388,271 shares of Class B Stock of the Company. Level 3 Telecom Holdings, Inc. was the Company's controlling shareholder at the time and is controlled by Level 3 Communications, Inc. In exchange for newly issued shares of Common Stock and Class B Stock, respectively, equal to the number of shares of Common Stock and Class B Stock held by Holdings, Level 3 Telecom Holdings, Inc. agreed that it would reduce its direct and indirect stock interest in the Company if such reductions are necessary to accomplish a spin-off of certain of the Company's businesses on a tax-free basis to the Company and its shareholders.

The transaction was accounted for as a corporate reorganization and the newly issued shares were recorded at Level 3 Telecom Holdings, Inc.'s cost. In 1995, the Common and Class B Stock of the Company acquired in the transaction was accounted for as a contra equity account encaptioned Parent Stock Held by Subsidiary. In 1996, Holdings was dissolved and the shares of Common Stock and Class B Stock of the Company held by Holdings were returned to treasury stock.

The Company's 1994 Stock Option Plan provides for the grant of up to 1,350,000 Incentive Stock Options to non-bargaining unit employees of the Company. Options will generally become exercisable in cumulative annual increments of twenty percent commencing one year from the date of grant. The options expire ten years from the date of grant. Generally, the options are to be granted within ten years from the date of the adoption of the plan.

The Company's 1996 Equity Incentive Plan provides for the issuance of up to 2,000,000 shares of Common Stock pursuant to awards granted under the 1996 Plan. Awards granted under the 1996 Plan may include incentive stock options, nonqualified stock options, outperformance stock options, stock appreciation rights, performance share units, restricted stock, phantom stock units and other stock-based awards. Upon termination of the 1994 Plan, all shares of Common Stock reserved under the 1994 Plan, which are not then subject to outstanding awards will be available for awards under the 1996 Plan. However, the total amount of authorized shares under the 1996 Plan may not exceed 3,350,000.

In connection with the Distribution, each C-TEC option was adjusted so that each holder currently holds options to purchase shares of Commonwealth Telephone Enterprises Common Stock, RCN Common Stock and Cable Michigan Common Stock. The number of shares subject to, and the exercise price of, such options were adjusted to take into account the Distribution and to ensure that the aggregate intrinsic value of the resulting RCN, Cable Michigan and Commonwealth Telephone Enterprises options immediately after the Distribution was equal to the aggregate intrinsic value of the C-TEC options immediately prior to the Distribution.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Information relating to CTE stock options is as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding December 31, 1995	803,042	$9.30
Granted	63,333	$10.92
Exercised	(19,333)	$10.77
Canceled	(90,667)	$11.05
Outstanding December 31, 1996	756,375	$9.38
Granted	261,479	$11.05
Exercised	(9,000)	$13.64
Canceled	(1,000)	$11.10
Outstanding December 31, 1997	1,007,854	$9.77
Granted	591,500	$24.77
Exercised	(68,234)	$10.91
Canceled	(95,345)	$21.22
Outstanding December 31, 1998	1,435,775	$15.19
Shares exercisable December 31, 1996	232,467	$9.32
Shares exercisable December 31, 1997	408,873	$9.35
Shares exercisable December 31, 1998	535,868	$9.47

The range of exercise prices for options outstanding at December 31, 1998 is $8.73 to $27.00.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black-Scholes American option pricing model with weighted average assumptions for dividend yield of zero for 1998, 1997 and 1996; expected volatility of 47.8% for 1998, 34.9% for 1997 and 34.9% for 1996; risk-free interest rate of 4.72%, 6.52% and 5.95% for 1998, 1997 and 1996, respectively; and expected lives of five years for 1998, 1997 and 1996.

The weighted-average grant data fair value of options is as follows: $11.82 for 1998, $12.91 for 1997 and $12.74 for 1996.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per share were as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Net earnings (loss)--as reported	$8,090	$(18,214)	$6,411
Net earnings (loss)--pro forma	$6,534	$(18,765)	$6,388
Basic earnings (loss) per average common share--as reported	$0.37	$(0.83)	$0.29
Basic earnings (loss) per average common share--pro forma	$0.30	$(0.85)	$0.29
Diluted earnings (loss) per average common share--as reported	$0.36	$(0.81)	$0.29
Diluted earnings (loss) per average common share--pro forma	$0.29	$(0.84)	$0.29

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company also has a stock purchase plan for certain key executives (the "Executive Stock Purchase Plan" or "ESPP"). Under the ESPP, participants may purchase shares of Common Stock in an amount of between 1% and 20% of their annual base compensation and between 1% and 100% of their annual bonus compensation, provided, however, that in no event shall the participant's total contribution exceed 20% of the sum of their annual compensation, as defined by the ESPP. Participant's accounts are credited with the number of share units derived by dividing the amount of the participant's contribution by the average price of a share of Common Stock at approximately the time such contribution is made. The share units credited to a participant's account do not give such participant any rights as a shareholder with respect to, or any rights as a holder or record owner of, any shares of Common Stock. Amounts representing share units that have been credited to a participant's account will be distributed, either in a lump sum or in installments, as elected by the participant, following the earlier of the participant's termination of employment with the Company or three calendar years following the date on which the share units were initially credited to the participant's account. It is anticipated that, at the time of distribution, a participant will receive one share of Common Stock for each share unit being distributed.

Following the crediting of each share unit to a participant's account, the Company will issue a matching share of Common Stock in the participant's name. Each matching share is subject to forfeiture as provided in the ESPP. The issuance of matching shares will be subject to the participant's execution of an escrow agreement. A participant will be deemed to be the holder of, and may exercise all the rights of a record owner of, the matching shares issued to such participant while such matching shares are held in escrow.

The Board has the power to amend or terminate the ESPP at any time, and to freeze or suspend contributions to the ESPP. Amounts contributed under the ESPP will be subject to the claims of the Company's creditors and creditors of certain affiliates of the Company.

At December 31, 1998, there were approximately 44,300 ESPP shares arising from participants' contributions and approximately 32,400 matching shares. The Company recognizes the cost of the matching shares over the vesting period. At December 31, 1998, deferred compensation cost relating to matching shares was $97. Expense recognized in 1998 and 1997 was $59 and $22, respectively. Matching shares are included in weighted average shares outstanding for purposes of computing earnings per share.

12. PENSION AND EMPLOYEE BENEFITS

Substantially all of the Company's employees are included in a trusteed non- contributory defined benefit pension plan. Upon retirement, employees are provided a monthly pension based on length of service and compensation. The Company funds pension costs to the extent necessary to meet the minimum funding requirements of ERISA. Substantially all employees of the Company's discontinued Pennsylvania Cable System operations (formerly Twin County Trans Video, Inc.) were covered by an underfunded plan which was merged into the Company's overfunded plan on February 28, 1996.

Pension (credit) cost is as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Benefits earned during the year (service cost)	$1,542	$1,251	$2,365
Interest cost on projected benefit obligation	3,416	3,053	3,412
Actual return on plan assets	(5,618)	(4,376)	(3,880)
Other components--net	(29)	(691)	(1,456)
Net periodic pension (credit) cost	$(689)	$(763)	$441

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In connection with the Distribution, the Company completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective December 31, 1996, in general, employees other than those of CT and CC no longer accrue benefits under the defined benefit pension plan, but became fully vested in their benefit accrued through that date. The Company notified affected participants in December 1996. In December 1996, the Company allocated pension plan assets of $6,984 to a separate plan for employees who no longer accrue benefits after December 31, 1996 (the "curtailed plan"). The underlying liabilities were also allocated. The allocation of assets and liabilities resulted in a curtailment/settlement gain of $4,292. The gain results primarily from the reduction of the related projected benefit obligation.

Plan assets include cash, equity, fixed income securities and pooled funds under management by an insurance company. Plan assets include common stock of the Company with a fair value of approximately $5,277 and $4,125 at December 31, 1998 and 1997, respectively.

The following table sets forth the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheets:

	DECEMBER 31,	
	1998	1997
Change in plan assets:		
Fair value of plan assets beginning of year	$69,973	$55,325
Actual return	11,886	16,216
Benefits paid	(1,850)	(1,568)
Fair value of plan assets at end of year	$80,009	$69,973
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$45,900	$40,118
Benefits earned	1,542	1,251
Interest cost	3,416	3,053
Actuarial loss	4,194	3,046
Benefits paid	(1,850)	(1,568)
Projected benefit obligation at end of year	$53,202	$45,900
Plan assets in excess of benefit obligation	$26,807	$24,073
Unrecognized actuarial gain	(21,925)	(19,599)
Unrecognized prior service cost	2,012	2,225
Unrecognized net transition obligation	(2,474)	(2,970)
Prepaid benefit cost	$4,420	$3,729

The following assumptions were used in the determination of the projected benefit obligation and net periodic pension cost (credit):

	DECEMBER 31,		
	1998	1997	1996
Discount Rate	6.75%	7.00%	7.50%
Expected long-term rate of return on plan assets	9.00%	8.00%	8.00%
Weighted average long-term rate of compensation increases	6.00%	6.00%	6.00%

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company sponsors a 401(k) savings plan covering substantially all employees who are not covered by collective bargaining agreements. Contributions made by the Company to the 401(k) plan are based on a specified percentage of employee contributions. Contributions charged to expense were $727, $531 and $901 in 1998, 1997 and 1996, respectively.

For employees retiring prior to 1993, the Company provides certain postretirement medical benefits. The Company also provides postretirement life insurance benefits to substantially all employees.

Net periodic postretirement benefit cost was $169, $168, and $170 for the years ended December 31, 1998, 1997 and 1996, respectively of which service cost was $5 for each of the three years.

The following table sets forth the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheets:

	DECEMBER 31,	
	1998	1997
Change in plan assets:		
Fair value of plan assets at beginning of year	$--	$--
Employer contributions	188	186
Benefits paid	(188)	(186)
Fair value of plan assets at end of year	$--	$--
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$2,323	$2,230
Service cost	6	5
Interest cost	163	164
Actuarial loss	51	110
Benefits paid	(188)	(186)
Projected benefit obligation at end of year	$2,355	$2,323
Plan assets in excess of benefit obligation	$(2,355)	$(2,323)
Unrecognized actuarial gain	(133)	(184)
Accrued benefit cost	$(2,488)	$(2,507)

The accrued postretirement benefit liability is included in other deferred credits in the accompanying consolidated balance sheets.

The discount rate used in determining the accumulated postretirement benefit obligation was 6.75% in 1998, 7.0% in 1997 and 7.5% in 1996. The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 10.0% for 1998, 10.5% for 1997 and 11% for 1996 declining to an ultimate rate of 6% by 2011.

The effect of increasing the assumed healthcare cost trend rate by one percentage point would be to increase the accumulated postretirement benefit obligation as of December 31, 1998 and 1997 by approximately $71 and $70, respectively, and increase the net periodic postretirement benefit cost by approximately $5 in 1998, $5 in 1997 and $5 in 1996.

The Company also has a nonqualified supplemental pension plan covering certain former employees which provides for incremental pension payments from the Company to the extent that income tax regulations limit the amount payable from the Company's defined benefit pension plan. The projected benefit obligation relating to such unfunded plans was approximately $1,134, $1,117 and $1,088 at December 31, 1998, 1997 and 1996, respectively. Pension expense for the plans was $84 in 1998, $77 in 1997 and $77 in 1996.

The Company provides certain postemployment benefits to former or inactive employees who are not retirees. These benefits are primarily short-term disability salary continuance. The Company accounts for these benefits under Statement of Financial Accounting Standards No. 112-- "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). SFAS 112 requires the Company to accrue the cost of postemployment benefits over employees' service lives. The Company uses the services of an enrolled actuary to calculate the expense. The net periodic cost for postemployment benefits was $632 in 1998, $590 in 1997 and $424 in 1996.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

13. INCOME TAXES

The Provision (Benefit) for Income Taxes is reflected in the Consolidated Statements of Operations as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Currently payable:			
Federal	$10,901	$9,032	$16,701
State	5,948	3,965	3,727
Total current	16,849	12,997	20,428
Deferred, net:			
Federal	241	2,189	(127)
State	(770)	464	(64)
Total deferred	(529)	2,653	(191)
Investment tax credit amortization	(56)	(190)	(277)
Provision (benefit) for income taxes:			
From continuing operations	$16,264	$15,460	$19,960
From (loss) gain on disposal of discontinued operations	--	(7,169)	(390)
From discontinued operations	--	(8,941)	(4,223)
Total provision for income taxes	$16,264	$(650)	$15,347

The following is a reconciliation of income taxes at the applicable U.S. federal statutory rate with income taxes recorded by the Company:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Income from continuing operations before provision for income taxes, extraordinary items and cumulative effect of accounting principle changes	$36,719	$37,644	$45,829
Federal tax provision at statutory rate	12,852	13,175	16,040
Increase (reduction) due to:			
State income taxes, net of federal benefit	3,366	2,879	2,411
Amortization of investment tax credits	(37)	(123)	(180)
Benefit of rate differential applied to reversing timing differences	--	18	(71)
Estimated nondeductible expenses	--	--	1,154
Nondeductible goodwill	39	39	39
Other, net	44	(528)	567
Provision for income taxes	$16,264	$15,460	$19,960

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

For 1996, estimated nondeductible expenses relate primarily to charges in connection with the restructuring of the Company.

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities are as follows:

	DECEMBER 31,	
	1998	1997
Net operating loss carryforwards	$2,337	$1,150
Employee benefit plans	1,213	1,267
Reserve for bad debts.	1,023	693
All other.	7,339	5,020
Total deferred tax assets.	11,912	8,130
Property, plant and equipment	(45,602)	(42,637)
All other.	(704)	(792)
Total deferred tax liabilities	(46,306)	(43,429)
Subtotal	(34,394)	(35,299)
Valuation allowance.	(1,884)	(1,561)
Net deferred taxes	$(36,278)	$(36,860)

In the opinion of management, based on the future reversal of existing taxable temporary differences, primarily depreciation, and its expectations of future operating results, after consideration of the valuation allowance, the Company will more likely than not be able to realize substantially all of its deferred tax assets.

The net change in the valuation allowance for deferred tax assets during 1998 for continuing operations was an increase of $323.

State net operating losses will expire as follows:

1999-2004.	$2,000 per year
2005-2009.	$12,017

14. REGULATORY ACCOUNTING PRINCIPLES

Prior to 1996, CT followed the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71--"Accounting for the Effects of Certain Types of Regulation" ("SFAS 71").

As a result of filing an alternative regulation plan with the Pennsylvania PUC, CT determined that it no longer met the criteria for the continued application of the accounting required by SFAS 71. In this filing CT requested approval of a change from cost-based, rate-of-return regulation to incentive- based regulation using price caps. CT believed approval of the plan was probable; therefore, it discontinued application of SFAS 71 and, in accordance with Statement of Financial Accounting Standards No. 101--"Accounting for the Discontinuation of the Application of SFAS 71," wrote off the regulatory assets and liabilities previously recognized pursuant to SFAS 71, resulting in an extraordinary charge of $1,928. CT received approval of an alternative regulation plan in January 1997.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

15. COMMITMENTS AND CONTINGENCIES

a. The Company had various purchase commitments at December 31, 1998 related to its 1999 construction budget.

b. Total rental expense, including pole rentals, was $3,896, $4,002 and $3,359 in 1998, 1997 and 1996, respectively. At December 31, 1998, rental commitments under noncancelable leases, excluding annual pole rental commitments of approximately $2,214 which are expected to continue indefinitely, are as follows:

YEAR	AGGREGATE AMOUNTS
1999	$1,936
2000	$1,460
2001	$472
2002	$377
2003	$332
After 2003	$1,598

c. Effective January 1, 1998, the Company entered into a three year agreement for the provision to the Company of data processing services including the general management of the Company's data processing operations. Annual commitments, excluding annual increases based on increases in the Consumer Price Index, are $5,348 and $5,724 in 1999 and 2000.

d. The Company has outstanding letters of credit aggregating $750 at December 31, 1998.

In the normal course of business, there are various legal proceedings outstanding, including both commercial and regulatory litigation. In the opinion of management, these proceedings will not have a material adverse effect on the results of operations or financial condition of the Company.

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

a. Cash and temporary cash investments--The carrying amount approximates fair value because of the short maturity of these instruments.

b. Long-term investments--Long-term investments consist primarily of investments accounted for under the equity method for which disclosure of fair value is not required and Rural Telephone Bank ("RTB") Stock. It was not practicable to estimate the fair value of the RTB Stock because there is no quoted market price for the stock; it is issued only at par and can be held only by recipients of RTB loans.

c. Long-term debt--The fair value of fixed rate long-term debt was estimated based on the Company's current incremental borrowing rate for debt of the same remaining maturities. The fair value of floating rate long-term debt is considered to be equal to carrying value since the debt reprices at least every six months and the Company believes that its credit risk has not changed from the time the floating rate debt was borrowed and therefore, it would obtain similar rates in the current market.

d. Letters of credit--The contract amount of letters of credit represents a reasonable estimate of their value since such instruments reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The estimated fair value of the Company's financial instruments are as follows:

	DECEMBER 31,			
	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial Assets:				
Cash and temporary cash investments	$16,968	$16,968	$14,017	$14,017
Financial Liabilities:				
Fixed rate long-term debt:				
Mortgage note payable to the National Bank for Cooperatives.	$46,761	$50,187	$51,323	$54,563
Floating rate long-term debt:				
Revolving Credit Agreement	$33,500	$33,500	$75,000	$75,000
Mortgage note payable to the National Bank for Cooperatives	$45,587	$45,587	$50,034	$50,034
Unrecognized Financial Instruments:				
Letters of credit	$750	$750	$1,500	$1,500
Redeemable preferred stock.	$52,000	$52,000	$42,517	$42,517

17. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables and cash and temporary cash investments.

The Company places its cash and temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The Company also periodically evaluates the credit worthiness of the institutions with which it invests. The Company does, however, maintain unsecured cash and temporary cash investment balances in excess of federally insured limits.

The Company's trade receivables reflect a customer base primarily centered in northeastern and central Pennsylvania. The Company routinely assesses the financial strength of its customers; as a result, concentrations of credit risk are limited.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

18. QUARTERLY INFORMATION (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
1998				
Sales	$53,235	$55,679	$57,748	$59,072
Operating income	10,904	11,426	10,713	11,187
Income from continuing operations before extraordinary items	5,071	5,925	4,468	4,991
Gain (loss) from discontinued operations	--	--	--	--
Net income (loss)	5,071	5,925	4,468	4,991
BASIC EARNINGS PER SHARE:				
Income (loss) per average common share from continuing operations.	$0.18	$0.23	$0.15	$(0.19)
Net income (loss) available to common shareholder per average common share	$0.18	$0.23	$0.15	$(0.19)
DILUTED EARNINGS PER SHARE:				
Income (loss) per average common share from continuing operations.	$0.18	$0.21	$0.15	$(0.18)
Net income (loss) available to common shareholder per average common share	$0.18	$0.21	$0.15	$(0.18)
COMMON STOCK CLOSING PRICE:				
High	$29.25	$30.13	$27.25	$33.50
Low.	$21.94	$26.38	$21.00	$19.50
CLASS B STOCK CLOSING PRICE:				
High	$29.25	$29.63	$28.13	$31.50
Low.	$22.00	$26.25	$23.94	$21.63

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
1997				
Sales	$46,413	$48,553	$50,359	$51,271
Operating income	11,248	11,154	9,990	9,069
Income from continuing operations before extraordinary items	6,547	6,524	4,961	4,152
Gain (loss) from discontinued operations	(12,885)	(19,484)	(3,790)	10
Net income (loss)	(6,338)	(12,960)	1,171	4,162
BASIC EARNINGS PER SHARE:				
Income (loss) per average common share from continuing operations.	$0.25	$0.25	$0.17	$0.15
Net income (loss) available to common shareholder per average common share	$(0.34)	$(0.64)	$0.00	$0.15
DILUTED EARNINGS PER SHARE:				
Income (loss) per average common share from continuing operations.	$0.25	$0.25	$0.17	$0.13
Net income (loss) available to common shareholder per average common share	$(0.33)	$(0.61)	$0.00	$0.13
COMMON STOCK CLOSING PRICE:				
High	$12.48	$14.67	$20.81	$32.63
Low.	$9.47	$10.95	$14.20	$21.63
CLASS B STOCK CLOSING PRICE:				
High	$11.84	$14.19	$19.59	$32.03
Low.	$8.97	$10.86	$13.39	$21.75

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

19. CERTAIN RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Corporate office costs allocated from RCN	$7,016	$8,332	$8,800
Long distance terminating access charges to RCN	1,654	1,312	728
Revenue from engineering services charged to RCN and Cable Michigan	714	483	187
Interest income on affiliate notes with RCN	--	537	354
Interest expense on affiliate notes with RCN	--	241	1,167
Royalty fees charged to RCN and Cable Michigan	--	1,134	1,444
Long distance expenses from RCN Long Distance	13,312	1,123	1,058
Other related party revenues	1,994	688	860
Other related party expenses	548	1,576	--

December 31, 1998, the Company had accounts receivable from related parties of $3,850 and accounts payable to related parties of $1,580. All related party note balances at the date of the Distribution were either paid or transferred to Shareholders' Net Investment in connection with the Distribution.

20. SUBSEQUENT EVENTS

On September 30, 1997, the Yee Family Trusts, as holders of the Company's Preferred Stock Series A and Preferred Stock Series B, filed an action against the Company, RCN and Cable Michigan and certain present and former directors of the Company in the Superior Court of New Jersey, Chancery Division. The complaint alleged that the Company's restructuring constituted a fraudulent conveyance and alleged breaches of contract and fiduciary duties and of the covenant of good faith and fair dealing in connection with the restructuring. On December 1, 1997, the complaint was amended to allege that the Company's distribution of the common stock of RCN and Cable Michigan was an unlawful distribution in violation of 15 Pa. C.S. 1551(b)(2).

On February 8, 1999, the Company redeemed the shares of its Preferred Stock Series A and Preferred Stock Series B at their stated value, an aggregate of $52,000, plus accrued dividends. This was pursuant to a settlement agreement between the Company and the Yee Family Trusts with respect to the action filed on September 30, 1997 by the Yee Family Trusts, as holders of the Company's Preferred Stock Series A and Preferred Stock Series B. The Yee Family Trusts have dismissed with prejudice the action against all defendants, including the Company, RCN Corporation and Cable Michigan, Inc.

The redemption did not affect the Company's reported net income, but reduced net income to common shareholders by accelerating the Company's reported Preferred Stock dividend and accretion for 1998 by approximately $8,100, or $0.36 per diluted average common share. The increase in this charge represents an acceleration of the accretion that would have been recognized over the remaining term of the Preferred Stock and the accrued dividends through February 8, 1999. Under the terms of each series of Preferred Stock, the Company had the option to redeem the Preferred Stock at its stated value plus accrued dividends at any time after May 15, 1998. On February 8, 1999, the Company borrowed $52,500 on its revolving credit facility to fund the redemption of the Preferred Stock and accrued dividends.

On February 21, 1999, Commonwealth Telephone Company bargaining employees ratified a new labor contract, which among other things, includes wage increases retroactive to December 1, 1998, a ratification bonus and improvement in certain benefits. Amounts applicable to 1998 have been reflected in the accompanying Consolidated Financial Statements.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Commonwealth Telephone Enterprises, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in common shareholders' equity and cash flows present fairly, in all material respects, the financial position of Commonwealth Telephone Enterprises, Inc. and Subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

February 25, 1999

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of Commonwealth Telephone Enterprises, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 25, 1999 appearing on page 55 of the 1998 Annual Report to Shareholders of Commonwealth Telephone Enterprises, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 25, 1999

REPORT OF MANAGEMENT

The integrity and objectivity of the financial information presented in these financial statements is the responsibility of the management of Commonwealth Telephone Enterprises, Inc.

The financial statements report on management's accountability for Company operations and assets. To this end, management maintains a system of internal controls and procedures designed to provide reasonable assurance that the Company's assets are protected and that all transactions are accounted for in conformity with generally accepted accounting principles. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures.

PricewaterhouseCoopers, LLP, independent accountants, conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

The Board of Directors meets its responsibility for the Company's financial statements through its Audit Committee which is comprised exclusively of directors who are not officers or employees of the Company. The Audit Committee recommends to the Board of Directors the independent auditors for election by the shareholders. The Committee also meets periodically with management and the independent and internal auditors to review accounting, auditing, internal accounting controls and financial reporting matters. As a matter of policy, the internal auditors and the independent auditors periodically meet alone with, and have access to, the Audit Committee.

John Butler
Executive Vice President--Chief
Financial Officer

SCHEDULE I

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)		
Income:			
Sales	$27,451	$6,897	$--
Interest income-other	--	--	--
Other	357	53	61
Total income	27,808	6,950	61
Expenses:			
Cost of goods sold	20,533	4,987	--
Interest expense on long term debt	4,769	1,642	--
Interest expense, net on notes payable to subsidiaries	(1,146)	46	--
General & administrative expenses	7,564	2,171	(258)
Depreciation and amortization	672	141	--
Total expenses	32,392	8,987	(258)
(Loss) income from continuing operations before income taxes, equity in net income of subsidiaries	(4,584)	(2,037)	319
(Benefit) provision for income taxes	(1,680)	(1,301)	1,096
(Loss) income from continuing operations before equity in net income of subsidiaries	(2,904)	(736)	(777)
Net income of subsidiaries	23,359	22,920	24,718
Income from continuing operations	20,455	22,184	23,941
Loss from discontinued operations	--	(36,149)	(13,556)
Net (loss) income	$20,455	$(13,965)	$10,385
Earnings (loss) per average common share:			
Income from continuing operations	$0.37	$0.82	$0.91
Discontinued operations	--	$(1.65)	$(0.62)
Net income available for common shareholders	$0.37	(0.83)	$0.29
Average common shares outstanding	22,058,101	22,000,625	21,984,743

SCHEDULE I

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Cash	$7,285	$2,975
Notes receivable affiliates.	40,989	--
Accounts receivable affiliates	7,705	4,050
Accounts receivable other.	6,104	7,864
Prepayments and other.	--	--
Materials and supply inventory	3,749	2,092
Deferred tax assets and other	1,362	1,094
Total current assets	67,194	18,075
Investment in subsidiaries (stated at equity).	162,939	154,736
Property plant and equipment, net of accumulated depreciation of $2,554 in 1998 and $2,177 in 1997	1,826	1,412
Deferred tax assets and other	5,548	4,829
	$237,507	$179,052
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Note payable to affiliates	$3,933	$6,290
Accounts payable to subsidiaries	8,831	2,881
Accrued liabilities and other	11,188	10,945
Total liabilities.	23,952	20,116
Redeemable preferred stock	52,000	42,517
Long term debt	33,500	75,000
Deferred income taxes and other deferred credits	3,319	3,488
Shareholders' equity		
Common stock, par value $1, authorized 85,000,000 shares, issued 19,813,650 shares in 1998 and 15,887,047 shares in 1997	19,814	15,887
Class B stock, par value $1, authorized 15,000,000 shares, issued 6,245,004 shares in 1998 and 6,489,764 shares in 1997	6,245	6,490
Total common stock	26,059	22,377
Additional paid in capital	223,584	151,041
Retained earnings.	11,840	3,750
Total.	261,483	177,168
Treasury stock at cost, 3,979,983 shares in 1998 and 4,048,218 shares in 1997.	(136,747)	(139,237)
Total shareholders' equity	124,736	37,931
Total liabilities and shareholders' equity	$237,507	$179,052

SCHEDULE I

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net (loss) income	$20,455	$(13,965)	$10,385
Depreciation and amortization	673	141	--
Deferred income taxes and investment tax credits, net	(303)	(185)	--
Net decrease (increase) in certain assets and liabilities	2,508	(6,100)	883
Equity in income of subsidiaries	(23,359)	(13,229)	(11,162)
Other	40	(2,122)	37
Net cash flow (used in) provided by operating activities	14	(35,460)	143
Cash flows from investing activities:			
Additions to property, plant and equipment	(1,225)	(60)	--
Dividends from subsidiaries	15,000	19,526	15,000
Capital contributions to subsidiaries	--	(61,761)	(13,208)
Redemption (purchase) of short term investments	--	2,700	--
Other	138	(1,493)	--
Net cash (used in) provided by investing activities	13,913	(41,088)	1,792
Cash flows from financing activities:			
Redemption of long term debt	(77,000)	(8,000)	--
Issuance of long term debt	35,500	83,000	--
Proceeds from the issuance of common stock	693	183	665
Preferred dividends	(2,882)	(1,950)	(2,600)
Increase (decrease) in notes payable to affiliates	(2,388)	6,321	--
Increase (decrease) in notes receivable from affiliates	(40,958)	(31)	--
Net proceeds of common stock rights offering	77,418		
Net cash (used in) provided by financing activities	(9,617)	79,523	(1,935)
Increase in cash and temporary cash investments	4,310	2,975	--
Cash and temporary cash investments at beginning of year	2,975	--	$--
Cash and temporary cash investments at end of year	$7,285	$2,975	$--
Components of net (increase) decrease in certain assets and liabilities:			
Accounts receivable	$(1,895)	$(11,914)	$--
Materials and supply inventory	(1,657)	(2,092)	--
Accounts payable	(624)	1,145	(2,388)
Prepayments	34	(127)	168
Accrued expenses	6,650	6,888	3,103

Net (increase) decrease in certain assets and liabilities	$2,508	$(6,100)	$883

SCHEDULE II

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS OF DOLLARS)

		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
ALLOWANCE FOR DOUBTFUL ACCOUNTS--DEDUCTED FROM ACCOUNTS RECEIVABLE IN THE CONSOLIDATED BALANCE SHEETS.					
1998	$1,098	$1,122	$47	$382	$1,885
1997	$791	$776	$(123)	$346	$1,098
1996	$690	$1,804	$(529)	$1,174	$791
ALLOWANCE FOR INVENTORY--DEDUCTED FROM MATERIAL AND SUPPLY INVENTORY IN THE CONSOLIDATED BALANCE SHEETS.					
1998	$346	$273	$(187)	$160	$272
1997	$227	$394	$(62)	$213	$346
1996	$237	$297	$(97)	$210	$227
ALLOWANCE FOR DEFERRED TAX ASSETS--DEDUCTED FROM DEFERRED TAX ASSETS IN THE CONSOLIDATED BALANCE SHEETS.					
1998	$1,561	$--	$937	$614	$1,884
1997	$747	$758	$259	$203	$1,561
1996	$663	$289	$--	$205	$747

EXHIBIT 2

MANAGERIAL AND TECHNICAL QUALIFICATIONS

BIOGRAPHIES OF KEY PERSONNEL IN SUPPORT OF THE APPLICATION OF CTSI, INC.

MICHAEL I. GOTTDENKER

President & Chief Executive Officer
Commonwealth Telephone Enterprises, Inc.

MICHAEL I. GOTTDENKER brings an extensive financial, managerial and operational background to his role as president of Commonwealth Telephone Enterprises, Inc. (CTE). CTE consists of Commonwealth Telephone Company, the nation's tenth largest independent local exchange carrier; CTSI, a competitive local exchange carrier; and various other operations including engineering, long distance, and an Internet services provider.

Mr. Gottdenker joined C-TEC Corporation, the predecessor company to CTE, in 1995 as executive vice president of Commonwealth Telephone Company and in 1996 was also appointed executive vice president of Commonwealth Communications, Inc. After the corporate restructuring of C-TEC in 1997 which established CTE as a stand-alone public company (NASDAQ-CTCO and NASDAQ-CTCOB), Mr. Gottdenker assumed his current leadership position of the combined operations of the new company.

Mr. Gottdenker is also a member of the company's board of directors and its executive committee.

Prior to joining Commonwealth, Mr. Gottdenker held several senior executive positions at Revlon Consumer Products Corporation, the last of which was vice president, new business development. Prior to Revlon, he worked at Salomon Brothers Inc as an investment banker in the corporate finance and real estate finance departments.

A graduate of Columbia University, Mr. Gottdenker holds a bachelor of arts degree in economics and computer science.

JAMES DePOLO

Executive Vice President
Commonwealth Telephone Enterprises, Inc. (CTE)

JAMES DePOLO is responsible for the management oversight of Commonwealth Telephone Company, CTSI, epix™™ Internet Services and Commonwealth Communications, as well as for overseeing several staff operations for Commonwealth Telephone Enterprises, Inc. (CTE).

Mr. DePolo had previously served with Commonwealth Telephone Company from 1971-1983 in a variety of capacities. Most recently, he was division president at Metropolitan Fiber Systems, Inc. (MFS), where his career included related senior management positions. Prior to MFS, Mr. DePolo was associated with Sprint Communications from 1985 to 1993, and with Satellite Business Systems from 1983-1985.

Mr. DePolo earned a bachelor of science degree in accounting from King's College, Wilkes-Barre, PA.

JOHN A. BUTLER

Executive Vice President and
Chief Financial Officer
Commonwealth Telephone Enterprises, Inc.

JOHN A. BUTLER joined Commonwealth Telephone Enterprises in 1998 as executive vice president and chief financial officer. Mr. Butler is responsible for the oversight of corporate finance, accounting, financial analyses, capital market transactions and various other functions for the company.

Mr. Butler has spent over 12 years in the corporate finance arena including extensive experience with the telecommunications industry. Prior to his affiliation with CTE, Mr. Butler worked with First Union Capital Markets Group where he was a director in the corporate finance arm of its media and communications group, focusing on the commercial and investment banking needs of First Union's telecommunications clients. Mr. Butler has also held corporate finance positions with CoBank and the First National Bank of Chicago. He began his career at Arthur Andersen & Company.

Mr. Butler holds a bachelor's degree from the University of Notre Dame and an MBA from the University of Texas at Austin.

DONALD P. CAWLEY

Vice President and Controller
Commonwealth Telephone Enterprises, Inc.

DONALD P. CAWLEY joined C-TEC Corporation, the former parent company, in 1981 and has held various positions with several of the Corporation's subsidiaries, including assistant corporate controller for C-TEC Corporation, controller for Commonwealth Communications and the Corporation's former Information Services and Cellular Groups.

In his current position as vice president and controller, Mr. Cawley is responsible for the management and direction of the finance and accounting functions within Commonwealth Telephone Enterprises, including: financial accounting, analysis and reporting, budgeting and taxes. In addition, he is responsible for certain administrative functions.

Mr. Cawley is actively involved in the American Institute of Certified Public Accountants.Mr. Cawley holds a bachelor of science degree in accounting from King's College, Wilkes-Barre, Pennsylvania and is a Certified Public Accountant in Pennsylvania.

RAYMOND J. DOBE, JR.

Vice President and General Manager, NEPA, Central and Capital
CTSI, Inc.

RAYMOND J. DOBE, JR. joined Commonwealth Telephone Enterprises, Inc. (CTE) in July 1997. Mr. Dobe currently serves as vice president and general manager for the northeastern, central and capital operating territories in Pennsylvania for CTSI, Commonwealth Telephone Enterprises' competitive local exchange carrier. Mr. Dobe is responsible for both the sales and operations teams in these operating territories as well as major business account sales in all CTSI markets. His efforts are focused on exceeding customer expectations, integrating sales and operations, and facilitating growth in each of the three CTSI regional markets.

Mr. Dobe previously served as vice president of operations, engineering and customer service for CTSI, where he was responsible for overseeing the installation and provisioning of new sales in all markets. Prior to joining CTSI, Mr. Dobe most recently was affiliated with MFS Communications in Virginia, where he was regional director for the Mid-Atlantic area. Mr. Dobe has also held a variety of progressive management positions with MCI, Satellite Business Systems and Bell Atlantic.

Mr. Dobe holds a B.S. in business management from the University of Maryland.

STUART L. KIRKWOOD

Vice President of Technology and Strategic Development
Commonwealth Telephone Enterprises, Inc.

STUART L. KIRKWOOD was appointed vice president of technology and strategic development of Commonwealth Telephone Enterprises, Inc. (CTE), in February 1998. In this role, Mr. Kirkwood is responsible for evaluating and setting the technological strategic direction for all CTE businesses.

Mr. Kirkwood joined C-TEC Corporation, the former parent organization, in 1984 as senior manager of network design for the telephone group. His other positions within the company have included senior manager of customer and network services, director of operations, and vice president of new business development. Prior to his affiliation with CTE, Mr. Kirkwood held engineering and management positions with the Butler Service Group and Bell Canada.

Mr. Kirkwood holds a bachelor of applied science degree in engineering from the University of Waterloo, Waterloo, Ontario, Canada and a masters in business administration from Wilkes University, Wilkes Barre, Pennsylvania. He is a member of the American Society for Quality Control, the Wilkes Barre Chamber of Commerce, The Scranton Plan Committee and Penn State Advisory Board.

GARY ZINGARETTI

Vice President of Industry Relations
Commonwealth Telephone Enterprises, Inc.

GARY ZINGARETTI joined Commonwealth Telephone Enterprises, Inc. (CTE), in September 1997 as vice president of industry relations. His responsibilities include revenue requirements as well as regulatory strategic planning and government affairs.

Mr. Zingaretti's affiliations include serving as vice president of regulatory at ICORE, a telecommunications consulting group based in Allentown, PA. At ICORE, he worked with a variety of telecommunications companies, including CTE. He was also previously associated with Commonwealth Telephone Company from 1986 to 1996, where he held a variety of regulatory positions including manager of revenue administration.

Mr. Zingaretti holds an M.B.A. from Wilkes University in Wilkes-Barre, PA, and a bachelor of science degree in accounting and economics from King's College, Wilkes-Barre. He is a member of the PA Institute of Certified Public Accountants.

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202)424-7500
FACSIMILE (202) 424-7647

NEW YORK OFFICE
919 THIRD AVENUE
NEW YORK, NY 10022

November 11, 1999 DEPOSIT DATE

VIA OVERNIGHT MAIL D211 NOV 1? 1999

Blanca S. Bayo, Director
Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Application of CTSI, Inc. for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of CTSI, Inc. ("CTSI") please find an original and eight (8) copies of CTSI's application for authority to provide interexchange telecommunications service between points within the State of Florida. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the two (2) enclosed extra copies of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact us. Thank you for your assistance in this matter.

Respectfully,

ORIGINAL DOCUMENT IS PRINTED ON CHEMICAL REACTIVE PAPER & HAS A MICROPRINTED BORDER

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K STREET, N.W. SUITE 300
WASHINGTON, DC 20007

CHECK DATE
11/11/99

CHECK NO. D 117104

Citibank DC Operating
1775 Pennsylvania Avenue, NW
Suite 440
Washington, DC 20006

CHECK AMOUNT
250.00*******

TWO HUNDRED FIFTY AND 00/100 Dollars

TWO SIGNATURES REQUIRED ON CHECK OVER $10,000.00

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISSION

OPERATING ACCOUNT

THE REVERSE SIDE OF THIS DOCUMENT INCLUDES AN ARTIFICIAL WATERMARK. HOLD AT AN ANGLE TO VIEW

⑈117104⑈