

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

CITIZENS COMMUNICATIONS CO

Form 8-K

August 07, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (date of earliest event reported): August 7, 2003

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

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

3 High Ridge Park
Stamford, Connecticut 06905
(Address of Principal Executive Offices)

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

No Change Since Last Report

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

ITEM 12. Disclosure of Results of Operations and Financial Condition

On August 7, 2003, Citizens Communications Company issued a press release. A copy of the press release is attached hereto as Exhibit 99.3.

The information in this Form 8-K and the Exhibits attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

SIGNATURE

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

CITIZENS COMMUNICATIONS COMPANY
(Registrant)

By: /s/ Jerry Elliott

Jerry Elliott
Chief Financial Officer

Date: August 7, 2003

Exhibit 99.3

Citizens Communications
3 High Ridge Park
Stamford, CT 06905
203.614.5600

FOR IMMEDIATE RELEASE

Contacts:

Michael A. Zarrella
Vice President
Corporate Development
203.614.5179
mzarrell@czn.com

Brigid M. Smith
Assistant Vice President
Corporate Communications
203.614.5042
bsmith@czn.com

CITIZENS COMMUNICATIONS REPORTS 2003 SECOND-QUARTER RESULTS

Stamford, Conn., August 7, 2003 -- Citizens Communications (NYSE: CZN) today reported second-quarter 2003 consolidated revenues of \$644 million, consolidated operating income of \$135.2 million, and consolidated net income of \$34.1 million, or 12 cents per share. Consolidated net income for the quarter includes a \$25 million non-cash gain from the extinguishment of a capital lease obligation at Electric Lightwave, a \$4.4 million gain on the sale of a wireless partnership investment, a \$2.3 million gain on the sale of access lines in North Dakota, a \$10.1 million charge related to restructuring and other expenses, \$4.5 million of non-cash expense for restricted stock-related compensation, a \$4.4 million charge related to early debt retirement and a \$2.3 million charge related to the Touch America bankruptcy. Excluding these items, consolidated net income was \$27.9 million, or 10 cents per share.

The company produced free cash flow of \$113.3 million for the second-quarter 2003 and achieved a ratio of net debt to annualized cash generated by operations of 3.5x and a ratio of net debt to annualized operating income of 7.9x. The company reached its year-end target leverage ratio of 3.5x two quarters early. The company retired \$231.5 million of debt during the quarter and ended the quarter with \$385 million in cash. The company has retired \$355 million of debt during 2003.

The company remains focused on and committed to the continuing improvement of

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

its balance sheet through the generation of free cash flow applied to further debt reduction. In addition, the sale of the company's Arizona Gas and Electric divisions for \$220 million in cash and The Gas Company of Hawaii division for \$115 million in cash and assumed liabilities remain on track for closings during the third quarter of 2003. After completion of these sales Citizens will have generated \$1.9 billion of proceeds from its utility divestiture program, which exceeds the company's original estimate of \$1.8 billion of total proceeds. The net proceeds from these sales will be used to further reduce debt. The sale of the company's last public service business, the Vermont Electric division, for \$25 million in cash is expected to close in the first half of 2004.

Telecommunications

Second-quarter 2003 revenue from the company's ILEC operations was \$510.2 million, down \$4.5 million or 1 percent from \$514.7 million in the second-quarter of 2002. The decrease is due to a \$2.8 million decrease resulting from the sale of access lines in North Dakota and a decline in network access revenue, in part because of approximately \$3.0 million less in subsidy revenue resulting from regulatory agency true-ups relating to prior years. These decreases were partially offset by continued increases in enhanced service and data revenues.

The company's primary access line count, which does not take into account DSL subscriptions, decreased 5,600 lines during the quarter, excluding the sale of 10,800 access lines in North Dakota. The company added 12,300 DSL customers during the quarter. Taking into account DSL subscriptions, total subscriptions increased 6,700 for the quarter.

ILEC operating income for the second-quarter of 2003 was \$121.8 million, up \$21.2 million, or 21 percent from the second quarter of 2002. Operating income margin was 23.9 percent compared to 19.5 percent in the second quarter of 2002.

ILEC cash generated from operations for the second-quarter of 2003 was \$280.5 million, an increase of \$6.2 million or 2 percent compared to the prior year quarter. ILEC cash generated from operations margin for the second-quarter of 2003 increased to 55 percent from 53.3 percent in the second-quarter of 2002, reflecting increases in high-margin revenues, an ongoing focus on increased productivity and the efficiencies achieved from consolidation of the company's activities.

Capital expenditures for the ILEC were \$56.4 million for the second-quarter 2003.

Second-quarter 2003 revenue from Electric Lightwave totaled \$43.7 million, operating income was \$2.4 million, cash generated from operations was \$10.7 million and capital expenditures were \$2.3 million.

Public Service

The gas and electric segments accounted for \$90.1 million of second-quarter 2003 consolidated revenue, \$11 million of operating income, \$11.2 million of cash generated from operations, and \$9.1 million of capital expenditures.

The company uses certain non-GAAP financial measures in evaluating its performance. These include cash generated from operations, cash generated from operations margin, net income excluding certain items, free cash flow and the ratio of net debt to annualized cash generated from operations. A reconciliation of the differences between these non-GAAP financial measures and the most comparable financial measures calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures referred to in this press release are by definition not measures of financial performance

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

under generally accepted accounting principles and are not alternatives to operating income or net income reflected in the statement of operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the company may not be comparable to similarly titled measures of other companies.

Cash generated by operations is operating income plus (i) depreciation and amortization, (ii) reserve for certain telecom bankruptcies (Global Crossing, WorldCom and Touch America), (iii) restructuring and other expenses (primarily the write-off of software costs and severance costs and expenses), and (iv) restricted stock-related compensation expense. Cash generated by operations margin is cash generated by operations divided by revenue. Net income excluding certain items is net income without taking into account the items described in the first paragraph. Free cash flow is operating income plus depreciation and amortization and restricted stock-related compensation minus capital expenditures, interest expense and cash taxes.

Net debt to annualized cash generated by operations is the ratio of (i) total debt (excluding equity units and convertible preferred) net of cash and cash equivalents to (ii) cash generated by operations for the period indicated multiplied by four (for a quarter) or by two (for a six-month period).

The company believes that presentation of these non-GAAP financial measures is useful to investors because it (i) reflects management's view of core operations and cash flow generation upon which management bases financial, operational, compensation and planning decisions, (ii) presents measurements that investors and rating agencies have indicated to management are important in assessing the company, and (iii) is indicative of the company's actual performance compared to the covenant limiting the ratio of net debt to cash generated by operations contained in certain of its debt agreements. Management uses these non-GAAP financial measures to plan and measure the performance of its core operations and its divisions measure performance and report to management based upon these measures. In addition, the company believes that free cash flow, as the company defines it, can assist in comparing performance from period to period, without taking into account factors affecting cash flow reflected in the statement of cash flows, including changes in working capital and the timing of purchases and payments. While the company utilizes these non-GAAP financial measures in managing and analyzing its business and financial condition and believes they are useful to management and to investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, cash generated by operations and net income excluding certain items do not take into account the items described above, some of which will recur in future periods, in order to focus on core operations. In addition, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments are not deducted from such measures. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. In addition, annualized cash generated by operations and annualized operating income present quarterly or six-month information for purposes of ratio analysis as annualized information by multiplying the quarterly information by four and the six-month information by two, without representing in any way a forecast, projection or estimate of cash generated by operations or operating income for future periods. The information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents to be filed with the U.S. Securities and Exchange Commission.

About Citizens Communications

More information about Citizens can be found at www.czn.net.

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

expressed or implied in the statements. These and all forward-looking statements (including oral representations) are only predictions or statements of current plans that are constantly under review by the company. All forward-looking statements may differ from actual results. The foregoing information should be read in conjunction with the company's filings with the U.S. Securities and Exchange Commission including, but not limited to, reports on Forms 10-K and 10-Q. The company does not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

Citizens Communications Company Consolidated Financial Data (unaudited)

(Amounts in thousands - except per-share amounts)	For the quarter ended June 30,		%	For
	2003	2002		
Income Statement Data				
Continuing operations				
Revenue	\$ 643,954	\$ 662,439	-3%	\$1,
Cost of services	113,537	113,786	0%	
Other operating expenses	227,985	251,175	-9%	
Restricted stock based compensation	4,508	251	1696%	
Depreciation and amortization (1)	150,359	186,378	-19%	
Reserve for telecommunications bankruptcies	2,260	10,001	-77%	
Restructuring and other expenses	10,113	18,280	-45%	
Operating income	135,192	82,568	64%	
Investment and other income (loss), net	24,566	(29,188)	184%	
Gain on sales of assets, net	6,671	-	100%	
Interest expense (includes dividends on preferred securities)	107,988	121,499	-11%	
Income tax expense (benefit)	24,384	(26,560)	192%	
Loss from discontinued operations, net of tax	-	-	-	
Gain on disposal of water segment, net of tax	-	-	-	
Cumulative effect of change in accounting principle (2)	-	-	-	
Net income (loss) attributable to common shareholders	34,057	(41,559)	182%	
Weighted average shares outstanding	282,180	280,610	1%	
Net income (loss) attributable to common shareholders	\$ 0.12	\$ (0.15)	180%	\$
Other Financial Data (3)				
Cash generated by operations	\$ 302,432	\$ 297,478	2%	\$
Total capital expenditures (4)	67,850	94,119	-28%	
Free cash flow	113,295	44,040	157%	
Total debt (5)	4,662,168	5,403,338	-14%	4,
Less: Cash and cash equivalents	385,038	421,069	-9%	
Net debt	4,277,130	4,982,269	-14%	4,
Net debt to annualized cash generated by operations	3.5	4.2	-17%	

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

- (1) 2002 includes \$900,000 and \$12,800,000, respectively, of accelerated depreciation related to the closing of our Plano, Texas facility.
- (2) 2003 represents the effect of adoption of SFAS No. 143. 2002 represents the write-off of ELI's goodwill. Both are net of tax.
- (3) A reconciliation of these non-GAAP measures to the most comparable GAAP measure is presented at the end of these tables.
- (4) 2002 excludes \$110,000,000 of previously leased facilities purchased by ELI in April 2002.
- (5) Excludes equity units and convertible preferred stock. Total debt includes current portion of long term debt.

Citizens Communications Company
Financial and Operating Data
(unaudited)

(Dollars in thousands, except operating data)	For the quarter ended June 30,		%	For
	2003	2002	Change	2002
TELECOMMUNICATIONS				
Select Income Statement Data				
Revenue				
Network access services	\$ 160,142	\$ 171,163	-6%	\$ 325,142
Local network services	220,710	217,638	1%	441,142
Long distance and data services	76,487	71,029	8%	151,142
Directory services	26,736	25,810	4%	53,142
Other	26,078	29,046	-10%	51,142
ILEC revenue	510,153	514,686	-1%	1,023,142
Electric Lightwave	43,719	45,287	-3%	84,142
Total revenue	553,872	559,973	-1%	1,108,142
Expenses				
Network access expense	58,168	58,598	-1%	114,142
Other operating expenses	204,515	224,821	-9%	415,142
Restricted stock based compensation	4,293	310	1285%	5,142
Depreciation and amortization (1)	150,359	186,332	-19%	288,142
Reserve for telecommunications bankruptcies	2,260	10,001	-77%	2,142
Restructuring and other expenses	10,113	18,280	-45%	10,142
Total expenses	429,708	498,342	-14%	836,142
Operating Income (Loss)				
ILEC	\$ 121,814	\$ 100,607	21%	\$ 268,142
ELI	2,350	(38,976)	106%	2,142
Other Financial and Operating Data (2)				
ILEC cash generated by operations	\$ 280,498	\$ 274,316	2%	\$ 560,142
ILEC cash generated by operations margin	55.0%	53.3%	3%	54,142
ILEC capital expenditures	\$ 56,415	\$ 81,364	-31%	\$ 94,142
ELI cash generated by operations	10,691	2,238	378%	17,142
ELI capital expenditures (3)	2,254	3,067	-27%	3,142
ILEC access lines	2,418,819	2,471,496	-2%	2,418,142
ILEC switched access minutes of use (in millions)	2,995	3,034	-1%	6,142

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

ILEC average monthly revenue per average line \$ 70.07 \$ 69.32 1% \$ 70

- (1) See footnote (1) on first page.
 (2) See footnote (3) on first page.
 (3) See footnote (4) on first page.

Citizens Communications Company Financial and Operating Data (unaudited)

(Dollars in thousands)	For the quarter ended June 30,			%	For the 2003
	2003	2002	Change		
GAS AND ELECTRIC SECTORS (1)					
Select Income Statement Data					
Revenue	\$ 90,082	\$ 102,466	-12%		\$ 187,242
Gas, electric energy and fuel oil purchased	55,369	55,188	0%		112,073
Other operating expenses	23,470	26,354	-11%		47,059
Restricted stock based compensation	215	(59)	464%		237
Depreciation and amortization (2)	-	46	-100%		-
Operating income	11,028	20,937	-47%		27,873
Other Financial Data (3)					
Cash generated by operations	\$ 11,243	\$ 20,924	-46%		\$ 28,110
Capital expenditures	9,123	9,440	-3%		17,437

- (1) Our Kauai Electric operations were sold on November 1, 2002, which affects the comparability of data presented.
 (2) Our gas and electric operations are reported as "held for sale." Accordingly, we ceased to record depreciation expense effective October 1, 2000 and January 1, 2001, respectively.
 (3) See footnote (3) on first page.

Citizens Communications Company Condensed Consolidated Balance Sheet Data

(Dollars in thousands)	June 30, 2003 (unaudited)		December 31, 2002
	ASSETS		

Current assets:			
Cash and cash equivalents	\$	385,038	\$ 393,000

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Accounts receivable and other current assets	317,862	360
Assets held for sale	471,331	447
	-----	-----
Total current assets	1,174,231	1,200
Property, plant and equipment, net	3,620,734	3,690
Other long-term assets	3,167,307	3,255
	-----	-----
Total assets	\$ 7,962,272	\$ 8,146
	=====	=====

LIABILITIES AND EQUITY

Current liabilities:		
Long-term debt due within one year	\$ 105,776	\$ 58
Accounts payable and other current liabilities	503,489	565
Liabilities related to assets held for sale	113,186	145
	-----	-----
Total current liabilities	722,451	770
Deferred income taxes and other liabilities	666,228	585
Equity units	460,000	460
Long-term debt	4,556,392	4,957
Mandatorily Redeemable Convertible Preferred Securities	201,250	201
Shareholders' equity	1,355,951	1,172
	-----	-----
Total liabilities and equity	\$ 7,962,272	\$ 8,146
	=====	=====

Reconciliation of Non-GAAP Financial Measures

Net Income (Loss) to Net Income (Loss) Excluding Items

(Dollars in thousands, except per-share amounts. All amounts shown net of tax.*)

	Three Months Ended June 30,	
	2003	2002
	-----	-----
Net income (loss) as reported	\$ 34,057	\$ (41,559)
Capital lease termination	(14,852)	-
Investment write-downs	-	27,393
Restructuring and other	6,003	10,986
Reserve for telecom bankruptcies	1,342	6,011
Restricted stock based compensation	2,676	151
Sale of assets	(3,960)	-
Early retirement of debt	2,615	(8,006)
Income from discontinued operations	-	-
Cumulative effect of accounting change	-	-
	-----	-----
Net income (loss) excluding items	\$ 27,881	\$ (5,024)

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Net Income (Loss) Per Share to Net Income

(Loss) Per Share Excluding Items

Net income (loss) per share as reported	\$ 0.12	\$ (0.15)
Capital lease termination	(0.05)	-
Investment write-downs	-	0.10
Restructuring and other	0.02	0.04
Reserve for telecom bankruptcies	-	0.02
Restricted stock based compensation	0.01	-
Sale of assets	(0.01)	-
Early retirement of debt	0.01	(0.03)
Income from discontinued operations	-	-
Cumulative effect of accounting change	-	-
Net income (loss) per share excluding items	\$ 0.10	\$ (0.02)
*Effective Tax Rate	40.64%	39.90%

Reconciliation of Non-GAAP Financial Measures
(Dollars in thousands)

	ILEC		Electric Lightwave, Inc.		Gas and Sec
	2003	2002	2003	2002	2003
For the quarter ended June 30,					
Operating Income to Cash Generated by Operations					
Operating income (loss)	\$ 121,814	\$ 100,607	\$ 2,350	\$ (38,976)	\$ 11,028
Add back:					
Depreciation and amortization	144,374	154,741	5,985	31,591	-
Reserve for telecom bankruptcies	1,113	9,567	1,147	434	-
Restructuring and other expenses	9,482	9,207	631	9,073	-
Restricted stock based compensation	3,715	194	578	116	215
Cash Generated by Operations	\$ 280,498	\$ 274,316	\$ 10,691	\$ 2,238	\$ 11,243

ILEC Electric Lightwave, Inc. Gas and Sec

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

For the six months ended June 30,	2003	2002	2003	2002	2003
Operating Income to Cash Generated by Operations					
Operating income (loss)	\$ 268,729	\$ 192,828	\$ 2,885	\$ (55,996)	\$ 27,873
Add back:					
Depreciation and amortization	276,729	313,031	12,178	51,391	-
Reserve for telecom bankruptcies	1,113	17,371	1,147	434	-
Restructuring and other expenses	9,482	15,212	610	6,973	-
Restricted stock based compensation	4,820	1,889	829	457	237
Cash Generated by Operations	\$ 560,873	\$ 540,331	\$ 17,649	\$ 3,259	\$ 28,110

Reconciliation of Non-GAAP Financial Measures

(Dollars in thousands)	For the quarter ended June 30,	
	2003	2002
Operating Income to Free Cash Flow		
Operating income	\$ 135,192	\$ 82,568
Add back:		
Depreciation and amortization	150,359	186,378
Restricted stock based compensation	4,508	251
Subtract:		
Cash paid for income taxes	926	9,539
Interest expense	107,988	121,499
Capital expenditures	67,850	94,119
Free cash flow	\$ 113,295	\$ 44,040

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Reconciliation of Non-GAAP Financial Measures

(Dollars in thousands)	For the quarter ended June 30,		For th
	2003	2002	2003

Net Debt to Annualized Cash			

Generated by Operations			

Cash Generated by Operations (1)	\$ 302,432	\$ 297,478	\$ 606,632
Multiplied by:			
Number of quarters	4	4	2

Annualized Cash Generated by Operations	1,209,728	1,189,912	
Total debt (2)	4,662,168	5,403,338	4,662,168
Less:			
Cash and cash equivalents (2)	385,038	421,069	385,038

Net debt	4,277,130	4,982,269	
Divided by:			
Annualized Cash Generated by Operations (3)	1,209,728	1,189,912	
Net Debt to Annualized Cash			
Generated by Operations Ratio	3.5	4.2	

(1) See Schedule B.

(2) As reported in the Company's financial statements prepared in accordance with GAAP.

(3) Annualized cash generated by operations and annualized operating income present quarterly or six month information for purposes of ratio analysis as annualized information by multiplying the quarterly information by four and six month information by two, without representing in any way a forecast, projection or estimate of cash generated by operations or operating income for future periods.