

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

CITIZENS COMMUNICATIONS CO
Form 8-K
March 04, 2004

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): March 4, 2004

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 March 4, 2004, Citizens Communications Company issued a press release. A copy of the press release is attached hereto as Exhibit 99.1.

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 and 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: March 4, 2004

Citizens Communications
3 High Ridge Park
Stamford, CT 06905
203.614.5600
Web site: www.czn.net

FOR IMMEDIATE RELEASE

Contacts:

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

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

Citizens Communications Reports
2003 Fourth-Quarter Results

Stamford, Conn., March 4, 2004 -- Citizens Communications (NYSE:CZN) today reported fourth quarter 2003 consolidated revenues of \$554.1 million, consolidated operating income of \$125.0 million, and consolidated net income of \$15.0 million. Consolidated net income for the quarter includes an \$11.3 million impairment charge related to the Vermont Electric division, a loss of \$8.7 million related to post-closing purchase price adjustments on the sale of utility assets, a gain of \$6.6 million as a result of a settlement of previously reserved telecommunications bankruptcy receivables, and a non-cash gain of \$3.7 million from the extinguishment of capital lease obligations at Electric Lightwave.

The company produced free cash flow of \$112.6 million for the fourth quarter 2003 and \$478.1 million for the full year 2003. The company retired \$104.2 million of debt during the quarter and ended the quarter with \$583.7 million in cash. The company retired \$726.6 million of debt and reduced its net debt balance by \$923.1 million (or 20 percent) during the full year 2003. For the full year 2003 the company reported net cash provided by continuing operating activities of \$732.3 million, net cash provided from investing activities of \$108.5 million and net cash used by financing activities of \$650.3 million.

Fourth quarter 2003 revenue from the company's ILEC operations was \$505.6 million, down \$14.8 million or 2.8 percent from \$520.4 million in the fourth

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

quarter of 2002. The decrease is due primarily to reduced network access services revenues, lower long distance revenue, loss of access lines and the sale of approximately 11,000 access lines in North Dakota in April 2003. These decreases were partially offset by continued increases in enhanced service and data revenues.

The company added a record 14,800 DSL customers during the quarter and had more than 120,000 DSL subscribers at December 31, 2003. The company's primary access line count, which does not take into account DSL subscriptions, decreased 17,700 lines during the quarter.

Citizens Communications Company
March 4, 2004

Page 2

ILEC operating income for the fourth quarter of 2003 was \$134.7 million and operating income margin was 26.6 percent, compared to ILEC operating income of \$89.2 million and operating income margin of 17.1 percent in the fourth quarter of 2002.

Capital expenditures for the ILEC were \$82.8 million for the fourth quarter 2003 and were \$244.1 million for the full year 2003.

Fourth quarter 2003 revenue from Electric Lightwave totaled \$40.2 million, operating income was \$3.1 million, and capital expenditures were \$3.0 million.

The company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow. A reconciliation of the differences between these non-GAAP financial measures and the most comparable financial measure calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definition not measures of financial performance 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.

Free cash flow is operating income plus depreciation and amortization, restricted stock based compensation and loss on impairment charges minus cash taxes, interest expense and capital expenditures.

The company believes that presentation of these non-GAAP financial measures provides useful information to investors regarding the company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the company's core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions, and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the company and its results of operations. 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.

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Management uses these non-GAAP financial measures to (i) assist in analyzing the company's underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and

Citizens Communications Company
March 4, 2004

Page 3

(v) assist management in understanding the company's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures. The company believes that the non-GAAP financial measures are meaningful and useful for the reasons outlined above.

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, 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 measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. 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 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.

###

TABLES TO FOLLOW

Citizens Communications Company
Consolidated Financial Data
(unaudited)

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

(Amounts in thousands - except per-share amounts)	For the quarter ended December 31,			Fo
	2003	2002	% Change	
Income Statement Data				
Continuing operations				
Revenue	\$ 554,085	\$ 658,728	-16%	\$2,444
Cost of services (exclusive of depreciation and amortization)	57,064	119,101	-52%	369
Other operating expenses	210,329	236,611	-11%	893
Restricted stock based compensation	2,832	4,786	-41%	8
Depreciation and amortization (1)	154,491	191,359	-19%	595
Reserve for telecommunications bankruptcies	(6,637)	(6,925)	-4%	(4)
Restructuring and other expenses	(263)	15,274	-102%	9
Loss on impairment (2)	11,300	-	100%	15
Operating income (loss)	124,969	98,522	27%	557
Investment and other income (loss), net	7,989	(20,592)	139%	74
Gain/(loss) on sales of assets, net	(8,700)	7,897	-210%	(20)
Interest expense (includes dividends on preferred securities)	99,240	112,516	-12%	422
Income tax expense (benefit)	10,066	9,814	3%	67
Loss from discontinued operations, net of tax	-	-	-	-
Gain on disposal of water segment, net of tax	-	12,043	-100%	-
Cumulative effect of change in accounting principle (3)	-	-	-	65
Net income (loss) attributable to common shareholders	14,952	(24,460)	161%	187
Weighted average shares outstanding	283,095	281,096	1%	282
Net income (loss) attributable to common shareholders	\$ 0.05	\$ (0.09)	156%	\$
Other Financial Data (4)				
Total capital expenditures (5)	\$ 86,357	\$ 114,539	-25%	\$ 278
Free cash flow	112,569	65,761	71%	478
Total debt (6)	4,283,631	5,016,272	-15%	4,283
Less: Cash and cash equivalents	583,671	393,177	48%	583
Net debt	3,699,960	4,623,095	-20%	3,699

(1) Includes \$10,577,000 and \$23,379,000 of accelerated depreciation for the quarter and year ended December 31, 2002, respectively, related to the closing of our Plano, Texas facility.

(2) Shown as the pre-tax amount.

(3) 2003 represents the effect of adoption of SFAS No. 143. 2002 represents the write-off of ELI's goodwill. Both are net of tax.

(4) A reconciliation of these non-GAAP measures to the most comparable GAAP measure is presented at the end of these tables.

(5) 2002 excludes \$110,000,000 of previously leased facilities purchased by ELI in April 2002.

(6) Excludes equity units and convertible preferred stock. Total debt includes current portion of long term debt.

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

(unaudited)

(Dollars in thousands, except operating data)	For the quarter ended December 31,			%	----- 200
	2003	2002	Change		
TELECOMMUNICATIONS					
Select Income Statement Data					
Revenue					
Network access services	\$ 163,526	\$ 174,614	-6%		\$ 667,
Local network services	214,490	214,397	-		859,
Long distance and data services	76,519	76,902	-		306,
Directory services	26,339	25,885	2%		106,
Other	24,725	28,613	-14%		101,
ILEC revenue	505,599	520,411	-3%		2,040,
Electric Lightwave	40,161	41,234	-3%		165,
Total revenue	545,760	561,645	-3%		2,206,
Expenses					
Network access expense	51,731	60,688	-15%		223,
Other operating expenses	206,036	208,383	-1%		826,
Restricted stock based compensation	2,638	4,539	-42%		8,
Depreciation and amortization (1)	154,491	191,351	-19%		595,
Reserve for telecommunications bankruptcies	(6,637)	(6,925)	-4%		(4,
Restructuring and other expenses	(263)	15,274	-102%		9,
Loss on impairment (2)	-	-	-		
Total expenses	407,996	473,310	-14%		1,659,
Operating Income (Loss)					
ILEC	\$ 134,712	\$ 89,174	51%		\$ 537,
ELI	3,052	(839)	464%		9,
Other Financial and Operating Data					
ILEC capital expenditures	\$ 82,829	\$ 83,818	-1%		\$ 244,
ELI capital expenditures (3)	2,982	3,800	-22%		9,
ILEC access lines (4)	2,386,456	2,444,423	-2%		2,386,
DSL subscribers	120,461	71,058	70%		120,
ILEC switched access minutes of use (in millions)	2,922	3,069	-5%		11,
ILEC average monthly revenue per average line	\$ 70.37	\$ 70.75	-1%		\$ 70

(1) See footnote (1) on first page.

(2) See footnote (2) on first page.

(3) See footnote (5) on first page.

(4) On April 1, 2003 and October 31, 2002, we completed the sale of approximately 11,000 and 4,000 telephone access lines, respectively, in the state of North Dakota. These sales affect the comparability of data presented.

Citizens Communications Company
Financial and Operating Data

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

(unaudited)

(Dollars in thousands)	For the quarter ended December 31,			For the Decem
	2003	2002	%	2003
			Change	
GAS AND ELECTRIC SECTORS (1)				
Select Income Statement Data				
Revenue	\$ 8,325	\$ 97,083	-91%	\$ 238,614
Gas, electric energy and fuel oil purchased	5,333	58,413	-91%	146,142
Other operating expenses	4,293	28,228	-85%	66,241
Restricted stock based compensation	194	247	-21%	277
Depreciation and amortization (2)	-	8	-100%	-
Loss on impairment	11,300	-	100%	15,300
Operating income (loss)	(12,795)	10,187	-226%	10,654
Other Financial Data				
Capital expenditures	497	9,140	-95%	23,861

(1) Our Kauai Electric operations were sold on November 1, 2002. In addition, The Gas Company in Hawaii division was sold on August 8, 2003, our Arizona gas and electric divisions were sold on August 11, 2003 and our Vermont distribution facilities were sold on December 1, 2003. The sales of these properties 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.

Citizens Communications Company Condensed Consolidated Balance Sheet Data

(Dollars in thousands)	December 31, 2003	December 31, 2002
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 583,671	\$ 393,614
Accounts receivable and other current assets	289,457	360,241
Assets held for sale	23,130	447,241
	896,258	1,201,100
Total current assets		
Property, plant and equipment, net	3,525,640	3,690,241
Other long-term assets	3,267,212	3,331,241
	\$ 7,689,110	\$ 8,222,582
Total assets		

LIABILITIES AND EQUITY

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Current liabilities:		
Long-term debt due within one year	\$ 88,002	\$ 58
Accounts payable and other current liabilities	432,225	526
Liabilities related to assets held for sale	16,128	145
	-----	-----
Total current liabilities	536,355	731
Deferred income taxes and other liabilities	880,693	700
Equity units	460,000	460
Long-term debt	4,195,629	4,957
Mandatorily Redeemable Convertible Preferred Securities	201,250	201
Shareholders' equity	1,415,183	1,172
	-----	-----
Total liabilities and equity	\$ 7,689,110	\$ 8,222
	=====	=====

Citizens Communications Company
Condensed Consolidated Cash Flow Data

(Dollars in thousands)

	For the year ended Dec

	2003

Income (loss) from continuing operations before extraordinary	
expense and cumulative effect of change in accounting principle	\$ 122,083
Adjustments to reconcile net income (loss) to net cash	
provided by operating activities:	
Depreciation and amortization expense	595,276
Investment write-downs	-
Gain on extinguishment of debt	(75,569)
Investment (gains)/losses	-
(Gain)/loss on sales of assets, net	20,492
Loss on impairment	15,300
Other	54,743

Net cash provided by continuing operating activities	732,325
Cash flows from investing activities:	
Proceeds from sales of assets, net of selling expenses	388,079
Capital expenditures (1)	(278,015)
ELI share purchases	-
Other	(1,612)

Net cash provided from (used by) investing activities	108,452
Cash flows from financing activities:	
Long-term debt principal payments	(653,462)
Other	3,179

Net cash used by financing activities	(650,283)
Cash provided by discontinued operations	-

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Increase in cash and cash equivalents	190,494
Cash and cash equivalents at January 1,	393,177

Cash and cash equivalents at December 31,	\$ 583,671
	=====

(1) 2002 includes \$110,000 of previously leased facilities purchased by ELI in April 2002.

Reconciliation of Non-GAAP Financial Measures

	For the quarter ended December 3	
(Dollars in thousands)	2003	2002
	-----	-----
Operating Income (Loss) to Free Cash Flow;		

Net Cash Provided by Continuing Operating Activities		

Operating income (loss)	\$ 124,969	\$ 98,522
Add back:		
Depreciation and amortization	154,491	191,359
Restricted stock based compensation	2,832	4,786
Loss on impairment	11,300	-
Subtract:		
Cash paid (refunded) for income taxes	(4,574)	1,851
Interest expense	99,240	112,516
Capital expenditures	86,357	114,539
	-----	-----
Free cash flow	112,569	65,761
Add back:		
Deferred income taxes	(14,300)	108,508
Noncash (gains)/losses	5,020	3,648
Investment and other income/(loss)	7,989	(20,592)
Cash paid/(refunded) for income taxes	(4,574)	1,851
Capital expenditures	86,357	114,539
Subtract:		

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

Changes in current assets and liabilities	3,612	129,040
(Gain)/loss on sale of assets	8,700	(7,897)
Income tax expense (benefit)	10,066	9,814
Restricted stock based compensation	2,832	4,786
Net cash provided by continuing operating activities	<u>\$ 167,851</u>	<u>\$ 137,972</u>