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CITIZENS COMMUNICATIONS CO

Form 8-K

August 03, 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): August 3, 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 August 3, 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.

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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
Executive Vice President and
Chief Financial Officer

Date: August 3, 2004

Exhibit 99.1

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

FOR IMMEDIATE RELEASE

Contacts:

| | |
|--------------------------|-----------------------|
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| Assistant Vice President | Vice President |
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Citizens Communications Reports
2004 Second-Quarter Results

Stamford, Conn., August 3, 2004 -- Citizens Communications (NYSE:CZN) today reported second quarter 2004 consolidated revenues of \$544.1 million; consolidated operating income of \$128.2 million; and consolidated net income of \$23.8 million. Consolidated operating income and net income reflect \$11.6 million of pre-tax expense related to our review of financial and strategic alternatives and management succession.

Second quarter 2004 revenue from the company's ILEC operations was \$505.8 million, compared to \$510.2 million in the second quarter of 2003. The decrease is due primarily to lower access services revenues, reduced long distance revenue and loss of access lines. These decreases were partially offset by continued increases in data and enhanced service revenues.

Average revenue per month per average number of access lines increased 2% to \$71.17 in the second quarter of 2004 from \$70.07 in the year ago period.

The company added a record 22,200 DSL customers during the quarter and had 164,200 DSL subscribers at June 30, 2004. The company's primary access line count, which does not take into account DSL subscriptions, decreased 13,300 lines during the quarter.

ILEC operating income for the second quarter of 2004 was \$127.2 million and

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operating income margin was 25.2 percent.

Capital expenditures for the ILEC were \$73.7 million for the second quarter of 2004.

In July 2004 we retired \$300 million principal amount of Senior Notes that are part of our Equity Units, which will result in a pre-tax charge of approximately \$15 million in the third quarter of 2004, and means that only the remaining outstanding \$160 million of such notes will be remarketed. We expect to save approximately \$20 million per year in interest expense as a result of this retirement.

--MORE --

As previously reported, the company has declared a special dividend of \$2 per share and is instituting a regular annual dividend of \$1 per share that will be payable quarterly. The special dividend and the first quarterly dividend will both be paid on September 2, 2004 to stockholders of record on August 18, 2004. We expect that all of the dividends paid to stockholders in 2004 will be treated as dividends for federal income tax purposes. Shareholders are encouraged to consult with their tax advisors.

The company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow. A reconciliation of the differences between free cash flow 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.

The company believes that presentation of 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.

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 (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

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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.

--MORE --

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.

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TABLES TO FOLLOW

Citizens Communications Company Consolidated Financial Data (unaudited)

| (Amounts in thousands - except per-share amounts) | For the quarter ended June 30, | | | % | Fo |
|---|-----------------------------------|-----------|--------|----|-------|
| | 2004 | 2003 | Change | 20 | |
| Income Statement Data (1) | | | | | |
| Continuing operations | | | | | |
| Revenue | \$544,091 | \$643,954 | -16% | | \$1,1 |
| Cost of services (exclusive of depreciation and amortization) | 48,295 | 113,537 | -57% | | 1 |
| Other operating expenses | 210,157 | 227,985 | -8% | | 4 |
| Strategic alternatives and management succession expenses | 10,527 | - | 100% | | |

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| | | | | |
|---|-----------|-----------|-------|------|
| Restricted stock based compensation (2) | 2,525 | 4,508 | -44% | |
| Depreciation and amortization | 144,412 | 150,359 | -4% | 2 |
| Reserve for telecommunications bankruptcies | - | 2,260 | -100% | |
| Restructuring and other expenses | - | 10,113 | -100% | |
| Operating income | 128,175 | 135,192 | -5% | 2 |
| Investment and other income, net | 5,213 | 31,237 | -83% | |
| Interest expense (includes dividends on preferred securities) | 97,652 | 107,988 | -10% | 1 |
| Income tax expense | 11,944 | 24,384 | -51% | |
| Cumulative effect of change in accounting principle (3) | - | - | - | |
| Net income attributable to common shareholders | 23,792 | 34,057 | -30% | |
| Weighted average shares outstanding | 284,782 | 282,180 | 1% | 2 |
| Net income attributable to common shareholders (4) | \$ 0.08 | \$ 0.12 | -33% | \$ |
| Other Financial Data | | | | |
| Total capital expenditures | \$ 78,246 | \$ 67,850 | 15% | \$ 1 |
| Free cash flow (5) | 98,315 | 113,288 | -13% | 2 |

- (1) Our Vermont distribution facilities were sold on April 1, 2004. 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 transmission facilities were sold on December 1, 2003. The sales of these properties affect the comparability of data presented.
- (2) Includes \$1,034 and \$1,619 related to strategic alternatives and management succession for the three and six months ended June 30 2004, respectively.
- (3) Represents the effect of adoption of SFAS No. 143, net of tax.
- (4) Calculated based on weighted average shares outstanding.
- (5) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

Citizens Communications Company
Financial and Operating Data
(unaudited)

| (Amounts in thousands, except operating data) | For the quarter ended June 30, | | % | |
|---|-----------------------------------|------|---|--|
| | 2004 | 2003 | | |

TELECOMMUNICATIONS

Select Income Statement Data

Revenue

| | | | | |
|------------------------|------------|------------|------|----|
| Access services | \$ 155,224 | \$ 167,025 | -7% | \$ |
| Local services | 213,417 | 213,889 | 0% | |
| Long distance services | 45,546 | 50,102 | -9% | |
| Data services | 33,624 | 26,385 | 27% | |
| Directory services | 28,201 | 26,736 | 5% | |
| Other | 29,777 | 26,016 | 14% | |
| ILEC revenue | 505,789 | 510,153 | -1% | 1 |
| Electric Lightwave | 38,302 | 43,719 | -12% | |
| Total revenue | 544,091 | 553,872 | -2% | 1 |

Expenses

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| | | | | |
|---|------------|------------|-------|----|
| Network access expense | 48,295 | 58,168 | -17% | |
| Other operating expenses | 209,138 | 204,515 | 2% | |
| Strategic alternatives and management succession expenses | 10,527 | - | 100% | |
| Restricted stock based compensation (1) | 2,525 | 4,293 | -41% | |
| Depreciation and amortization | 144,412 | 150,359 | -4% | |
| Reserve for telecommunications bankruptcies | - | 2,260 | -100% | |
| Restructuring and other expenses | - | 10,113 | -100% | |
| Total expenses | 414,897 | 429,708 | -3% | |
| Operating Income | | | | |
| ILEC | \$ 127,237 | \$ 121,814 | 4% | \$ |
| ELI | 1,957 | 2,350 | -17% | |
| Other Financial and Operating Data | | | | |
| ILEC capital expenditures | \$ 73,678 | \$ 56,415 | 31% | \$ |
| ELI capital expenditures | 4,397 | 2,254 | 95% | |
| ILEC depreciation and amortization | 138,467 | 144,374 | -4% | |
| ELI depreciation and amortization | 5,945 | 5,985 | -1% | |
| ILEC access lines | 2,362,285 | 2,418,819 | -2% | 2 |
| DSL subscribers | 164,184 | 92,201 | 78% | |
| ILEC switched access minutes of use (in millions) | 2,917 | 2,995 | -3% | |
| ILEC average monthly revenue per average line | \$ 71.17 | \$ 70.07 | 2% | \$ |

(1) See footnote (2) first page.

Citizens Communications Company
Financial and Operating Data
(unaudited)

| (Amounts in thousands) | For the quarter ended June 30, | | | For th |
|---|-----------------------------------|-----------|-------------|----------|
| | 2004 | 2003 | % Change | 2004 |
| GAS AND ELECTRIC SECTORS (1) | | | | |
| Select Income Statement Data | | | | |
| Revenue | \$ - | \$ 90,082 | -100% | \$ 9,735 |
| Gas, electric energy and fuel oil purchased | - | 55,369 | -100% | 5,523 |
| Other operating expenses | 1,019 | 23,470 | -96% | 6,533 |
| Restricted stock based compensation | - | 215 | -100% | - |
| Operating income (loss) | (1,019) | 11,028 | -109% | (2,321) |
| Other Financial Data | | | | |
| Capital expenditures | - | 9,123 | -100% | 573 |

(1) See footnote (1) first page.

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Citizens Communications Company
Condensed Consolidated Balance Sheet Data
(unaudited)

(Amounts in thousands)

| | June 30, 2004 | December 31, 2003 |
|---|---------------|-------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 740,359 | \$ 583,359 |
| Accounts receivable and other current assets | 262,593 | 289,359 |
| Assets held for sale | - | 23,359 |
| Total current assets | 1,002,952 | 896,077 |
| Property, plant and equipment, net | 3,437,099 | 3,525,099 |
| Other long-term assets | 3,200,547 | 3,267,099 |
| Total assets | \$ 7,640,598 | \$ 7,689,077 |
| <u>LIABILITIES AND EQUITY</u> | | |
| Current liabilities: | | |
| Long-term debt due within one year | \$ 6,490 | \$ 88,359 |
| Accounts payable and other current liabilities | 453,403 | 484,359 |
| Liabilities related to assets held for sale | - | 11,359 |
| Total current liabilities | 459,893 | 583,077 |
| Deferred income taxes and other liabilities | 841,208 | 833,359 |
| Equity units | 460,000 | 460,000 |
| Long-term debt (1) | 4,378,131 | 4,195,099 |
| Mandatorily Redeemable Convertible Preferred Securities (1) | - | 201,359 |
| Shareholders' equity | 1,501,366 | 1,415,099 |
| Total liabilities and equity | \$ 7,640,598 | \$ 7,689,077 |

(1) In accordance with FASB Interpretation No. 46R, the Mandatorily Redeemable Convertible Preferred Securities are classified as debt effective January 1, 2004.

Citizens Communications Company
Condensed Consolidated Cash Flow Data
(unaudited)

(Amounts in thousands)

For the six months ended

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| | 2004 |
|---|------------|
| Income before cumulative effect of change in accounting principle | \$ 66,660 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization expense | 288,270 |
| Gain on expiration/settlement of customer advances | (25,345) |
| Gain on capital lease termination/restrucluring | - |
| Other | 35,070 |
| Net cash provided by continuing operating activities | 364,655 |
| Cash flows from investing activities: | |
| Proceeds from sales of assets, net of selling expenses | 13,992 |
| Capital expenditures | (133,434) |
| Other | - |
| Net cash used by investing activities | (119,442) |
| Cash flows from financing activities: | |
| Long-term debt payments | (99,786) |
| Other | 11,261 |
| Net cash used by financing activities | (88,525) |
| Increase (decrease) in cash and cash equivalents | 156,688 |
| Cash and cash equivalents at January 1, | 583,671 |
| Cash and cash equivalents at June 30, | \$ 740,359 |

Reconciliation of Non-GAAP Financial Measures

| (Amounts in thousands) | For the quarter ended June 30, | | For t |
|---|--------------------------------|-----------|-------|
| | 2004 | 2003 | |
| Net Income to Free Cash Flow; | | | |
| Net Cash Provided by Operating Activities | | | |
| Net income | \$ 23,792 | \$ 34,057 | \$ |
| Add back: | | | |
| Depreciation and amortization | 144,412 | 150,359 | 2 |
| Income taxes | 11,944 | 24,384 | |
| Restricted stock based compensation | 2,525 | 4,508 | |

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| | | | |
|---|------------|------------|-------|
| Subtract: | | | |
| Cash paid for income taxes | 899 | 933 | |
| Investment and other income, net | 5,213 | 31,237 | |
| Cumulative effect of change in accounting principle | - | - | |
| Capital expenditures | 78,246 | 67,850 | 1 |
| | ----- | ----- | ----- |
| Free cash flow | 98,315 | 113,288 | 2 |
| Add back: | | | |
| Deferred income taxes | 14,616 | 24,782 | |
| Other non-cash adjustments | 4,895 | (25,328) | (|
| Investment and other income/(loss) | 5,213 | 31,237 | |
| Cash paid for income taxes | 899 | 933 | |
| Capital expenditures | 78,246 | 67,850 | 1 |
| Subtract: | | | |
| Changes in current assets and liabilities | 30,242 | 33,791 | |
| Income tax expense | 11,944 | 24,384 | |
| Restricted stock based compensation | 2,525 | 4,508 | |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | \$ 157,473 | \$ 150,079 | \$ 3 |
| | ===== | ===== | ===== |

Citizens Communications Company
Long Distance and Data Services Revenue

| (Amounts in thousands) | For the quarter | | |
|---|-----------------|-----------|-----------|
| | 6/30/04 | 3/31/04 | 12/31/03 |
| ----- | | | |
| Long Distance and Data Services Revenue | | | |
| Long distance services | \$ 45,546 | \$ 47,331 | \$ 47,705 |
| Data services | 33,624 | 31,674 | 28,814 |
| | ----- | ----- | ----- |
| Total long distance and data services revenue | \$ 79,170 | \$ 79,005 | \$ 76,519 |
| | ===== | ===== | ===== |