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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<br>(State or other jurisdiction<br>of incorporation) | 001-11001<br>(Commission<br>File Number) | 06-0619596<br>(I.R.S. Employer<br>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  
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(Former name or former address, if changed since last report)

ITEM 12. Disclosure of Results of Operations and Financial Condition  
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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.

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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  
Chief Financial Officer

Date: March 4, 2004

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

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FOR IMMEDIATE RELEASE

Contacts:

Brigid M. Smith  
Assistant Vice President  
Corporate Communications  
203.614.5042  
bsmith@czn.com  
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Michael A. Zarrella  
Vice President  
Corporate Development  
203.614.5179  
mzarrell@czn.com  
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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

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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

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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.

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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

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(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](http://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)

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| (Amounts in thousands - except per-share amounts)             | For the quarter ended<br>December 31, |            |             | Fo      |
|---|---------------------------------------|------------|-------------|---------|
|   | 2003                                  | 2002       | %<br>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.

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(unaudited)

| (Dollars in thousands, except operating data)     | For the quarter ended<br>December 31, |            |        | % | -----<br>200 |
|---|---------------------------------------|------------|--------|---|--------------|
|   | 2003                                  | 2002       | Change |   |              |
| <b>TELECOMMUNICATIONS</b>                         |                                       |            |        |   |              |
| 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

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(unaudited)

| (Dollars in thousands)                      | For the quarter ended<br>December 31, |           |        | For the<br>Decem |
|---|---------------------------------------|-----------|--------|------------------|
|   | 2003                                  | 2002      | %      | 2003             |
|   |                                       |           | Change |                  |
| <b>GAS AND ELECTRIC SECTORS (1)</b>         |                                       |           |        |                  |
| <b>Select Income Statement Data</b>         |                                       |           |        |                  |
| 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           |
| <b>Other Financial Data</b>                 |                                       |           |        |                  |
| 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 |
|--|-------------------|-------------------|
| <b>ASSETS</b>                                |                   |                   |
| -----  |                   |                   |
| <b>Current assets:</b>                       |                   |                   |
| 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                         | 896,258           | 1,201,100         |
| 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                                 | \$ 7,689,110      | \$ 8,222,582      |
| =====  |                   |                   |

## LIABILITIES AND EQUITY

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|   |              |          |
|---|--------------|----------|
| -----   |              |          |
| 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                        | -                      |



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|   |            |
|---|------------|
| 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 31 |           |
|--|-----------------------------------|-----------|
| (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:  |                                   |           |

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|  |                   |                   |
|--|-------------------|-------------------|
| 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> |