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CITIZENS COMMUNICATIONS CO

Form 8-K

May 06, 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): May 6, 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 May 6, 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
Senior Vice President and Chief Financial Officer

Date: May 6, 2004

Exhibit 99.1

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

FOR IMMEDIATE RELEASE

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Citizens Communications Reports
2004 First-Quarter Results

Stamford, Conn., May 6, 2004 -- Citizens Communications (NYSE: CZN) today reported first-quarter 2004 consolidated revenues of \$558.5 million, consolidated operating income of \$139.8 million, and consolidated net income of \$42.9 million. Consolidated operating income reflects \$4.6 million of expenses related to the company's ongoing review of financial and strategic alternatives and related compensation arrangements. Consolidated net income for the quarter also includes a pre-tax gain of \$24.2 million related to the expiration of certain liabilities.

First-quarter 2004 revenue from the company's ILEC operations was \$509.0 million, compared to \$513.6 million in the first quarter of 2003. The decrease is due primarily to lower access services revenues, reduced long-distance revenue, loss of access lines and the sale of approximately 11,000 access lines in North Dakota in April 2003 (which had revenues of \$2.1 million during the first quarter of 2003). These decreases were partially offset by continued increases in data and enhanced service revenues.

The company added a record 21,500 DSL customers during the quarter and had almost 142,000 DSL subscribers at March 31, 2004. The company's access line

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count, which does not take into account DSL subscriptions, decreased 10,800 lines during the quarter.

ILEC operating income for the first quarter of 2004 was \$138.7 million and operating income margin was 27.3 percent.

Capital expenditures for the ILEC were \$52.9 million for the first quarter of 2004.

First quarter 2004 revenue from Electric Lightwave totaled \$39.8 million, operating income was \$2.4 million, and capital expenditures were \$1.8 million.

--MORE--

The company produced free cash flow of \$133.3 million and retired \$93.6 million of debt during the first-quarter 2004 and ended the quarter with \$648.0 million in cash. For the first-quarter 2004 the company reported net cash provided by operating activities of \$207.2 million, net cash used in investing activities of \$55.2 million, and net cash used in financing activities of \$87.7 million. On April 1, 2004, the company closed its final utility sale with the completion of the sales of its Vermont Electric division. The company has completed its utility divestiture program, generating a total of \$1.9 billion of proceeds, which exceeds the company's original estimate of \$1.8 billion.

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

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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.

--MORE--

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.

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TABLES TO FOLLOW

Citizens Communications Company Consolidated Financial Data (unaudited)

| | For the quarter ended | |
|---|-----------------------|-------------------|
| (Amounts in thousands - except per-share amounts) | March 31, 2004 | March 31, 2003 |
| Income Statement Data | | |
| Revenue | \$ 558,468 | \$ 651,862 |
| Cost of services (exclusive of depreciation and amortization) | 57,064 | 113,219 |
| Other operating expenses | 214,867 | 234,422 |

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| | | |
|---|---------|---------|
| Restricted stock based compensation | 2,873 | 1,378 |
| Depreciation and amortization | 143,858 | 138,548 |
| Operating income | 139,806 | 164,295 |
| Investment and other income, net | 25,294 | 47,919 |
| Interest expense (includes dividends on preferred securities) | 97,782 | 110,576 |
| Income tax expense | 24,450 | 39,976 |
| Cumulative effect of change in accounting principle | - | 65,769 |
| Net income attributable to common shareholders | 42,868 | 127,431 |
| | | |
| Weighted average shares outstanding | 283,990 | 281,637 |
| | | |
| Net income attributable to common shareholders (1) | \$ 0.15 | \$ 0.45 |
| | | |
| Other Financial Data | | |
| Total capital expenditures | 55,188 | 47,752 |
| Free cash flow (2) | 133,340 | 145,583 |

(1) Calculated based on weighted average shares outstanding.

(2) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

Citizens Communications Company Financial and Operating Data (unaudited)

| | For the quarter ended | | |
|---|-----------------------|-------------------|-------------|
| | March 31, 2004 | March 31, 2003 | % Change |
| (Dollars in thousands, except operating data) | | | |
| TELECOMMUNICATIONS | | | |
| Select Income Statement Data | | | |
| Revenue | | | |
| Access services | \$ 161,483 | \$ 169,171 | -5% |
| Local services | 212,742 | 214,273 | -1% |
| Long distance and data services | 79,005 | 77,683 | 2% |
| Directory services | 27,474 | 27,043 | 2% |
| Other | 28,264 | 25,439 | 11% |
| ILEC revenue | 508,968 | 513,609 | -1% |
| Electric Lightwave | 39,765 | 41,093 | -3% |
| Total revenue | 548,733 | 554,702 | -1% |
| Expenses | | | |
| Network access expense | 51,541 | 56,515 | -9% |
| Other operating expenses | 209,353 | 210,833 | -1% |
| Restricted stock based compensation | 2,873 | 1,356 | 112% |
| Depreciation and amortization | 143,858 | 138,548 | 4% |
| Total expenses | 407,625 | 407,252 | 0% |
| Operating Income | | | |
| ILEC | \$ 138,718 | \$ 146,915 | -6% |
| ELI | 2,390 | 535 | 347% |
| Other Financial and Operating Data | | | |
| ILEC capital expenditures | \$ 52,853 | \$ 37,877 | 40% |

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| | | | |
|---|-----------|-----------|-----|
| ELI capital expenditures | 1,762 | 1,147 | 54% |
| ILEC depreciation and amortization | 138,023 | 132,355 | 4% |
| ELI depreciation and amortization | 5,835 | 6,193 | -6% |
| | | | |
| ILEC access lines (1) | 2,375,629 | 2,435,246 | -2% |
| DSL subscribers | 141,942 | 80,353 | 77% |
| ILEC switched access minutes of use (in millions) | 3,000 | 3,045 | -1% |
| ILEC average monthly revenue per average line | \$ 71.25 | \$ 70.17 | 2% |

- (1) On April 1, 2003, we sold approximately 11,000 access lines in the state of North Dakota. This sale affects the comparability of data presented.

Citizens Communications Company Financial and Operating Data (unaudited)

| | For the quarter ended | | |
|---|-----------------------|-------------------|-------------|
| | March 31, 2004 | March 31, 2003 | % Change |
| (Dollars in thousands) | | | |
| GAS AND ELECTRIC SECTORS (1) | | | |
| Select Income Statement Data | | | |
| Revenue | \$ 9,735 | \$ 97,160 | -90% |
| Gas, electric energy and fuel oil purchased | 5,523 | 56,704 | -90% |
| Other operating expenses | 5,514 | 23,589 | -77% |
| Restricted stock based compensation | - | 22 | -100% |
| Operating income (loss) | (1,302) | 16,845 | -108% |
| Other Financial Data | | | |
| Capital expenditures | 573 | 8,314 | -93% |

- (1) 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 2, 2003. The sales of these properties affect the comparability of data presented.

Citizens Communications Company Condensed Consolidated Balance Sheet Data

| | March 31, 2004 (unaudited) | December 31, 2003 |
|--|-------------------------------|-------------------|
| ASSETS | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 648,012 | \$ 583,000 |
| Accounts receivable and other current assets | 260,528 | 289,000 |

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| | | |
|---|--------------|----------|
| Assets held for sale | 24,427 | 23 |
| Total current assets | 932,967 | 896 |
| Property, plant and equipment, net | 3,471,513 | 3,525 |
| Other long-term assets | 3,255,553 | 3,267 |
| Total assets | \$ 7,660,033 | \$ 7,689 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Long-term debt due within one year | \$ 7,082 | \$ 88 |
| Accounts payable and other current liabilities | 433,696 | 437 |
| Liabilities related to assets held for sale | 10,742 | 11 |
| Total current liabilities | 451,520 | 536 |
| Deferred income taxes and other liabilities | 877,332 | 880 |
| Equity units | 460,000 | 460 |
| Long-term debt (1) | 4,402,108 | 4,195 |
| Manditorily Redeemable Convertible Preferred Securities (1) | - | 201 |
| Shareholders' equity | 1,469,073 | 1,415 |
| Total liabilities and equity | \$ 7,660,033 | \$ 7,689 |

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

Citizens Communications Company
Condensed Consolidated Cash Flow Data
(unaudited)

(Dollars in thousands)

| | For the three months en |
|---|-------------------------|
| | 2004 |
| Income before cumulative effect of change in accounting principle | \$ 42,868 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization expense | 143,858 |
| Gain on expiration/settlement of customer advances | (24,182) |
| Gain on capital lease termination | - |
| Other | 44,638 |
| Net cash provided by operating activities | 207,182 |
| Cash flows from investing activities: | |
| Proceeds from sales of assets, net of selling expenses | - |
| Capital expenditures | (55,188) |

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| | |
|---|------------|
| Other | - |
| Net cash used in investing activities | (55,188) |
| Cash flows from financing activities: | |
| Long-term debt payments | (93,560) |
| Other | 5,907 |
| Net cash used in financing activities | (87,653) |
| Increase in cash and cash equivalents | 64,341 |
| Cash and cash equivalents at January 1, | 583,671 |
| Cash and cash equivalents at March 31, | \$ 648,012 |

Reconciliation of Non-GAAP Financial Measures

| (Dollars in thousands) | For the quarter ended |
|---|-----------------------|
| | 2004 |
| Net Income to Free Cash Flow ; | |
| ----- | |
| Net Cash Provided by Operating Activities | |
| ----- | |
| Net income | \$ 42,868 |
| Add back: | |
| Depreciation and amortization | 143,858 |
| Income tax expense | 24,450 |
| Restricted stock based compensation | 2,873 |
| Subtract: | |
| Cash paid for income taxes | 227 |
| Investment and other income, net | 25,294 |
| Cumulative effect of change in accounting principle | - |
| Capital expenditures | 55,188 |
| Free cash flow | 133,340 |
| Add back: | |
| Deferred income taxes | 20,991 |
| Noncash (gains)/losses, net | (21,312) |

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| | | |
|---|------------------------------|----------------|
| Investment and other income/(loss) | 25,294 | |
| Cash paid for income taxes | 227 | |
| Capital expenditures | 55,188 | |
| Subtract: | | |
| Changes in current assets and liabilities | (20,777) | |
| Income tax expense | 24,450 | |
| Restricted stock based compensation | 2,873 | |
| Net cash provided by operating activities | ----- \$ 207,182 ===== | ----- ===== |