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CITIZENS COMMUNICATIONS CO
Form 8-K
November 02, 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): November 2, 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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 Results of Operations and Financial Condition

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On November 2, 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.

ITEM 9.01 Financial Statements and Exhibits

(c) Exhibits

99.1 Press release of Citizens Communications Company released November 2, 2004 announcing 2004 Third Quarter Results.

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: November 2, 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 Third-Quarter Results

Stamford, Conn., November 2, 2004 -- Citizens Communications (NYSE:CZN) today reported third-quarter 2004 consolidated revenues of \$545.4 million; consolidated operating income of \$72 million; and consolidated net loss of \$11.3 million. Consolidated operating income and net loss reflect \$75.9 million of pre-tax expense related primarily to management succession as well as our review of financial and strategic alternatives, and consolidated net loss also reflects \$20.1 million of pre-tax expense related to the early retirement of debt. The company's effective income tax rate for the first nine months of 2004 was 21.5%.

Third-quarter 2004 revenue from the company's ILEC operations was \$506.2 million, compared to \$511.6 million in the third quarter of 2003. The decrease is due primarily to lower access services revenues, loss of access lines and reduced long-distance revenue. These decreases were partially offset by continued increases in data and enhanced service revenues. Data service revenues increased 31% compared to the third quarter of 2003.

Average revenue per month per average number of access lines increased 1% to \$71.68 in the third quarter of 2004 from \$70.70 in the year-ago period.

The company's revenue generating units (which consist of access lines and high-speed data subscribers) increased 1% from a year ago as the company added a record 23,300 high-speed internet customers during the quarter and had 187,500 high speed data subscribers at September 30, 2004. The number of high-speed data subscribers has increased by 77% from a year ago. The company's primary access line count, which does not take into account high-speed data subscriptions, decreased 16,300 lines during the quarter.

ILEC operating income for the third quarter of 2004 was \$71.2 million and operating income margin was 14.1 % including the effect of the expenses related to management succession and our review of financial and strategic alternatives.

--MORE --

Capital expenditures for the ILEC were \$66 million for the third quarter of 2004, compared to \$67 million in the year-ago period.

Free cash flow increased 22% to \$131 million during the third quarter of 2004 and has increased 3% to \$377.4 million for the first nine months of 2004. The company's quarterly dividend represents a payout of 63% of third quarter 2004 Free Cash Flow.

In the third quarter of 2004 we retired \$414 million of debt using cash on hand. We expect to save approximately \$28 million per year in interest expense as a result of the retirements that occurred during the third quarter. The company has retired a total of \$513.8 million of debt during 2004.

In October 2004 the company entered into a \$250 million revolving credit facility that matures in 2009. This facility replaces the company's previous credit facility, which was scheduled to expire in 2006.

The company's next quarterly dividend of \$0.25 per common share will be paid in cash on December 31, 2004 to shareholders of record on December 10, 2004.

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

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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.

--MORE --

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 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.

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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 September 30, | | % | For t |
|---|--|------------|-------|--------|
| | 2004 | 2003 | | Change |
| Income Statement Data (1) | | | | |
| Revenue | \$545,393 | \$ 595,037 | -8% | \$ 1, |
| Cost of services (exclusive of depreciation and amortization) | 51,273 | 85,869 | -40% | |
| Other operating expenses | 203,313 | 220,300 | -8% | |
| Management succession and strategic alternatives expenses (2) | 75,858 | - | 100% | |
| Restricted stock based compensation | 1,615 | (166) | 1073% | |
| Depreciation and amortization | 141,380 | 151,878 | -7% | |
| Reserve for telecommunications bankruptcies | - | - | - | |
| Restructuring and other expenses | - | - | - | |
| Loss on impairment | - | 4,000 | -100% | |
| Operating income | 71,954 | 133,156 | -46% | |
| Investment and other income (loss), net | (13,651) | (24,277) | 44% | |
| Interest expense (includes dividends on preferred securities) | 90,864 | 104,677 | -13% | |
| Income tax expense (benefit) | (21,271) | (7,210) | 195% | |
| Cumulative effect of change in accounting principle (3) | - | - | - | |
| Net income (loss) available to common shareholders | (11,290) | 11,412 | -199% | |
| Weighted average shares outstanding | 309,732 | 282,838 | 10% | |
| Net income (loss) available to common shareholders (4) | \$ (0.04) | \$ 0.04 | -200% | \$ |
| Other Financial Data | | | | |
| Total capital expenditures | \$ 67,876 | \$ 76,056 | -11% | \$ |
| Free cash flow (5) | 130,997 | 106,953 | 22% | |

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- (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 \$36,618 related to stock based compensation expense for the three and nine months ended September 30, 2004.
- (3) Represents the effect of adoption of SFAS No. 143, net of tax.
- (4) Calculated based on weighted average shares outstanding.
- (5) Free cash flow excludes the charge for management succession and strategic alternatives expenses. 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 September 30, | | % | For |
|---|--|------------|--------|-----|
| | 2004 | 2003 | Change | --- |
| TELECOMMUNICATIONS | | | | |
| Select Income Statement Data | | | | |
| Revenue | | | | |
| Access services | \$ 157,692 | \$ 167,321 | -6% | \$ |
| Local services | 214,299 | 216,349 | -1% | |
| Long distance services | 46,089 | 48,654 | -5% | |
| Data services | 35,913 | 27,491 | 31% | |
| Directory services | 27,312 | 26,817 | 2% | |
| Other | 24,878 | 24,942 | 0% | |
| ILEC revenue | 506,183 | 511,574 | -1% | 1, |
| Electric Lightwave | 39,210 | 40,416 | -3% | |
| Total revenue | 545,393 | 551,990 | -1% | 1, |
| Expenses | | | | |
| Network access expense | 51,273 | 57,133 | -10% | |
| Other operating expenses | 203,302 | 205,411 | -1% | |
| Management succession and strategic alternatives expenses (1) | 75,858 | - | 100% | |
| Restricted stock based compensation | 1,615 | (12) | - | |
| Depreciation and amortization | 141,380 | 151,878 | -7% | |
| Reserve for telecommunications bankruptcies | - | - | - | |
| Restructuring and other expenses | - | - | - | |
| Total expenses | 473,428 | 414,410 | 14% | 1, |
| Operating Income | | | | |
| ILEC | \$ 71,191 | \$ 133,807 | -47% | \$ |
| ELI | 774 | 3,773 | -79% | |
| Other Financial and Operating Data | | | | |
| ILEC capital expenditures | \$ 65,960 | \$ 66,968 | -2% | \$ |
| ELI capital expenditures | 1,907 | 3,113 | -39% | |
| ILEC depreciation and amortization | 135,259 | 146,261 | -8% | |
| ELI depreciation and amortization | 6,121 | 5,617 | 9% | |

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| | | | | |
|---|-----------|-----------|-----|----|
| ILEC access lines | 2,346,018 | 2,404,188 | -2% | 2, |
| DSL subscribers | 187,463 | 105,613 | 77% | |
| ILEC switched access minutes of use (in millions) | 2,973 | 3,009 | -1% | |
| ILEC average monthly revenue per average line | \$ 71.68 | \$ 70.70 | 1% | \$ |

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

Citizens Communications Company Financial and Operating Data (unaudited)

| (Amounts in thousands) | For the quarter ended September 30, | | | % | For th |
|---|--|-----------|--------|---|----------|
| | 2004 | 2003 | Change | | 2004 |
| GAS AND ELECTRIC SECTORS (1) | | | | | |
| Select Income Statement Data | | | | | |
| Revenue | \$ - | \$ 43,047 | -100% | | \$ 9,735 |
| Gas, electric energy and fuel oil purchased | - | 28,736 | -100% | | 5,523 |
| Other operating expenses (2) | 11 | 14,889 | -100% | | 6,544 |
| Restricted stock based compensation | - | (154) | -100% | | - |
| Loss on impairment | - | 4,000 | -100% | | - |
| Operating income (loss) | (11) | (4,424) | -100% | | (2,332) |
| Other Financial Data | | | | | |
| Capital expenditures | - | 5,927 | -100% | | 573 |

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

(2) 2004 quarterly data consists principally of post-sale activities associated with the completion of our utility divestiture program. These costs could not be accrued as a selling cost at the time of sale. The Company believes it has an adequate provision for its remaining post-divestiture liabilities. We do not anticipate any material future costs associated with these activities.

Citizens Communications Company Condensed Consolidated Balance Sheet Data (unaudited)

| (Amounts in thousands) | September 30, 2004 | December 31, 2003 |
|---------------------------|--------------------|-------------------|
| ASSETS | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 199,027 | \$ 583,000 |

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| | | |
|---|--------------|----------|
| Accounts receivable and other current assets | 266,100 | 294 |
| Assets held for sale | - | 23 |
| | ----- | ----- |
| Total current assets | 465,127 | 901 |
| Property, plant and equipment, net | 3,375,980 | 3,525 |
| Other long-term assets | 3,156,423 | 3,267 |
| | ----- | ----- |
| Total assets | \$ 6,997,530 | \$ 7,694 |
| | ===== | ===== |
| LIABILITIES AND EQUITY | | |
| ----- | | |
| Current liabilities: | | |
| Long-term debt due within one year | \$ 6,366 | \$ 88 |
| Accounts payable and other current liabilities | 441,573 | 489 |
| Liabilities related to assets held for sale | - | 11 |
| | ----- | ----- |
| Total current liabilities | 447,939 | 588 |
| Deferred income taxes and other liabilities | 841,030 | 833 |
| Equity units | - | 460 |
| Long-term debt (1) | 4,324,817 | 4,195 |
| Mandatorily Redeemable Convertible Preferred Securities (1) | - | 201 |
| Shareholders' equity | 1,383,744 | 1,415 |
| | ----- | ----- |
| Total liabilities and equity | \$ 6,997,530 | \$ 7,694 |
| | ===== | ===== |

- (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 nine months ended |
|---|---------------------------|
| | ----- |
| | 2004 |
| | ----- |
| Income before cumulative effect of change in accounting principle | \$ 55,370 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization expense | 429,650 |
| Gain on expiration/settlement of customer advances | (25,345) |
| Gain on capital lease termination/restructuring | - |
| Stock based compensation expense | 43,631 |
| Loss on extinguishment of debt | 20,368 |
| Loss on impairment | - |
| Other | 14,660 |
| | ----- |

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| | | |
|--|------------|--|
| Net cash provided by continuing operating activities | 538,334 | |
| Cash flows from investing activities: | | |
| Proceeds from sales of assets, net of selling expenses | 59,045 | |
| Capital expenditures | (201,310) | |
| Other | (26,715) | |
| | (168,980) | |
| Cash flows from financing activities: | | |
| Dividends paid | (747,937) | |
| Long-term debt payments | (513,798) | |
| Premiums paid to retire debt | (20,368) | |
| Issuance of common stock | 530,197 | |
| Other | (2,092) | |
| | (753,998) | |
| Net cash used by investing activities | (168,980) | |
| Net cash used by financing activities | (753,998) | |
| Increase (decrease) in cash and cash equivalents | (384,644) | |
| Cash and cash equivalents at January 1, | 583,671 | |
| | (384,644) | |
| Cash and cash equivalents at September 30, | \$ 199,027 | |

Reconciliation of Non-GAAP Financial Measures

| | For the quarter ended September 30, | |
|---|--|-----------|
| (Amounts in thousands) | 2004 | 2003 |
| Net Income (Loss) Available to Common Shareholders to | | |
| Free Cash Flow; Net Cash Provided by Operating Activities | | |
| Net income (loss) available to common shareholders | \$ (11,290) | \$ 11,412 |
| Add back: | | |
| Depreciation and amortization | 141,380 | 151,878 |
| Income tax expense (benefit) | (21,271) | (7,210) |
| Management succession and strategic alternatives expenses | 75,858 | - |
| Restricted stock based compensation | 1,615 | (166) |
| Loss on impairment | - | 4,000 |
| Subtract: | | |
| Cash paid for income taxes | 1,070 | 1,182 |
| Investment and other income (loss), net | (13,651) | (24,277) |

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| | | |
|---|------------|------------|
| Cumulative effect of change in accounting principle | - | - |
| Capital expenditures | 67,876 | 76,056 |
| | ----- | ----- |
| Free cash flow | 130,997 | 106,953 |
| Add back: | | |
| Deferred income taxes | (20,484) | (13,103) |
| Other non-cash adjustments | 54,155 | 33,203 |
| Investment and other income (loss), net | (13,651) | (24,277) |
| Cash paid for income taxes | 1,070 | 1,182 |
| Capital expenditures | 67,876 | 76,056 |
| Subtract: | | |
| Changes in current assets and liabilities | (9,918) | (44,027) |
| Income tax expense (benefit) | (21,271) | (7,210) |
| Management succession and strategic alternatives expenses | 75,858 | - |
| Restricted stock based compensation | 1,615 | (166) |
| | ----- | ----- |
| Net cash provided by operating activities | \$ 173,679 | \$ 231,417 |
| | ===== | ===== |