

Edgar Filing: CITIZENS COMMUNICATIONS CO - Form 8-K

CITIZENS COMMUNICATIONS CO  
Form 8-K  
July 29, 2005

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): July 29, 2005

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)

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 July 29, 2005, 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  
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(c) Exhibits

99.1 Press release of Citizens Communications Company released July 29, 2005 announcing 2005 2nd 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  
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Jerry Elliott  
Executive Vice President and  
Chief Financial Officer

Date: July 29, 2005

Exhibit 99.1

Citizens Communications  
3 High Ridge Park  
Stamford, CT 06905  
203.614.5600  
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Citizens Communications Reports  
2005 Second-Quarter Results; Declares Quarterly Dividend

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Stamford, Conn., July 29, 2005 -- Citizens Communications (NYSE:CZN) today reported second quarter 2005 consolidated revenues of \$531.8 million; consolidated operating income of \$146.9 million; and consolidated net income of \$44.6 million.

Second quarter 2005 revenue from the company's ILEC operations was \$492.8 million, a decrease from \$499.5 million in the second quarter of 2004. The decrease is due primarily to a reserve for state earnings limitations, fewer access lines, lower access service revenues and reduced long distance revenue. Growth in data and enhanced service revenues partially offset the decreases. Data service revenues increased 26.1 percent compared to the second quarter of 2004.

The company's revenue generating units (which consists of access lines and high speed internet subscribers) increased almost 1% from a year ago as the company added 24,500 high speed internet customers during the quarter and had 267,300 high speed data subscribers at June 30, 2005. The number of the company's high speed internet subscribers has increased by more than 103,000 or 63% from a year ago. The company's access line count decreased 23,000 lines during the quarter.

ILEC operating income for the second quarter of 2005 was \$142.1 million and operating income margin was 28.8 percent, compared to \$125.1 million and 25.0 percent in the second quarter of 2004. Capital expenditures for the ILEC were \$57.0 million for the second quarter of 2005.

Free cash flow increased 30 percent to \$138.1 million during the second quarter of 2005. The company's dividend represents a payout of 58.8 percent of free cash flow for the first six months of 2005.

During the second quarter, the company repurchased \$18.6 million of stock at an average price of \$13.28 per share and exchanged \$50 million of debt due in 2006 for debt that matures in 2031.

The company's next regular quarterly cash dividend of \$0.25 per share will be paid on September 30, 2005 to shareholders of record on September 9, 2005.

--MORE --

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

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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 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 and dividends 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](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.

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TABLES TO FOLLOW

Citizens Communications Company  
Consolidated Financial Data (1)  
(unaudited)

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| (Amounts in thousands - except per-share amounts)                  | For the quarter ended<br>June 30, |            | %      |
|--|-----------------------------------|------------|--------|
|  | 2005                              | 2004       | Change |
| Income Statement Data (2)  |                                   |            |        |
| Revenue  | \$ 531,798                        | \$ 537,796 | -1%    |
| Cost of services (exclusive of depreciation and amortization)      | 43,698                            | 46,710     | -6%    |
| Other operating expenses   | 201,069                           | 208,032    | -3%    |
| Management succession and strategic alternatives expenses          | -                                 | 10,392     | -100%  |
| Stock based compensation   | 2,116                             | 2,728      | -22%   |
| Depreciation and amortization                                      | 138,018                           | 143,920    | -4%    |
| Operating income   | 146,897                           | 126,014    | 17%    |
| Investment and other income  | 1,208                             | 5,208      | -77%   |
| Interest expense (includes interest on convertible debt)           | 84,083                            | 97,652     | -14%   |
| Income tax expense   | 19,438                            | 11,098     | 75%    |
| Income from discontinued operations, net of tax                    | -                                 | 1,320      | -100%  |
| Net income attributable to common shareholders                     | 44,584                            | 23,792     | 87%    |
| Weighted average shares outstanding                                | 340,389                           | 284,782    | 20%    |
| Basic net income per share attributable to common shareholders (3) | \$ 0.13                           | \$ 0.08    | 63%    |
| Other Financial Data   |                                   |            |        |
| Total capital expenditures   | \$ 62,120                         | \$ 78,103  | -20%   |
| Free cash flow (4)   | 138,131                           | 106,400    | 30%    |

- (1) Our conferencing business was sold on March 15, 2005. Prior periods have been restated to present our conferencing business as discontinued operations.
- (2) Our Vermont distribution facilities were sold on April 1, 2004. This sale affects the comparability of data presented.
- (3) Calculated based on weighted average shares outstanding.
- (4) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

Citizens Communications Company  
Financial and Operating Data (1)  
(unaudited)

| (Dollars in thousands, except operating data) | For the quarter ended<br>June 30, |            | %      |
|---|-----------------------------------|------------|--------|
|   | 2005                              | 2004       | Change |
| TELECOMMUNICATIONS                            |                                   |            |        |
| Select Income Statement Data                  |                                   |            |        |
| Revenue                                       |                                   |            |        |
| Access services                               | \$ 152,152                        | \$ 155,224 | -2%    |

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|   |            |            |       |
|---|------------|------------|-------|
| Local services  | 205,751    | 213,417    | -4%   |
| Long distance services                                    | 42,337     | 45,546     | -7%   |
| Data services   | 42,392     | 33,624     | 26%   |
| Directory services  | 28,541     | 28,201     | 1%    |
| Other   | 21,598     | 23,482     | -8%   |
| ILEC revenue  | 492,771    | 499,494    | -1%   |
| Electric Lightwave  | 39,027     | 38,302     | 2%    |
| Total revenue   | 531,798    | 537,796    | -1%   |
| Expenses  |            |            |       |
| Network access expense                                    | 43,698     | 46,710     | -6%   |
| Other operating expenses                                  | 201,069    | 207,013    | -3%   |
| Management succession and strategic alternatives expenses | -          | 10,392     | -100% |
| Stock based compensation                                  | 2,116      | 2,728      | -22%  |
| Depreciation and amortization                             | 138,018    | 143,920    | -4%   |
| Total expenses  | 384,901    | 410,763    | -6%   |
| Operating Income  |            |            |       |
| ILEC  | \$ 142,135 | \$ 125,076 | 14%   |
| ELI   | 4,762      | 1,957      | 143%  |
| Other Financial and Operating Data                        |            |            |       |
| ILEC capital expenditures                                 | \$ 57,013  | \$ 73,535  | -22%  |
| ELI capital expenditures                                  | 5,089      | 4,397      | 16%   |
| ILEC depreciation and amortization                        | 131,711    | 137,975    | -5%   |
| ELI depreciation and amortization                         | 6,307      | 5,945      | 6%    |
| ILEC access lines   | 2,275,465  | 2,362,285  | -4%   |
| High-speed internet subscribers                           | 267,270    | 164,184    | 63%   |
| ILEC switched access minutes of use (in millions)         | 2,830      | 2,917      | -3%   |
| ILEC average monthly revenue per average RGU (2)          | \$ 64.62   | \$ 66.02   | -2%   |

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

(2) RGUs are access lines plus high-speed internet subscribers.

Citizens Communications Company  
Financial and Operating Data  
(unaudited)

| (Dollars in thousands)                      | For the quarter ended |         | %     | Fo |
|---|-----------------------|---------|-------|----|
|   | 2005                  | 2004    |       |    |
| GAS AND ELECTRIC SECTORS (1)                |                       |         |       |    |
| Select Income Statement Data                |                       |         |       |    |
| Revenue                                     | \$ -                  | \$ -    | -     |    |
| Gas, electric energy and fuel oil purchased | -                     | -       | -     |    |
| Other operating expenses                    | -                     | 1,019   | -100% |    |
| Operating income (loss)                     | -                     | (1,019) | -100% |    |

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

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Citizens Communications Company  
Condensed Consolidated Balance Sheet Data (1)

(Amounts in thousands)

|  | (unaudited)<br>June 30, 2005 | December 31, 2004 |
|--|------------------------------|-------------------|
| <u>ASSETS</u>                                  |                              |                   |
| Current assets:                                |                              |                   |
| Cash and cash equivalents                      | \$ 368,772                   | \$ 167,000        |
| Accounts receivable and other current assets   | 246,432                      | 279,000           |
| Assets of discontinued operations              | -                            | 24,000            |
| Total current assets                           | 615,204                      | 470,000           |
| Property, plant and equipment, net             | 3,234,734                    | 3,335,000         |
| Other long-term assets                         | 2,771,359                    | 2,861,000         |
| Total assets                                   | \$ 6,621,297                 | \$ 6,668,000      |
| <u>LIABILITIES AND EQUITY</u>                  |                              |                   |
| Current liabilities:                           |                              |                   |
| Long-term debt due within one year             | \$ 175,973                   | \$ 6,000          |
| Accounts payable and other current liabilities | 382,968                      | 410,000           |
| Liabilities of discontinued operations         | -                            | -                 |
| Total current liabilities                      | 558,941                      | 417,000           |
| Deferred income taxes and other liabilities    | 673,454                      | 621,000           |
| Long-term debt                                 | 4,070,712                    | 4,266,000         |
| Shareholders' equity                           | 1,318,190                    | 1,362,000         |
| Total liabilities and equity                   | \$ 6,621,297                 | \$ 6,668,000      |

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

Citizens Communications Company  
Condensed Consolidated Cash Flow Data (1)  
(unaudited)

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(Amounts in thousands)

|   | For the six months ended |       |
|---|--------------------------|-------|
|   | -----                    |       |
|   | 2005                     | ----- |
|   | -----                    | ----- |
| Income from continuing operations   | \$ 85,011                | \$    |
| Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities: |                          |       |
| Depreciation and amortization   | 277,663                  | 2     |
| Gain on expiration/settlement of customer advances  | (668)                    | (     |
| Loss on debt exchange   | 3,175                    |       |
| Stock based compensation  | 4,381                    |       |
| Other   | 46,607                   |       |
|   | -----                    | ----- |
| Net cash provided by continuing operating activities  | 416,169                  | 3     |
| Cash flows from investing activities:   |                          |       |
| Proceeds from sales of assets, net of selling expenses  | 24,195                   |       |
| Securities sold   | 1,112                    |       |
| Capital expenditures  | (114,303)                | (1    |
| Other assets (purchased) distributions received, net  | (1,775)                  |       |
|   | -----                    | ----- |
| Net cash used by investing activities   | (90,771)                 | (1    |
| Cash flows from financing activities:   |                          |       |
| Long-term debt payments   | (5,924)                  | (     |
| Issuance of common stock  | 24,953                   |       |
| Dividends paid  | (171,022)                |       |
| Shares repurchased  | (14,587)                 |       |
| Other   | (1,645)                  |       |
|   | -----                    | ----- |
| Net cash used by financing activities   | (168,225)                | (     |
| Cash provided (used) by discontinued operations   | 44,136                   |       |
| Increase in cash and cash equivalents   | 201,309                  | 1     |
| Cash and cash equivalents at January 1,   | 167,463                  | 5     |
|   | -----                    | ----- |
| Cash and cash equivalents at June 30,   | \$ 368,772               | \$ 7  |
|   | =====                    | ===== |
| Cash paid during the period for:  |                          |       |
| Interest  | \$ 143,436               | \$ 2  |
| Income taxes  | \$ 838                   | \$    |

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

Reconciliation of Non-GAAP Financial Measures (1)

(Amounts in thousands)

For the quarter ended June 30,

-----  
2005                      2004



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Net Income from Continuing Operations to Free Cash Flow ;

Net Cash Provided by Continuing Operating Activities

|   |           |           |
|---|-----------|-----------|
| Net income from continuing operations                     | \$ 44,584 | \$ 22,472 |
| Add back:   |           |           |
| Depreciation and amortization                             | 138,018   | 143,920   |
| Income tax expense  | 19,438    | 11,098    |
| Management succession and strategic alternatives expenses | -         | 10,392    |
| Stock based compensation                                  | 2,116     | 2,728     |
| Subtract:   |           |           |
| Cash paid for income taxes                                | 2,697     | 899       |
| Investment and other income                               | 1,208     | 5,208     |
| Capital expenditures                                      | 62,120    | 78,103    |
| Free cash flow  | 138,131   | 106,400   |
| Add back:   |           |           |
| Deferred income taxes                                     | 20,892    | 21,316    |
| Non-cash (gains)/losses, net                              | 8,400     | 11,917    |
| Investment and other income                               | 1,208     | 5,208     |
| Cash paid for income taxes                                | 2,697     | 899       |
| Capital expenditures                                      | 62,120    | 78,103    |
| Subtract:   |           |           |
| Changes in current assets and liabilities                 | 628       | 40,831    |
| Income tax expense  | 19,438    | 11,098    |
| Management succession and strategic alternatives expenses | -         | 10,392    |
| Stock based compensation                                  | 2,116     | 2,728     |
| Net cash provided by continuing operating activities      | \$211,266 | \$158,794 |

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