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CITIZENS COMMUNICATIONS CO

Form 8-K

November 13, 2001

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 13, 2001

CITIZENS COMMUNICATIONS COMPANY  
(Exact name of Registrant as specified in its charter)

Delaware	001-11001	06-0619596
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3 High Ridge Park, P.O. Box 3801  
Stamford, Connecticut 06905  
(Address of Principal Executive Offices) (Zip Code)

(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 7. Financial Statements, Exhibits

(c) Exhibits

99.1 Press Release of Citizens Communications Company released  
November 13, 2001 announcing earnings for the quarter and nine  
months ended September 30, 2001.

99.2 Financial and operating data

Citizens Communications  
3 High Ridge Park

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Stamford, CT 06905  
203.614.5600  
Web site: www.czn.net

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FOR IMMEDIATE RELEASE

Contact:  
Brigid Smith  
Assistant Vice President,  
Corporate Communications  
203.614.5042  
bsmith@czn.com

Citizens Communications Reports 82 Percent Increase  
in Third Quarter EBITDA  
Q3 '01 Revenue Increases 46 Percent from Q3 '00 Revenue

Stamford, Conn., November 13, 2001 -- Citizens Communications (NYSE:CZN, CZB) today reported financial results for the quarter ended September 30, 2001. Highlights of the quarter include:

- \* This is the first full quarter reporting 2.5 million telephone access lines, reflecting the acquisition of approximately 1.1 million Frontier Corp. lines on June 29. Annualized Incumbent Local Exchange (ILEC) operating results were in line with previously announced 2001 guidance targets of \$1.55 billion in annual revenue, \$800 million in annual EBITDA before restructuring and acquisition assimilation expenses, and annual capital expenditures of \$400 million.
- \* Completed the replacement of the \$6.15 billion, 364-day credit facilities with \$4.5 billion of debt and committed facilities with a weighted average maturity of 10-1/2 years in conjunction with the issuance of approximately \$750 million of its Common Stock and equity-linked securities.
- \* Began de-leveraging by reducing net debt and long-term debt liabilities (net of cash and short-term investments) by \$340 million.
- \* Completed the divestiture of the Louisiana Gas division for \$363.4 million on July 2, 2001 and recognized a \$139.3 million pre-tax gain.
- \* Citizens recorded restructuring charges in the quarter related to its previously announced consolidation of operations support functions of Citizens and Frontier. The charges include a \$13.0 million charge to operating expenses and \$8.8 million to depreciation.
- \* Results include a \$43.6 million non-cash after-tax charge relating to the discontinuation of FAS No. 71.

Consolidated third-quarter revenue from continuing operations, which includes revenue from the company's telecommunications, electric and gas operations, was \$661.1 million, an increase of 46 percent from the third quarter of 2000. For the nine months ended September 30, 2001, consolidated revenue from continuing operations was \$1,791.1 million, an increase of 36 percent from the same period in 2000.

Third quarter 2001 EBITDA from continuing operations totaled \$251.9 million, an 82 percent increase over third quarter 2000 EBITDA of \$138.3 million. For the nine months ended September 30, 2001, EBITDA from continuing operations was \$620.4 million, an increase of 58 percent from the comparable period in 2000.

Consolidated net loss for the third quarter of 2001 was \$.4 million, compared to net income of \$1.5 million for the same period in 2000. For the nine months

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ended September 30, 2001, net income was \$18.6 million compared to \$11.8 million for the corresponding period in 2000.

The current and year-ago quarters include EBITDA of \$237.6 million and \$111.0 million, respectively, from the company's ILEC operations. Third quarter 2001 EBITDA loss from the company's Electric Lightwave operation was \$2.1 million compared to \$4.8 million in EBITDA for the comparable period in 2000. The current quarter also includes \$15.9 million in EBITDA from the company's Public Services operations, compared to \$22.3 million for the same period in 2000. The decrease is primarily due to the sale of Louisiana Gas, the largest of Citizens' four gas divisions, which was sold on July 2, 2001 for \$363.4 million, resulting in a pre-tax gain of \$139.3 million.

Citizens' results for the third quarter of 2001 include a \$43.6 million non-cash after-tax charge relating to the discontinuance of FAS No. 71. Citizens has historically applied FAS No. 71 because its ILEC properties were predominantly regulated following a cost of service/rate of return approach. Beginning in the third quarter of 2001, these properties no longer met the criteria for application of FAS No. 71 due to the continuing process of deregulation and the introduction of competition to our existing rural local exchange telephone properties, and our expectation that these trends will continue for all Citizens' properties.

Restructuring expense of \$13.0 million for the three and nine months ended September 30, 2001 is related to Citizens' previously announced plan to close its operations support center in Plano, Texas by April 2002. The restructuring resulted in the reduction of 749 employees. These expenses primarily consist of severance, benefits, retention, early lease termination costs and other planning and communication costs. We expect to incur additional costs of approximately \$3.1 million through the first quarter of 2002.

### Telecommunications - ILEC

The current quarter is the first full quarter reflecting the acquisition of Frontier Corp. on June 29, 2001. Access lines at the end of the third quarter of 2001 totaled approximately 2.5 million and include approximately 1,229,000 access lines acquired since September 30, 2000.

ILEC revenue for the third quarter of 2001 was \$507.2 million, compared to \$246.8 million for the same period in 2000. Acquisitions accounted for \$245.5 million of the increase. Excluding acquisitions, revenue grew by 6 percent, led by access line growth of 3 percent. A 26 percent increase in the third quarter of 2001 in data and long-distance revenue, excluding acquisitions, reflects Citizens' continuing efforts to provide a more comprehensive set of services to its customers. Revenue for the nine months ended September 30, 2001 from the ILEC was \$1,083.3 million, compared to \$700.5 million for the same period in 2000 for a 55 percent increase year-over-year. Acquisitions accounted for \$350.3 million of this increase.

ILEC EBITDA for the third quarter was \$237.6 million, compared to \$111.0 million in the same period of 2000. Third-quarter ILEC EBITDA results were affected by restructuring charges of \$13.0 million and \$5.1 million related to acquisition assimilation expense. Absent these expenses, EBITDA for the third quarter of 2001 would have been \$255.7 million, compared to \$123.5 million for the same period in 2000. The ILEC EBITDA margin for the third quarter of 2001, after restructuring and acquisition assimilation expense, was 50.4 percent, compared to 50.0 percent for the same period in 2000, reflecting the lower margins at the recently acquired Frontier properties as well as the current expenses of operating and consolidating the Citizens and Frontier operations.

The current quarter also includes an \$8.8 million increase in depreciation due

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to the reduction in useful life of certain assets which will be phased out as a result of the restructuring. Operating results through the second quarter of 2002 will reflect the current expenses of two operations centers until the consolidation and integration is completed during 2002. The accelerated level of depreciation expense will also continue over the next three quarters.

ILEC EBITDA for the nine months ended September 30, 2001 was \$535.7 million, up 72 percent from \$312.1 million in the prior year period, resulting in an EBITDA margin of 49 percent. ILEC EBITDA for the nine months ended September 30, 2001 includes the above-described restructuring charges and assimilation expense related to acquisitions of telephone access lines. Absent these restructuring charges and assimilation expense, continuing ILEC EBITDA was \$566.3 million, a 68 percent increase over the prior year's corresponding period, for an EBITDA margin of 52 percent for the nine months ended September 30, 2001 compared to 48 percent for the same period of 2000.

### ILEC Financings

During the third quarter of 2001, the company completed the long-term financing of Citizens' local exchange access line acquisitions. The company sold \$1.75 billion in long-term debt securities in August and completed bank financings of \$1 billion of committed five-year revolving and 10-year-term debt during October. These financings provide excess liquidity and financial flexibility. Since May 2001, Citizens has issued \$4.5 billion of debt and committed bank facilities with a weighted average maturity of 10 1/2 years in conjunction with the issuance of approximately \$750 million of Common Stock and equity-linked securities.

In the third quarter of 2001, Citizens began de-leveraging by reducing net debt and long-term liabilities (net of cash and short-term investments) by \$340 million.

### Electric Lightwave, Inc. (NASDAQ: ELIX)

Third quarter Electric Lightwave, Inc. (ELI) revenue totaled \$53.3 million, compared to \$63.6 million for the same period in 2000. Although revenue for the quarter was down 16 percent from the corresponding period in 2000, the Network Services component of revenue grew 21 percent due to sales of additional circuits to new and existing customers as ELI concentrated upon its targeted customer base. The revenue decrease was primarily due to reduced rates for reciprocal compensation, the non-renewal of a take-or-pay contract with a major customer, and reduced demand from ISPs and other carriers for Internet-related traffic.

ELI revenue for the nine months ended September 30, 2001 was \$176.3 million, compared to \$181.0 million for the same period in 2000.

ELI's gross margin during the third quarter of 2001 was 68 percent. ELI's third-quarter 2001 EBITDA loss of \$2.1 million was impacted by a workforce reduction with an associated expense of \$1.4 million, and lower-than-anticipated revenue for the quarter. ELI EBITDA for the third quarter of 2000 was \$4.8 million. ELI EBITDA for the nine months ended September 30, 2001 was \$5.2 million, compared to a \$3.3 million EBITDA loss for the same period in 2000.

ELI's Class A Common Stock is currently traded on the Nasdaq National Market System, but the stock does not meet minimum bid price and market value of public float requirements for continued listing that were applicable on September 27, 2001. On that date Nasdaq Stock Market, Inc. implemented a moratorium until January 2, 2002, at which time compliance with the minimum requirements for listing on the Nasdaq National and SmallCap Markets will start anew. If ELI's Class A Common Stock does not meet the requirements of the National Market System for 30 consecutive days, and is unable to regain compliance within 90 days, the stock could be subject to delisting at that time.

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### Public Services

In September, the California Public Utilities Commission (PUC) approved the sale of Citizens' water operations to American Water Works. The proposed \$835 million sale is still pending an appeal of the PUC order. The company currently is working toward a closing before year end.

Gas and Electric third-quarter revenues totaled \$101.7 million versus \$143.1 million for the prior year's quarter. Public Services EBITDA was \$15.9 million for the third quarter of 2001, compared to \$22.3 million for the same period in 2000, primarily due to the sale of Louisiana Gas.

Revenues for the nine months ended September 30, 2001 totaled \$534.5 million versus \$440.6 million for the same period in 2000. For the nine months ended September 30, 2001, Public Services EBITDA was \$77.4 million compared to \$84.1 million for the same period of 2000.

Guidance for the ILEC for the year ended 2001 is reaffirmed at \$1.55 billion in annual revenue, \$800 million in annual EBITDA before restructuring and acquisition assimilation expenses, and annual capital expenditures of \$400 million. For Electric Lightwave, 2001 guidance is being lowered to \$228 million in revenue, \$10 million in EBITDA, and capital expenditures of \$55 million.

### About Citizens Communications

Citizens Communications serves approximately 2.5 million access lines in 24 states and is acquiring an additional 70,000 access lines. It owns 85 percent of Electric Lightwave, Inc. (NASDAQ: ELIX). More information on Citizens may 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 because of, but not limited to, changes in the local and overall economy, changes in market conditions for debt and equity securities, the nature and pace of technological changes, the number and effectiveness of competitors in the company's markets, success in overall strategy, changes in legal or regulatory policy, changes in legislation, the company's ability to identify future markets and successfully expand existing ones, the mix of products and services offered in the company's target markets, the effects of acquisitions and dispositions and the ability to effectively integrate businesses acquired. These important factors should be considered in evaluating any statement contained herein and/or made by the company or on its behalf. 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.

Citizens Communications Company  
Consolidated Financial Data  
(unaudited)

For the quarter ended

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	September 30,		%
(Amounts in thousands - except per-share amounts)	2001	2000	Change
<b>Income Statement Data</b>			
<b>Continuing operations (1)</b>			
Revenue	\$ 661,121	\$452,710	46
Cost of Services	123,214	114,497	8
Depreciation and amortization	193,662	95,859	102
Other operating expenses	267,892	187,373	43
Restructuring expenses	13,002	-	100
Acquisition assimilation expense	5,119	12,539	-59
Operating income	58,232	42,442	37
Investment and other income, net (2)	3,070	5,096	-40
Gain on sale of assets	139,304	-	100
Interest expense	123,452	49,559	149
Income tax expense	39,610	(202)	19709
Convertible preferred dividends	1,553	1,553	
Income (loss) from continuing operations	35,991	(3,372)	1167
Income from discontinued operations, net of tax	7,199	4,838	49
<b>Extraordinary expense-discontinuation of Statement of Financial Accounting Standards No. 71, net of tax</b>			
Net income (loss)	43,631	-	100
Carrying cost of equity forward contracts	(441)	1,466	-130
Available to common shareholders	1,003	-	100
	(1,444)	1,466	-198
<b>EBITDA and Capital Expenditure Data (3)</b>			
EBITDA from continuing operations	\$ 251,894	\$138,301	82
EBITDA from discontinued operations	20,043	14,422	39
Total Company EBITDA	271,937	152,723	78
EBITDA from continuing operations before restructuring and acquisition assimilation expenses	270,015	150,840	79
Cash capital expenditures from continuing operations	115,768	97,561	19
Cash capital expenditures from assets held for sale	16,918	19,720	-14
Cash capital expenditures from discontinued operations	7,823	34,596	-77
Total Company cash capital expenditures	140,509	151,877	-7
<b>Balance Sheet Data</b>			
Cash and investments			
Total assets			
Net plant (continuing operations)			
Assets held for sale			
Assets of discontinued operations			
Long-term debt (continuing operations)			
Equity			
Shares of common stock outstanding			
Weighted average shares outstanding	285,615	260,309	10
<b>Per-Share Data (4)</b>			
Available to common shareholders from continuing operations	\$ 0.12	\$ (0.01)	1300
Available to common shareholders per common share	(0.01)	0.01	-200
EBITDA per share from continuing operations	0.88	0.53	66
EBITDA per share from discontinued operations	0.07	0.06	17
Total Company EBITDA per share	0.95	0.59	61
Book value per share			
<b>Other Financial Data</b>			
Long-term debt to long-term debt and equity			
Common equity market capitalization (in billions)			

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Equity market capitalization (in billions)

Market capitalization (in billions) (5)

- (1) Includes ours Incumbent Local Exchange Carrier (ILEC), Electric Lightwave, Inc. (ELI), (ou Carrier) and our natural gas and electric businesses.

The natural gas and electric businesses are presented in continuing operations in the sele data and as assets held for sale in the balance sheet data.

We are reporting our water and wastewater businesses as discontinued operations.

Prior year has been restated to conform to current presentation. Continuing operations re of intercompany transactions (see segment footnote in the SEC Form 10-Q).

- (2) Includes \$12,222 of minority interest for the nine months ended 9/30/2000.  
 (3) EBITDA is operating income plus depreciation and amortization.  
 (4) Calculated based on weighted average shares outstanding.  
 (5) Equity market capitalization plus long-term debt.

### Citizens Communications Company Financial and Operating Data by Service

	For the quarter ended September 30,			
(Dollars in thousands, except operating data)	2001	2000	%	Change
ILEC				
Select Income Statement Data				
Revenue				
Network access services	\$ 189,034	\$ 114,725		65%
Local network services	194,398	83,633		132%
Long distance and data services	71,860	26,422		172%
Directory services	25,253	9,376		169%
Other	26,657	12,611		111%
Total revenue	507,202	246,767		106%
Network access expense	45,846	16,723		174%
Depreciation and amortization	173,014	65,857		163%
Other operating expenses	205,619	106,542		93%
Restructuring expenses (1)	13,002	-		100%
Acquisition assimilation expense (2)	5,119	12,539		-59%
Total expense	442,600	201,661		119%
Operating income	64,602	45,106		43%
EBITDA and Capital Expenditure Data				
EBITDA (3)	\$ 237,616	\$ 110,963		114%
EBITDA margin (4)	47%	45%		4%
EBITDA before restructuring and acquisition assimilation expenses	255,737	123,502		107%
EBITDA margin before acquisition assimilation expenses	50%	50%		0%
Cash capital expenditures	107,166	76,912		39%
Balance Sheet Data				
Total assets				
Net plant				

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### Operating Data

Access Lines: (4)			
Embedded properties excluding acquisitions			
Acquired properties			
Total Access lines			
Switched access minutes of use (in millions) (5)			
Excluding acquisitions	1,676	1,454	15%
Acquisitions	1,426	-	100%
Total MOU	3,102	1,454	113%
Employees			

- (1) Represents expenses associated with our plan to close our operations support center in Plano, Texas by April 2002.
- (2) Represents expenses associated with the completed and pending acquisitions.
- (3) EBITDA is operating income plus depreciation and amortization.
- (4) EBITDA divided by total revenue.
- (5) Acquisitions represent minutes of use from entities acquired after September 30, 2000.

### Citizens Communications Company Financial and Operating Data by Service

	For the quarter ended September 30,			
(Dollars in thousands, except operating data)	2001	2000	%	
			Change	
<hr style="border-top: 1px dashed black;"/>				
Electric Lightwave, Inc.				
Select Income Statement Data				
Revenue				
Network services	\$ 26,077	\$ 21,627	21%	\$
Local telephone services	14,450	25,187	-43%	
Long distance services	3,131	3,728	-16%	
Data services	9,672	13,068	-26%	
Total revenue	53,330	63,610	-16%	1
Network access expense	17,232	17,821	-3%	
Gross margin	36,098	45,789	-21%	1
Depreciation and amortization	19,919	16,306	22%	
Other operating expenses	38,221	41,013	-7%	1
Total expense	75,372	75,140	0%	2
Operating loss	(22,042)	(11,530)	-91%	(
EBITDA and Capital Expenditure Data				
EBITDA (1)	\$ (2,123)	\$ 4,776	-144%	\$
Cash capital expenditures (2)	8,602	20,649	-58%	
Balance Sheet Data				
Total assets				\$ 9
Gross plant				1,0
Operating Data				
Access Line Equivalents				1
Route miles				
Fiber miles				3

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Customers				
Buildings connected				
Employees				
Revenue per employee	\$ 57,468	\$ 55,026	4%	\$ 1
Reciprocal compensation received (in thousands)	\$ 2,697	\$ 9,202	-71%	\$

(1) EBITDA is operating income plus depreciation and amortization.

(2) Excludes capitalized leases.

### Citizens Communications Company Financial and Operating Data by Service

	For the quarter ended September 30,			%
	2001	2000	Change	
(Dollars in thousands, except operating data)				
Gas Sector (1)				
Select Income Statement Data				
Revenue				
Residential distribution	\$ 11,069	\$ 28,112	-61%	\$
Commercial distribution	19,718	26,897	-27%	
Industrial distribution	6,193	19,336	-68%	
Total distribution	36,980	74,345	-50%	
Other	737	5,987	-88%	
Total revenue	37,717	80,332	-53%	
Gas purchased	24,988	48,182	-48%	
Gross margin	12,729	32,150	-60%	
Depreciation and amortization (2)	152	6,707	-98%	
Other operating expenses	8,860	24,233	-63%	
Total expense	34,000	79,122	-57%	
Operating income	3,717	1,210	207%	
EBITDA and Capital Expenditure Data				
EBITDA (3)	\$ 3,869	\$ 7,917	-51%	\$
Cash capital expenditures	8,035	12,305	-35%	
Balance Sheet Data				
Assets held for sale				\$
Net plant				
Operating Data				
Customers				
Employees				
Customers per employee				
Gross margin (net revenue) per employee	\$ 23,882	\$ 32,508	-27%	\$
Billion Cubic Feet of gas throughput (BCF)	3.1	13.2	-77%	

(1) Our Louisiana Gas operations were disposed of by sale on July 2, 2001. The

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- sale of this operation affects comparability of data presented.
- (2) Our gas operations are reported as "held for sale". Accordingly, we ceased to record depreciation expense effective October 1, 2000.
- (3) EBITDA is operating income plus depreciation and amortization.

### Citizens Communications Company Financial and Operating Data by Service

(Dollars in thousands, except operating data)	For the quarter ended September 30,			%	For
	2001	2000	Change		
<b>Electric Sector</b>					
<b>Select Income Statement Data</b>					
<b>Revenue</b>					
Residential distribution	\$ 28,291	\$ 28,227	0%		\$
Commercial distribution	18,691	18,666	0%		
Industrial distribution	12,668	13,168	-4%		
Total distribution	59,650	60,061	-1%		1
Other	4,303	2,709	59%		
Total revenue	63,953	62,770	2%		1
Electric energy and fuel oil purchased	36,149	32,540	11%		
Gross margin	27,804	30,230	-8%		
Depreciation and amortization (1)	335	6,729	-95%		
Other operating expenses	15,821	15,816	0%		
Total expense	52,305	55,085	-5%		1
Operating income	11,648	7,685	52%		
<b>EBITDA and Capital Expenditure Data</b>					
EBITDA (2)	\$ 11,983	\$ 14,414	-17%		\$
Cash capital expenditures	8,883	7,415	20%		
<b>Balance Sheet Data</b>					
Assets held for sale					\$ 6
Net plant					4
<b>Operating Data</b>					
Customers					1
Employees					
Customers per employee					
Gross margin (net revenue) per employee	\$ 81,776	\$ 90,239	-9%		\$ 2
Megawatt hours sold	582,441	578,505	1%		1,5
Megawatt hours generated	104,755	92,865	13%		3
Megawatt hours purchased	530,605	527,151	1%		1,3

- (1) Our electric operations are reported as "held for sale". Accordingly, we ceased to record depreciation expense effective January 1, 2001.
- (2) EBITDA is operating income plus depreciation and amortization.

Signature  
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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  
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(Registrant)

By: /s/ Robert J. Larson  
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Robert J. Larson  
Vice President and Chief Accounting Officer

Date: November 13, 2001