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CITIZENS COMMUNICATIONS CO  
Form 8-K  
August 07, 2003

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): August 7, 2003

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 August 7, 2003, Citizens Communications Company issued a press release. A copy of the press release is attached hereto as Exhibit 99.3.

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 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

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Jerry Elliott  
Chief Financial Officer

Date: August 7, 2003

Exhibit 99.3

Citizens Communications  
3 High Ridge Park  
Stamford, CT 06905  
203.614.5600

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FOR IMMEDIATE RELEASE

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CITIZENS COMMUNICATIONS REPORTS 2003 SECOND-QUARTER RESULTS

Stamford, Conn., August 7, 2003 -- Citizens Communications (NYSE: CZN) today reported second-quarter 2003 consolidated revenues of \$644 million, consolidated operating income of \$135.2 million, and consolidated net income of \$34.1 million, or 12 cents per share. Consolidated net income for the quarter includes a \$25 million non-cash gain from the extinguishment of a capital lease obligation at Electric Lightwave, a \$4.4 million gain on the sale of a wireless partnership investment, a \$2.3 million gain on the sale of access lines in North Dakota, a \$10.1 million charge related to restructuring and other expenses, \$4.5 million of non-cash expense for restricted stock-related compensation, a \$4.4 million charge related to early debt retirement and a \$2.3 million charge related to the Touch America bankruptcy. Excluding these items, consolidated net income was \$27.9 million, or 10 cents per share.

The company produced free cash flow of \$113.3 million for the second-quarter 2003 and achieved a ratio of net debt to annualized cash generated by operations of 3.5x and a ratio of net debt to annualized operating income of 7.9x. The company reached its year-end target leverage ratio of 3.5x two quarters early. The company retired \$231.5 million of debt during the quarter and ended the quarter with \$385 million in cash. The company has retired \$355 million of debt during 2003.

The company remains focused on and committed to the continuing improvement of

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its balance sheet through the generation of free cash flow applied to further debt reduction. In addition, the sale of the company's Arizona Gas and Electric divisions for \$220 million in cash and The Gas Company of Hawaii division for \$115 million in cash and assumed liabilities remain on track for closings during the third quarter of 2003. After completion of these sales Citizens will have generated \$1.9 billion of proceeds from its utility divestiture program, which exceeds the company's original estimate of \$1.8 billion of total proceeds. The net proceeds from these sales will be used to further reduce debt. The sale of the company's last public service business, the Vermont Electric division, for \$25 million in cash is expected to close in the first half of 2004.

### Telecommunications

Second-quarter 2003 revenue from the company's ILEC operations was \$510.2 million, down \$4.5 million or 1 percent from \$514.7 million in the second-quarter of 2002. The decrease is due to a \$2.8 million decrease resulting from the sale of access lines in North Dakota and a decline in network access revenue, in part because of approximately \$3.0 million less in subsidy revenue resulting from regulatory agency true-ups relating to prior years. These decreases were partially offset by continued increases in enhanced service and data revenues.

The company's primary access line count, which does not take into account DSL subscriptions, decreased 5,600 lines during the quarter, excluding the sale of 10,800 access lines in North Dakota. The company added 12,300 DSL customers during the quarter. Taking into account DSL subscriptions, total subscriptions increased 6,700 for the quarter.

ILEC operating income for the second-quarter of 2003 was \$121.8 million, up \$21.2 million, or 21 percent from the second quarter of 2002. Operating income margin was 23.9 percent compared to 19.5 percent in the second quarter of 2002.

ILEC cash generated from operations for the second-quarter of 2003 was \$280.5 million, an increase of \$6.2 million or 2 percent compared to the prior year quarter. ILEC cash generated from operations margin for the second-quarter of 2003 increased to 55 percent from 53.3 percent in the second-quarter of 2002, reflecting increases in high-margin revenues, an ongoing focus on increased productivity and the efficiencies achieved from consolidation of the company's activities.

Capital expenditures for the ILEC were \$56.4 million for the second-quarter 2003.

Second-quarter 2003 revenue from Electric Lightwave totaled \$43.7 million, operating income was \$2.4 million, cash generated from operations was \$10.7 million and capital expenditures were \$2.3 million.

### Public Service

The gas and electric segments accounted for \$90.1 million of second-quarter 2003 consolidated revenue, \$11 million of operating income, \$11.2 million of cash generated from operations, and \$9.1 million of capital expenditures.

The company uses certain non-GAAP financial measures in evaluating its performance. These include cash generated from operations, cash generated from operations margin, net income excluding certain items, free cash flow and the ratio of net debt to annualized cash generated from operations. A reconciliation of the differences between these non-GAAP financial measures and the most comparable financial measures calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures referred to in this press release are by definition not measures of financial performance

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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.

Cash generated by operations is operating income plus (i) depreciation and amortization, (ii) reserve for certain telecom bankruptcies (Global Crossing, WorldCom and Touch America), (iii) restructuring and other expenses (primarily the write-off of software costs and severance costs and expenses), and (iv) restricted stock-related compensation expense. Cash generated by operations margin is cash generated by operations divided by revenue. Net income excluding certain items is net income without taking into account the items described in the first paragraph. Free cash flow is operating income plus depreciation and amortization and restricted stock-related compensation minus capital expenditures, interest expense and cash taxes.

Net debt to annualized cash generated by operations is the ratio of (i) total debt (excluding equity units and convertible preferred) net of cash and cash equivalents to (ii) cash generated by operations for the period indicated multiplied by four (for a quarter) or by two (for a six-month period).

The company believes that presentation of these non-GAAP financial measures is useful to investors because it (i) reflects management's view of core operations and cash flow generation upon which management bases financial, operational, compensation and planning decisions, (ii) presents measurements that investors and rating agencies have indicated to management are important in assessing the company, and (iii) is indicative of the company's actual performance compared to the covenant limiting the ratio of net debt to cash generated by operations contained in certain of its debt agreements. 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. 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, cash generated by operations and net income excluding certain items do not take into account the items described above, some of which will recur in future periods, in order to focus on core operations. In addition, 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 measures. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. In addition, annualized cash generated by operations and annualized operating income present quarterly or six-month information for purposes of ratio analysis as annualized information by multiplying the quarterly information by four and the six-month information by two, without representing in any way a forecast, projection or estimate of cash generated by operations or operating income for future periods. 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

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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.

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

| (Amounts in thousands - except per-share amounts)             | For the quarter ended<br>June 30, |            | %     | For  |
|---|-----------------------------------|------------|-------|------|
|   | 2003                              | 2002       |       |      |
| <b>Income Statement Data</b>                                  |                                   |            |       |      |
| Continuing operations   |                                   |            |       |      |
| Revenue   | \$ 643,954                        | \$ 662,439 | -3%   | \$1, |
| Cost of services  | 113,537                           | 113,786    | 0%    |      |
| Other operating expenses                                      | 227,985                           | 251,175    | -9%   |      |
| Restricted stock based compensation                           | 4,508                             | 251        | 1696% |      |
| Depreciation and amortization (1)                             | 150,359                           | 186,378    | -19%  |      |
| Reserve for telecommunications bankruptcies                   | 2,260                             | 10,001     | -77%  |      |
| Restructuring and other expenses                              | 10,113                            | 18,280     | -45%  |      |
| Operating income  | 135,192                           | 82,568     | 64%   |      |
| Investment and other income (loss), net                       | 24,566                            | (29,188)   | 184%  |      |
| Gain on sales of assets, net                                  | 6,671                             | -          | 100%  |      |
| Interest expense (includes dividends on preferred securities) | 107,988                           | 121,499    | -11%  |      |
| Income tax expense (benefit)                                  | 24,384                            | (26,560)   | 192%  |      |
| Loss from discontinued operations, net of tax                 | -                                 | -          | -     |      |
| Gain on disposal of water segment, net of tax                 | -                                 | -          | -     |      |
| Cumulative effect of change in accounting principle (2)       | -                                 | -          | -     |      |
| Net income (loss) attributable to common shareholders         | 34,057                            | (41,559)   | 182%  |      |
| Weighted average shares outstanding                           | 282,180                           | 280,610    | 1%    |      |
| Net income (loss) attributable to common shareholders         | \$ 0.12                           | \$ (0.15)  | 180%  | \$   |
| <b>Other Financial Data (3)</b>                               |                                   |            |       |      |
| Cash generated by operations                                  | \$ 302,432                        | \$ 297,478 | 2%    | \$   |
| Total capital expenditures (4)                                | 67,850                            | 94,119     | -28%  |      |
| Free cash flow  | 113,295                           | 44,040     | 157%  |      |
| Total debt (5)  | 4,662,168                         | 5,403,338  | -14%  | 4,   |
| Less: Cash and cash equivalents                               | 385,038                           | 421,069    | -9%   |      |
| Net debt  | 4,277,130                         | 4,982,269  | -14%  | 4,   |
| Net debt to annualized cash generated by operations           | 3.5                               | 4.2        | -17%  |      |

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- (1) 2002 includes \$900,000 and \$12,800,000, respectively, of accelerated depreciation related to the closing of our Plano, Texas facility.
- (2) 2003 represents the effect of adoption of SFAS No. 143. 2002 represents the write-off of ELI's goodwill. Both are net of tax.
- (3) A reconciliation of these non-GAAP measures to the most comparable GAAP measure is presented at the end of these tables.
- (4) 2002 excludes \$110,000,000 of previously leased facilities purchased by ELI in April 2002.
- (5) Excludes equity units and convertible preferred stock. Total debt includes current portion of long term debt.

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

| (Dollars in thousands, except operating data)     | For the quarter ended<br>June 30, |            | %      | For        |
|---|-----------------------------------|------------|--------|------------|
|   | 2003                              | 2002       | Change | 2002       |
| <b>TELECOMMUNICATIONS</b>                         |                                   |            |        |            |
| Select Income Statement Data                      |                                   |            |        |            |
| Revenue   |                                   |            |        |            |
| Network access services                           | \$ 160,142                        | \$ 171,163 | -6%    | \$ 325,142 |
| Local network services                            | 220,710                           | 217,638    | 1%     | 441,142    |
| Long distance and data services                   | 76,487                            | 71,029     | 8%     | 151,142    |
| Directory services                                | 26,736                            | 25,810     | 4%     | 53,142     |
| Other   | 26,078                            | 29,046     | -10%   | 51,142     |
| ILEC revenue                                      | 510,153                           | 514,686    | -1%    | 1,023,142  |
| Electric Lightwave                                | 43,719                            | 45,287     | -3%    | 84,142     |
| Total revenue                                     | 553,872                           | 559,973    | -1%    | 1,108,142  |
| Expenses  |                                   |            |        |            |
| Network access expense                            | 58,168                            | 58,598     | -1%    | 114,142    |
| Other operating expenses                          | 204,515                           | 224,821    | -9%    | 415,142    |
| Restricted stock based compensation               | 4,293                             | 310        | 1285%  | 5,142      |
| Depreciation and amortization (1)                 | 150,359                           | 186,332    | -19%   | 288,142    |
| Reserve for telecommunications bankruptcies       | 2,260                             | 10,001     | -77%   | 2,142      |
| Restructuring and other expenses                  | 10,113                            | 18,280     | -45%   | 10,142     |
| Total expenses                                    | 429,708                           | 498,342    | -14%   | 836,142    |
| Operating Income (Loss)                           |                                   |            |        |            |
| ILEC  | \$ 121,814                        | \$ 100,607 | 21%    | \$ 268,142 |
| ELI   | 2,350                             | (38,976)   | 106%   | 2,142      |
| Other Financial and Operating Data (2)            |                                   |            |        |            |
| ILEC cash generated by operations                 | \$ 280,498                        | \$ 274,316 | 2%     | \$ 560,142 |
| ILEC cash generated by operations margin          | 55.0%                             | 53.3%      | 3%     | 54,142     |
| ILEC capital expenditures                         | \$ 56,415                         | \$ 81,364  | -31%   | \$ 94,142  |
| ELI cash generated by operations                  | 10,691                            | 2,238      | 378%   | 17,142     |
| ELI capital expenditures (3)                      | 2,254                             | 3,067      | -27%   | 3,142      |
| ILEC access lines                                 | 2,418,819                         | 2,471,496  | -2%    | 2,418,142  |
| ILEC switched access minutes of use (in millions) | 2,995                             | 3,034      | -1%    | 6,142      |



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|  |              |          |
|--|--------------|----------|
| Accounts receivable and other current assets | 317,862      | 360      |
| Assets held for sale                         | 471,331      | 447      |
|  | -----        | -----    |
| Total current assets                         | 1,174,231    | 1,200    |
| Property, plant and equipment, net           | 3,620,734    | 3,690    |
| Other long-term assets                       | 3,167,307    | 3,255    |
|  | -----        | -----    |
| Total assets                                 | \$ 7,962,272 | \$ 8,146 |
|  | =====        | =====    |

LIABILITIES AND EQUITY

|   |              |          |
|---|--------------|----------|
| Current liabilities:                                    |              |          |
| Long-term debt due within one year                      | \$ 105,776   | \$ 58    |
| Accounts payable and other current liabilities          | 503,489      | 565      |
| Liabilities related to assets held for sale             | 113,186      | 145      |
|   | -----        | -----    |
| Total current liabilities                               | 722,451      | 770      |
| Deferred income taxes and other liabilities             | 666,228      | 585      |
| Equity units  | 460,000      | 460      |
| Long-term debt  | 4,556,392    | 4,957    |
| Mandatorily Redeemable Convertible Preferred Securities | 201,250      | 201      |
| Shareholders' equity                                    | 1,355,951    | 1,172    |
|   | -----        | -----    |
| Total liabilities and equity                            | \$ 7,962,272 | \$ 8,146 |
|   | =====        | =====    |

Reconciliation of Non-GAAP Financial Measures

Net Income (Loss) to Net Income (Loss) Excluding Items

(Dollars in thousands, except per-share amounts. All amounts shown net of tax.\*)

|  | Three Months Ended June 30, |             |
|--|-----------------------------|-------------|
|  | 2003                        | 2002        |
|  | -----                       | -----       |
| Net income (loss) as reported          | \$ 34,057                   | \$ (41,559) |
| Capital lease termination              | (14,852)                    | -           |
| Investment write-downs                 | -                           | 27,393      |
| Restructuring and other                | 6,003                       | 10,986      |
| Reserve for telecom bankruptcies       | 1,342                       | 6,011       |
| Restricted stock based compensation    | 2,676                       | 151         |
| Sale of assets                         | (3,960)                     | -           |
| Early retirement of debt               | 2,615                       | (8,006)     |
| Income from discontinued operations    | -                           | -           |
| Cumulative effect of accounting change | -                           | -           |
|  | -----                       | -----       |
| Net income (loss) excluding items      | \$ 27,881                   | \$ (5,024)  |

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Net Income (Loss) Per Share to Net Income

(Loss) Per Share Excluding Items

|   |         |           |
|---|---------|-----------|
| Net income (loss) per share as reported     | \$ 0.12 | \$ (0.15) |
| Capital lease termination                   | (0.05)  | -         |
| Investment write-downs                      | -       | 0.10      |
| Restructuring and other                     | 0.02    | 0.04      |
| Reserve for telecom bankruptcies            | -       | 0.02      |
| Restricted stock based compensation         | 0.01    | -         |
| Sale of assets                              | (0.01)  | -         |
| Early retirement of debt                    | 0.01    | (0.03)    |
| Income from discontinued operations         | -       | -         |
| Cumulative effect of accounting change      | -       | -         |
| Net income (loss) per share excluding items | \$ 0.10 | \$ (0.02) |
| *Effective Tax Rate                         | 40.64%  | 39.90%    |

Reconciliation of Non-GAAP Financial Measures  
(Dollars in thousands)

|   | ILEC       |            | Electric<br>Lightwave, Inc. |             | Gas and<br>Sec |
|---|------------|------------|-----------------------------|-------------|----------------|
|   | 2003       | 2002       | 2003                        | 2002        | 2003           |
| For the quarter ended June 30,                      |            |            |                             |             |                |
| Operating Income to Cash Generated by<br>Operations |            |            |                             |             |                |
| Operating income (loss)                             | \$ 121,814 | \$ 100,607 | \$ 2,350                    | \$ (38,976) | \$ 11,028      |
| Add back:   |            |            |                             |             |                |
| Depreciation and amortization                       | 144,374    | 154,741    | 5,985                       | 31,591      | -              |
| Reserve for telecom bankruptcies                    | 1,113      | 9,567      | 1,147                       | 434         | -              |
| Restructuring and other expenses                    | 9,482      | 9,207      | 631                         | 9,073       | -              |
| Restricted stock based compensation                 | 3,715      | 194        | 578                         | 116         | 215            |
| Cash Generated by Operations                        | \$ 280,498 | \$ 274,316 | \$ 10,691                   | \$ 2,238    | \$ 11,243      |

ILEC Electric  
Lightwave, Inc. Gas and  
Sec

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| For the six months ended June 30,                   | 2003       | 2002       | 2003      | 2002        | 2003      |
|---|------------|------------|-----------|-------------|-----------|
| Operating Income to Cash Generated by<br>Operations |            |            |           |             |           |
| Operating income (loss)                             | \$ 268,729 | \$ 192,828 | \$ 2,885  | \$ (55,996) | \$ 27,873 |
| Add back:   |            |            |           |             |           |
| Depreciation and amortization                       | 276,729    | 313,031    | 12,178    | 51,391      | -         |
| Reserve for telecom bankruptcies                    | 1,113      | 17,371     | 1,147     | 434         | -         |
| Restructuring and other expenses                    | 9,482      | 15,212     | 610       | 6,973       | -         |
| Restricted stock based compensation                 | 4,820      | 1,889      | 829       | 457         | 237       |
| Cash Generated by Operations                        | \$ 560,873 | \$ 540,331 | \$ 17,649 | \$ 3,259    | \$ 28,110 |

Reconciliation of Non-GAAP Financial Measures

| (Dollars in thousands)              | For the quarter ended June 30, |           |
|-------------------------------------|--------------------------------|-----------|
|                                     | 2003                           | 2002      |
| Operating Income to Free Cash Flow  |                                |           |
| Operating income                    | \$ 135,192                     | \$ 82,568 |
| Add back:                           |                                |           |
| Depreciation and amortization       | 150,359                        | 186,378   |
| Restricted stock based compensation | 4,508                          | 251       |
| Subtract:                           |                                |           |
| Cash paid for income taxes          | 926                            | 9,539     |
| Interest expense                    | 107,988                        | 121,499   |
| Capital expenditures                | 67,850                         | 94,119    |
| Free cash flow                      | \$ 113,295                     | \$ 44,040 |

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### Reconciliation of Non-GAAP Financial Measures

| (Dollars in thousands)                                    | For the quarter ended June 30, |            | For th     |
|---|--------------------------------|------------|------------|
|   | 2003                           | 2002       | 2003       |
| Net Debt to Annualized Cash                               |                                |            |            |
| Generated by Operations                                   |                                |            |            |
| Cash Generated by Operations (1)                          | \$ 302,432                     | \$ 297,478 | \$ 606,632 |
| Multiplied by:  |                                |            |            |
| Number of quarters  | 4                              | 4          | 2          |
| Annualized Cash Generated by Operations                   | 1,209,728                      | 1,189,912  |            |
| Total debt (2)  | 4,662,168                      | 5,403,338  | 4,662,168  |
| Less:   |                                |            |            |
| Cash and cash equivalents (2)                             | 385,038                        | 421,069    | 385,038    |
| Net debt  | 4,277,130                      | 4,982,269  |            |
| Divided by:   |                                |            |            |
| Annualized Cash Generated by Operations (3)               | 1,209,728                      | 1,189,912  |            |
| Net Debt to Annualized Cash Generated by Operations Ratio | 3.5                            | 4.2        |            |

(1) See Schedule B.

(2) As reported in the Company's financial statements prepared in accordance with GAAP.

(3) Annualized cash generated by operations and annualized operating income present quarterly or six month information for purposes of ratio analysis as annualized information by multiplying the quarterly information by four and six month information by two, without representing in any way a forecast, projection or estimate of cash generated by operations or operating income for future periods.