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CITIZENS COMMUNICATIONS CO
Form 8-K
March 04, 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): March 4, 2003

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

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

3 High Ridge Park
Stamford, Connecticut 06905
(Address of Principal Executive Offices)

(203) 614-5600
(Registrant's Telephone Number, Including Area Code)

No Change Since Last Report

(Former name or former address, if changed since last report)

ITEM 7. Financial Statements, Exhibits

(c) Exhibits

99.1 Press Release of Citizens Communications Company released
March 4, 2003 announcing earnings for the quarter and year ended
December 31, 2002.

99.2 Financial and operating data

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.

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CITIZENS COMMUNICATIONS COMPANY
(Registrant)

By: /s/ Robert J. Larson

Robert J. Larson
Senior Vice President and Chief Accounting Officer

Date: March 4, 2003

Exhibit 99.1

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

Contacts:

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Citizens Communications Reports 2002 Fourth-Quarter Results

Stamford, Conn., Mar. 4, 2003 - Citizens Communications (NYSE:CZN) today reported revenues of \$520 million from its ILEC operations for the quarter ended Dec. 31, 2002. The ILEC segment produced adjusted EBITDA of \$278 million and had capital expenditures of \$83 million for the quarter.

The company produced free cash flow of \$333 million for the full year 2002 and achieved a net debt to annualized Adjusted EBITDA ratio for the fourth quarter of 3.9x, surpassing the targeted year-end ratio. The company prepaid \$344 million of debt during the quarter and repaid \$1.06 billion (or 16 percent) of its debt during the year, and ended the quarter with over \$393 million in cash.

The company remains focused on and committed to the continuing improvement of its balance sheet through the generation of free cash flow applied to further debt reduction. In addition, the sale of the company's Arizona Electric and Gas divisions for \$230 million in cash and the sale of The Gas Company of Hawaii division for \$115 million in cash are expected to close during the second half of 2003. The net proceeds from these sales will be used to further reduce debt.

For the fourth quarter 2002 consolidated results were revenues of \$659 million; operating income of \$99 million; capital expenditures of \$115 million; free cash flow of \$71 million; and the net loss was \$24 million.

During the fourth quarter the company also reduced stockholders' equity by \$112 million as a result of certain pension matters previously disclosed. After giving effect to this reduction the company's "net worth" as calculated pursuant to certain debt agreements was \$1.83 billion at Dec. 31, 2002.

Telecommunications

Fourth quarter 2002 revenue from the company's ILEC operations was \$520.4 million, up \$9.7 million or 2 percent from \$510.7 million in the fourth quarter

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of 2001, primarily due to continued increases in penetration of data, enhanced service and long-distance products, sales of special access services and increased subsidies. For the full year, revenue from the company's ILEC operations was \$2.063 billion, up \$468.9 million, or 29 percent.

ILEC operating income for the fourth quarter was \$89.2 million, up \$56.2 million, or 170 percent from the fourth quarter of 2001, and for the full year was \$413 million compared to \$221 million in 2001.

Adjusted EBITDA for the fourth quarter of 2002 was \$278 million, an increase of \$24 million or 10 percent compared to the prior year quarter. Adjusted EBITDA margin for the fourth-quarter of 2002 increased to 53.5 percent from 49.7 percent in the fourth quarter of 2001, reflecting increases in high-margin revenues, an ongoing focus on increased productivity and the efficiencies achieved from consolidation of the company's activities. Adjusted EBITDA for the full year 2002 was \$1.097 billion, an increase of \$294 million or 37 percent from the prior year.

Capital expenditures for the ILEC were \$83 million and operating cash flow (Adjusted EBITDA minus capital expenditures) was \$195 million for the quarter. For the full year 2002 ILEC capital expenditures were \$289 million and operating cash flow was \$808 million.

Fourth-quarter 2002 revenue from Electric Lightwave totaled \$41.2 million, Adjusted EBITDA was \$9.8 million, capital expenditures were \$3.8 million and operating cash flow was \$6 million. For the full year 2002, revenue totaled \$175 million, Adjusted EBITDA was \$17.1 million, capital expenditures were \$12 million and operating cash flow was \$5.1 million.

Public Service

The gas and electric segments accounted for \$97 million of fourth-quarter 2002 consolidated revenue, \$10.2 million of Adjusted EBITDA and \$9.1 million of capital expenditures. For the full year 2002, the gas and electric segment accounted for \$431.3 million of consolidated revenue, \$76.1 million of Adjusted EBITDA, \$39.7 million of capital expenditures and \$36.4 million of operating cash flow.

Adjusted EBITDA is EBITDA (operating income plus depreciation and amortization) plus restructuring and other expenses, loss on impairment and reserve for telecommunications bankruptcies. Free cash flow is operating income plus depreciation and amortization and the loss on impairment, minus cash capital expenditures, cash interest expense and cash taxes. EBITDA is a measure commonly used to analyze companies on the basis of operating performance. EBITDA is not a measure of financial performance under generally accepted accounting principles nor is it an alternative to cash flow as a measure of liquidity and may not be comparable to similarly titled measures of other companies. 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 Securities and Exchange Commission.

About Citizens Communications

More information about Citizens can be found at www.czn.net.

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These and all forward-looking statements (including oral representations) are only predictions or statements of current plans that are constantly under review by the company. All forward-looking statements may differ from actual results because of, but not limited to,

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changes in local and national economies, the state of the telecommunications industry, 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 and the mix of products and services offered in the company's markets. 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.

Exhibit 99.2

Citizens Communications Company Consolidated Financial Data (unaudited)

| (Amounts in thousands - except per-share amounts) | For the quarter ended December 31, | | | % | For the y Decem |
|--|---------------------------------------|------------|--------|--------------|--------------------|
| | 2002 | 2001 | Change | 2002 | |
| Income Statement Data | | | | | |
| Continuing operations | | | | | |
| Revenue | \$ 658,728 | \$ 665,849 | -1% | \$ 2,669,332 | |
| Cost of services | 119,101 | 122,271 | -3% | 476,920 | |
| Other operating expenses (1) | 241,397 | 271,073 | -11% | 1,002,355 | |
| Depreciation and amortization (2) | 191,359 | 218,602 | -12% | 755,522 | |
| Reserve for telecommunications bankruptcies | (6,925) | 21,200 | -133% | 10,880 | |
| Restructuring and other expenses (3) | 15,274 | 6,325 | 141% | 37,186 | |
| Loss on impairment (4) | - | - | - | 1,074,058 | |
| Operating income (loss) | 98,522 | 26,378 | 274% | (687,589) | |
| Investment and other loss, net | (19,828) | (82,036) | 76% | (82,553) | |
| Gain on sale of assets | 7,897 | - | 100% | 9,798 | |
| Interest expense | 113,280 | 122,845 | -8% | 477,506 | |
| Income tax expense (benefit) | 9,814 | (63,988) | 115% | (414,874) | |
| Income (loss) from discontinued operations, net of tax | - | 6,200 | -100% | (1,478) | |
| Gain on disposal of water segment, net of tax | 12,043 | - | 100% | 181,369 | |
| Extraordinary expense-discontinuation of Statement of Financial Accounting Standards No. 71, net of tax | - | - | - | - | |
| Cumulative effect of change in accounting principle (5) | - | - | - | 39,812 | |
| Carrying cost of equity forward contracts | - | - | - | - | |
| Net loss available to common shareholders | (24,460) | (108,315) | 77% | (682,897) | |
| Other Financial Data | | | | | |
| Adjusted EBITDA from continuing operations (6) | \$ 298,230 | \$ 272,505 | 9% | \$ 1,190,057 | |
| Total capital expenditures (7) | 114,538 | 177,666 | -36% | 358,741 | |
| Free cash flow (7) (8) | 70,945 | (72,363) | 198% | 333,174 | |
| Long-term debt (9) | 4,957,361 | 5,534,906 | -10% | 4,957,361 | |

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| | | | | |
|--|-----------|-----------|------|-----------|
| Total debt (9) | 5,016,272 | 6,018,812 | -17% | 5,016,272 |
| Less: Cash and cash equivalents | 393,177 | 215,869 | 82% | 393,177 |
| Net debt | 4,623,095 | 5,802,943 | -20% | 4,623,095 |
| Net debt to annualized Adjusted EBITDA | 3.9 | 5.3 | -26% | 3.9 |
| Interest coverage | 2.6 | 2.2 | 18% | 2.5 |
| Shares of common stock outstanding | 282,484 | 281,291 | 0% | 282,484 |
| Weighted average shares outstanding | 281,096 | 279,675 | 1% | 280,686 |
| Net loss available to common shareholders (10) | \$ (0.09) | \$ (0.39) | 77% | \$ (2.43) |

- (1) Includes \$3,715,000 and \$21,380,000 of acquisition assimilation expenses for the quarter and year ended December 31, 2001, respectively.
- (2) Includes \$10,577,000 and \$23,379,000 of accelerated depreciation for the quarter and year ended December 31, 2002, respectively, related to the closing of our Plano, Texas facility. Also includes \$37,526,000 and \$91,219,000 of goodwill amortization for the quarter and year ended December 31, 2001, respectively.
- (3) Primarily severance costs.
- (4) Shown as the pre-tax amount.
- (5) Write-off of ELI's goodwill.
- (6) Adjusted EBITDA is operating income plus depreciation and amortization, the reserve for telecommunications bankruptcies, restructuring and other expenses and loss on impairment. Adjusted EBITDA is a measure commonly used to analyze companies on the basis of operating performance. It is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to net income as a measure of performance nor an alternative to cash flow as a measure of liquidity and may not be comparable to similarly titled measures of other companies (see segment footnote in the SEC Form 10-K).
- (7) Excludes \$110,000,000 of previously leased facilities purchased by ELI in April 2002.
- (8) Free cash flow is operating income plus depreciation and amortization and loss on impairment minus cash interest expense, cash income taxes and cash capital expenditures.
- (9) Excludes equity units. Total debt includes current portion of long term debt.
- (10) Calculated based on weighted average shares outstanding.

Citizens Communications Company
Financial and Operating Data
(unaudited)

| | For the quarter ended December 31, | | | For th Dec |
|---|---------------------------------------|------|--------|---------------|
| | ----- | | | ----- |
| (Dollars in thousands, except operating data) | | | % | |
| TELECOMMUNICATIONS (1) | 2002 | 2001 | Change | 2002 |
| | ----- | | | ----- |

Select Income Statement Data
Revenue

| | | | | |
|---------------------------------|------------|------------|-----|----------|
| Access services | \$ 169,762 | \$ 170,902 | -1% | \$ 673,4 |
| Local services | 219,217 | 215,452 | 2% | 869,9 |
| Long distance and data services | 78,207 | 73,130 | 7% | 305,4 |

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| | | | | |
|--|------------|------------|-------|------------|
| Directory services | 25,886 | 25,433 | 2% | 104,3 |
| Other | 27,339 | 25,801 | 6% | 109,7 |
| ILEC revenue | 520,411 | 510,718 | 2% | 2,062,9 |
| Electric Lightwave | 41,235 | 50,083 | -18% | 175,0 |
| Total revenue | 561,646 | 560,801 | 0% | 2,237,9 |
| Expenses | | | | |
| Network access expense | 60,688 | 64,856 | -6% | 235,4 |
| Other operating expenses (2) | 212,923 | 236,322 | -10% | 888,5 |
| Depreciation and amortization (3) | 191,351 | 218,151 | -12% | 755,1 |
| Reserve for telecommunications bankruptcies | (6,925) | 21,200 | -133% | 10,8 |
| Restructuring and other expenses (4) | 15,274 | 6,325 | 141% | 37,1 |
| Loss on impairment (5) | - | - | - | 656,6 |
| Total expenses | 473,311 | 546,854 | -13% | 2,583,9 |
| Adjusted EBITDA and Capital Expenditure Data | | | | |
| ILEC Adjusted EBITDA (6) | \$ 278,247 | \$ 253,915 | 10% | \$ 1,096,8 |
| ILEC Adjusted EBITDA margin | 53.5% | 49.7% | 8% | 53. |
| ILEC capital expenditures | \$ 83,343 | \$ 149,345 | -44% | \$ 288,8 |
| ELI Adjusted EBITDA (6) | 9,788 | 5,708 | 71% | 17,0 |
| ELI capital expenditures (7) | 3,800 | 8,381 | -55% | 12,0 |
| Operating Income (Loss) | | | | |
| ILEC | \$ 89,174 | \$ 32,999 | 170% | \$ 413,2 |
| ELI | (839) | (19,052) | 96% | (759,1 |
| Operating Data | | | | |
| ILEC access lines | 2,444,400 | 2,481,409 | -1% | 2,444,4 |
| ILEC switched access minutes of use (in millions) | 3,069 | 3,107 | -1% | 12,2 |
| ILEC average monthly revenue per average line \$ | 70.75 | \$ 68.48 | 3% | \$ 69. |

- (1) Includes our Incumbent Local Exchange Carrier (ILEC) and Electric Lightwave, Inc. (ELI) business.
- (2) See footnote (1) on first page.
- (3) See footnote (2) on first page.
- (4) See footnote (3) on first page.
- (5) See footnote (4) on first page.
- (6) See footnote (6) on first page.
- (7) See footnote (7) on first page.

Citizens Communications Company Financial and Operating Data (unaudited)

| | For the quarter ended December 31, | | | For the Dece |
|------------------------------|---------------------------------------|------|--------|-----------------|
| (Dollars in thousands) | 2002 | 2001 | % | 2002 |
| GAS AND ELECTRIC SECTORS (1) | | | Change | |

Select Income Statement Data

| | | | | |
|---|-----------|------------|------|-----------|
| Revenue | \$ 97,083 | \$ 105,048 | -8% | \$ 431,34 |
| Gas, electric energy and fuel oil purchased | 58,413 | 57,415 | 2% | 241,45 |
| Other operating expenses | 28,473 | 34,751 | -18% | 113,79 |

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| | | | | |
|-----------------------------------|-----------|-----------|------|----------|
| Depreciation and amortization (2) | 8 | 451 | -98% | 36 |
| Loss on impairment (3) | - | - | - | 417,40 |
| Operating income (loss) | 10,189 | 12,431 | -18% | (341,66 |
| Other Financial Data | | | | |
| Adjusted EBITDA (4) | \$ 10,197 | \$ 12,882 | -21% | \$ 76,09 |
| Capital expenditures | 9,140 | 19,123 | -52% | 39,66 |

- (1) Our Louisiana and Colorado gas operations were disposed of by sale on July 2, 2001 and November 30, 2001, respectively. Our Kauai Electric operations were disposed of by sale on November 1, 2002. The sale of these operations affects the comparability of data presented.
- (2) Our gas and electric operations are reported as "held for sale." Accordingly, we ceased to record depreciation expense effective October 1, 2000 and January 1, 2001, respectively.
- (3) See footnote (4) on first page.
- (4) Adjusted EBITDA is operating income plus depreciation and amortization and loss on impairment (see footnote (6) on first page).