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CITIZENS COMMUNICATIONS CO

Form 8-K

May 14, 2002

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): May 14, 2002

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  
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  
May 14, 2002 announcing earnings for the quarter ended March 31,  
2002.

99.2 Financial and operating data

Citizens Communications  
3 High Ridge Park  
Stamford, CT 06905

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FOR IMMEDIATE RELEASE

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## Citizens Communications and Electric Lightwave Report Financial Results for the First Quarter of 2002

Stamford, Conn., May 14, 2002 - Citizens Communications (NYSE: CZN) and its subsidiary Electric Lightwave, Inc. (ELI) (NASDAQ: ELIX) today each reported financial results for the quarter ended March 31, 2002. The following information should be read in conjunction with the financial statements and footnotes contained in the Form 10-Qs to be filed tomorrow with the Securities and Exchange Commission. Certain terms used in this press release are defined at the end of the release.

For the first quarter of 2002 consolidated revenue was \$679.3 million; operating income from continuing operations was \$100.4 million; Adjusted EBITDA from continuing operations was \$290.2 million; capital expenditures totaled \$69.6 million; Free Cash Flow was \$208.9 million; consolidated net income was \$83.2 million; free cash flow per share was 75 cents and net income per share was 30 cents.

Citizens' consolidated results for the first quarter of 2002 include a \$309.2 million pre-tax gain on the sale of the company's water utilities; a non-cash write off of ELI's goodwill of \$39.8 million; the write down of Global Crossing receivables of \$7.8 million as a result of Global Crossing filing for bankruptcy; a non-cash charge of \$49.7 million resulting from the decline in value of the company's investment in Adelphia Communications; and restructuring and other expenses of \$3.9 million related to the company's closing of its Sacramento call center and its operations support center in Plano, Texas.

Telecommunications - Incumbent Local Exchange Carrier Segment ("ILEC Segment") First quarter 2002 revenue from the company's ILEC Segment was \$508.0 million, up \$220.7 million or 77 percent from \$287.3 million in the first quarter of 2001. The June 2001 acquisition of Frontier accounted for \$207.2 million of the increase. Excluding the impact of the Frontier acquisition, the revenue increase was \$13.5 million or five percent above the first quarter of 2001, primarily related to continued increases in penetration of enhanced services and data products.

Access lines at March 31, 2002 totaled 2,478,600, a 79 percent increase from 1,387,300 lines at March 31, 2001. Excluding the impact of the Frontier acquisition, access lines were unchanged from March 31, 2001. In addition to its access line count, the company added more than 11,000 DSL subscribers during the first quarter, compared to virtually no additions during the start up phase in the first quarter of 2001. The company continues to see accelerated growth in DSL lines as first quarter net additions of 11,000 subscribers exceeded fourth quarter net additions of 9,100 subscribers by 21 percent.

Adjusted EBITDA for the first quarter of 2002 was \$264.3 million, an increase of \$115.3 million or 77 percent compared to the year-ago quarter. The Company's Adjusted EBITDA margin continues to improve ahead of targets. Sequentially Adjusted EBITDA increased \$10.4 million from the fourth quarter of 2001 and the Adjusted EBITDA margin increased to 52 percent as compared to 49.7 percent in the fourth quarter of 2001. These margins reflect an ongoing focus on execution, ongoing success in the integration of Frontier and the efficiencies achieved

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from the combination.

ILEC Segment operating income was \$92.2 million, up 47 percent from \$62.7 million in the first quarter of 2001. Operating income for the first quarter of 2002 reflects charges of \$13.8 million and accelerated depreciation of \$11.9 million resulting from the closing of the company's facilities in Plano, Texas, and Sacramento, and operating income for the first quarter of 2001 reflects \$5.5 million of acquisition assimilation expenses associated with our completed acquisitions.

For the 2002 quarter the ILEC Segment had capital expenditures of \$55.8 million compared to \$76.6 million of capital expenditures for the quarter ended March 31, 2001. This decrease relates principally to increased scrutiny of discretionary capital projects in the current economic environment as well as to normal first quarter seasonality.

Free cash flow for the 2002 quarter was \$194.7 million versus \$78.1 million in the fourth quarter of 2001 and \$72.5 million in the year ago quarter. The increase in Free Cash Flow was related to the increase in EBITDA and the decline in capital expenditures described above.

Competitive Local Exchange Carrier Segment; Electric Lightwave, Inc. (NASDAQ: ELIX) 2002 first-quarter revenue from ELI totaled \$48.2 million, operating loss was \$17.2 million, EBITDA was \$2.5 million, and capital expenditures were \$4.2 million. EBITDA includes the effect of a \$2.1 million one-time favorable item.

ELI's Class A Common Stock is currently traded on the Nasdaq National Market System, but does not meet minimum bid price and market value of public float requirements for continued listing. The stock is expected to be delisted from the Nasdaq National Market in the near future.

### Public Services Segment

The gas and electric segments accounted for \$124.1 million of first-quarter 2002 consolidated revenue, \$25.2 million in EBITDA, \$9.6 million of capital expenditures and \$15.7 million of free cash flow.

EBITDA is operating income plus depreciation and amortization. Adjusted EBITDA is EBITDA plus the write down of Global Crossing receivables and restructuring expenses. Free cash flow is EBITDA less capital expenditures. EBITDA is a measure commonly used to analyze companies on the basis of operating performance. EBITDA is not a measure of financial performance 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.

### About Citizens Communications

Citizens Communications serves 2.5 million access lines in 24 states. Citizens owns 85 percent of Electric Lightwave, Inc. (NASDAQ:ELIX), a facilities-based, integrated communications provider that offers a broad range of services to telecommunications-intensive businesses throughout the United States.

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

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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.

### TABLES TO FOLLOW

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

	For the quarter ended		
	March 31, 2002	Mar-02 vs. Dec-01 % Change	December 31, 2001
(Amounts in thousands - except per-share amounts)			
Income Statement Data			
Continuing operations (1)			
Revenue	\$ 679,334	2%	\$ 665,849
Cost of services	128,238	5%	122,271
Other operating expenses (2)	260,854	-4%	271,073
Depreciation and amortization (3)	178,174	-18%	218,602
Write-down of Global Crossing receivables (4)	7,804	-63%	21,200
Restructuring and other expenses (4)	3,905	-38%	6,325
Operating income	100,359	280%	26,378
Investment and other income (loss), net	(48,508)	41%	(82,036)
Interest expense (5)	123,603	1%	122,845
Income tax expense (benefit)	(26,942)	58%	(63,988)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(44,810)	61%	(114,515)
Income from discontinued operations, net of tax	(1,478)	-124%	6,200
Gain on disposal of water segment, net of tax	169,326	100%	-
Cumulative effect of change in accounting principle (6)	(39,812)	100%	-
Net income (loss)	83,226	177%	(108,315)
Other Financial Data			
Adjusted EBITDA from continuing operations (7)	\$ 290,242	7%	\$ 272,505
Total cash capital expenditures	69,599	-61%	180,234
Total assets	10,233,610	-3%	10,553,600
Assets held for sale	1,103,657	0%	1,107,937
Long-term debt (8)	5,453,053	-1%	5,534,906
Total debt (8)	5,914,115	-2%	6,018,812
Less: Cash and short-term investments	972,751	351%	215,869
Net debt	4,941,364	-15%	5,802,943

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Net debt to current quarter annualized Adjusted			
EBITDA	4.3	-19%	5.3
Interest coverage (8)	2.5	4%	2.4
Free cash flow (9)	\$ 208,934	223%	\$ 64,746
Shares of common stock outstanding	281,641	0%	281,289
Weighted average shares outstanding	280,257	0%	279,675
Per-Share Data (10)			
Income from continuing operations per common share			
before cumulative effect of change in accounting principle	\$ (0.16)	61%	\$ (0.41)
Net income per common share	\$ 0.30	177%	\$ (0.39)
Free cash flow per common share (9)	\$ 0.75	226%	\$ 0.23

- (1) Includes our Incumbent Local Exchange Carrier (ILEC), Electric Lightwave, Inc. (ELI) (our Competitive Local Exchange Carrier) and our natural gas and electric businesses. The natural gas and electric businesses are presented in continuing operations in the selected income statement data and as assets held for sale in the balance sheet data. Continuing operations reflect the elimination of intercompany transactions (see segment footnote in the SEC Form 10-Q).
- (2) Other operating expenses includes \$3,715,000 and \$5,484,000 of acquisition assimilation expenses for the quarters ended December 31, 2001 and March 31, 2001, respectively. These expenses are associated with our completed acquisitions.
- (3) Includes \$33,977,000 and \$10,352,000 of goodwill amortization for the quarters ended December 31, 2001 and March 31, 2001, respectively. Amortization of goodwill ceased on January 1, 2002 in accordance with statement of Financial Accounting Standards No.142.
- (4) Represents the write-down of the net realizable value of Global Crossing receivables as a result of Global's filing for bankruptcy. See footnote 6 in the SEC 10-Q Form for an explanation of restructuring and other expenses.
- (5) Includes \$1,553,000 of convertible preferred dividends for each quarter.
- (6) As a result of ELI's adoption of Statement of Financial Accounting Standards No. 142, we recognized a transitional impairment loss, (the write-off of ELI's goodwill) as a cumulative effect of a change in accounting principle in the first quarter of 2002.
- (7) Adjusted EBITDA is operating income plus depreciation and amortization, the Global Crossing write-down and restructuring and other expenses. 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-Q).
- (8) Excludes equity units of \$460,000,000 for December 31, 2001 and March 31, 2002 and related interest expense. Total debt includes current portion of long term debt.
- (9) Free cash flow is operating income plus depreciation and amortization minus cash capital expenditures excluding changes in working capital, cash income taxes for the period and interest expense.
- (10) Calculated based on weighted average shares outstanding.

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## Financial and Operating Data by Service

	For the quarter		
(Dollars in thousands, except operating data) ILEC	March 31, 2002	Mar-02 vs. Dec-01 % Change	December 31 2001
<b>Select Income Statement Data</b>			
<b>Revenue</b>			
Network access services	\$ 189,787	-2%	\$ 193,0
Local network services	190,820	-1%	191,8
Long distance and data services	73,679	1%	73,1
Directory services	26,244	3%	25,4
Other	27,501	1%	27,2
<b>Total revenue</b>	<b>508,031</b>	<b>-1%</b>	<b>510,7</b>
Network access expense	43,086	-11%	48,4
Other operating expenses (1)	200,625	-4%	208,3
Depreciation and amortization (2)	158,290	-20%	197,5
Restructuring and other expenses (3)	6,005	180%	2,1
Write-down of Global Crossing receivables	7,804	-63%	21,2
<b>Total expense</b>	<b>415,810</b>	<b>-13%</b>	<b>477,7</b>
<b>Operating income</b>	<b>92,221</b>	<b>179%</b>	<b>32,9</b>
<b>Adjusted EBITDA and Capital Expenditure Data</b>			
Adjusted EBITDA (4)	\$ 264,320	4%	\$ 253,9
Adjusted EBITDA margin	52%	4%	5
Cash capital expenditures	55,769	-63%	152,5
Segment free cash flow (5)	\$ 194,742	149%	\$ 78,0
<b>Operating Data</b>			
Access lines	2,478,573	0%	2,481,4
Switched access minutes of use (in millions)	3,014	-2%	3,0
Employees	7,387	-7%	7,9
Average monthly revenue per average line	\$ 68.28	0%	\$ 68.

- (1) Other operating expenses includes \$3,715,000 and \$5,484,000 of acquisition assimilation expenses for the quarters ended December 31, 2001 and March 31, 2001, respectively. These expenses are associated with our completed acquisitions.
- (2) Includes \$11,900,000 and \$13,200,000 of accelerated depreciation related to the closing of our Plano, Texas administrative facility for the quarters ended March 31, 2002 and December 31, 2001, respectively.
- (3) Represents expenses associated with our plan to close our operations support center in Plano, Texas by August 2002 and the closing of our Sacramento Customer Care Center in April 2002. See footnote 6 in the SEC 10-Q Form for an explanation of restructuring and other expenses.
- (4) Adjusted EBITDA is operating income plus depreciation and amortization, the Global Crossing write-down and restructuring and other expenses. 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

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10-Q).

- (5) Segment free cash flow is operating income plus depreciation and amortization less cash capital expenditures.

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

	For the quarter en		
(Dollars in thousands, except operating data)	March 31, 2002	Mar-02 vs. Dec-01 % Change	December 31, 2001
Electric Lightwave, Inc.			
Select Income Statement Data			
Revenue			
Network services	\$ 23,787	2%	\$ 23,37
Local telephone services	12,933	-15%	15,17
Long distance services	3,082	3%	2,98
Data services	8,348	-5%	8,79
Total revenue	48,150	-4%	50,31
Network access expense	15,694	-5%	16,59
Restructuring expense	(2,100)	-150%	4,17
Other operating expenses	32,084	11%	28,94
Depreciation and amortization	19,652	-4%	20,37
Total expense	65,330	-7%	70,09
Operating loss	(17,180)	13%	(19,78)
Adjusted EBITDA and Capital Expenditure Data			
Adjusted EBITDA (1)	\$ 2,472	315%	\$ 59
Cash capital expenditures	4,247	-60%	10,68
Segment free cash flow (2)	\$ (1,775)	82%	\$ (10,08)
Balance Sheet Data			
Total assets	\$ 846,430	-6%	\$ 902,34
Net plant	815,478	-2%	832,70
Operating Data			
Route miles	7,219	7%	6,75
Fiber miles	362,624	2%	354,08
Customers	2,247	0%	2,24
Employees	810	-2%	82

- (1) Adjusted EBITDA is operating loss plus depreciation and amortization. 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-Q).

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(2) Segment free cash flow is Adjusted EBITDA less cash capital expenditures.

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

	For the quarter ended		
(Dollars in thousands)	March 31, 2002	Mar-02 vs. Dec-01 % Change	December 31, 2001
<b>Gas Sector (1)</b>			
<b>Select Income Statement Data</b>			
Revenue	\$ 71,365	40%	\$ 51,147
Gas purchased	43,600	45%	29,996
Other operating expenses	15,793	3%	15,296
Depreciation and amortization (2)	84	-45%	152
Total expense	59,477	31%	45,444
Operating income	11,888	108%	5,703
<b>Adjusted EBITDA and Capital Expenditure Data</b>			
Adjusted EBITDA (3)	\$ 11,972	104%	\$ 5,855
Cash capital expenditures	4,379	-45%	7,949
Segment free cash flow (4)	\$ 7,593	463%	\$ (2,094)
<b>Balance Sheet Data</b>			
Assets held for sale	\$ 427,160	-3%	\$ 441,654
Net plant	360,554	2%	354,991

(1) Our Louisiana and Colorado gas operations were disposed of by sale on July 2, 2001 and November 30, 2001, respectively. The sale of these operations 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) Adjusted EBITDA is operating income plus depreciation and amortization. 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-Q).

(4) Segment free cash flow is Adjusted EBITDA less cash capital expenditures.

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



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For the quarter end

(Dollars in thousands)	March 31, 2002	Mar-02 vs. Dec-01 % Change	December 31, 2001
Electric Sector			
Select Income Statement Data			
Revenue	\$ 52,691	-2%	\$ 53,901
Electric energy and fuel oil purchased	26,680	-3%	27,419
Other operating expenses	12,741	-35%	19,455
Depreciation and amortization (1)	-	-100%	299
Total expense	39,421	-16%	47,173
Operating income	13,270	97%	6,728
Adjusted EBITDA and Capital Expenditure Data			
Adjusted EBITDA (2)	\$ 13,270	89%	\$ 7,027
Cash capital expenditures	5,204	-37%	8,276
Segment free cash flow (3)	\$ 8,066	746%	\$ (1,249)
Balance Sheet Data			
Assets held for sale	\$ 676,497	2%	\$ 666,283
Net plant	456,542	1%	450,662

- (1) Our electric operations are reported as "held for sale". Accordingly, we ceased to record depreciation expense effective January 1, 2001.
- (2) Adjusted EBITDA is operating income plus depreciation and amortization. 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-Q).
- (3) Segment free cash flow is Adjusted EBITDA less cash capital expenditures.

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)

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By: /s/ Robert J. Larson

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Robert J. Larson

Vice President and Chief Accounting Officer

Date: May 14, 2002