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CITIZENS COMMUNICATIONS CO

Form 8-K

February 24, 2006

UNITED STATES  
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): February 24, 2006

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.)
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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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition  
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On February 24, 2006, Citizens Communications Company, issued a press release. A copy of the press release is attached hereto as Exhibit 99.1.

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The information in this Form 8-K and the Exhibits attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits  
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(c) Exhibits:

99.1 Press Release of Citizens Communications Company released February 24, 2006 announcing 2005 4th Quarter Results.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITIZENS COMMUNICATIONS COMPANY  
(Registrant)

By: /s/ Jerry Elliott  
-----

Jerry Elliott  
President and Acting  
Chief Financial Officer

Date: February 24, 2006

Exhibit 99.1

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

Contact:  
Michael Bromley  
203.614.5218  
mbromley@czn.com

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Citizens Communications Reports 2005 Fourth-Quarter Results;  
Announces New Stock Buyback and Debt Retirement Programs;  
Declares Quarterly Dividend

Stamford, Conn., February 24, 2006 -- Citizens Communications (NYSE:CZN) today reported fourth quarter 2005 revenues of \$556.1 million; operating income of \$173.2 million; and net income of \$76.8 million.

Fourth quarter 2005 revenue from the company's Frontier operations increased 2.7 percent to \$513.7 million from \$500.4 million in the fourth quarter of 2004. The increase is due primarily to growth in data and enhanced service revenues and higher access service revenues (which includes subsidy payments we receive from federal and state agencies). Data service revenues increased 30.3 percent compared to the fourth quarter of 2004 and high margin enhanced service revenues increased 3.0 percent from the fourth quarter of 2004. During the fourth quarter of 2005, we recognized approximately \$10.0 million of additional Universal Service Fund (USF) subsidy revenue because of a missed filing deadline with the USF during the third quarter of 2005.

The company added 21,200 high-speed internet customers during the quarter and had 311,400 high-speed data subscribers at December 31, 2005. The number of the company's high-speed internet subscribers has increased by more than 99,000 or 46.7 percent from a year ago.

Frontier operating income for the fourth quarter of 2005 was \$165.0 million and operating income margin was 32.1 percent, compared to \$138.0 million and 27.6 percent in the fourth quarter of 2004. Capital expenditures for the Frontier operations were \$90.0 million for the fourth quarter of 2005.

Free cash flow was \$123.9 million during the fourth quarter and increased 9.2 percent to \$545.2 million for the full year. The company's dividend represents a payout of 62.1 percent of 2005 free cash flow.

During the fourth quarter, the company bought 6,119,000 shares of its common stock at a total cost of \$78.0 million and completed its \$250.0 million authorized share repurchase program. Under this program, the company repurchased a total of 18,775,000 shares of common stock.

--MORE --

The company's Board of Directors has authorized new share repurchase and debt retirement programs. Under the new programs, up to \$300.0 million of common stock may be repurchased over the next 12 months and up to \$150.0 million of debt may be retired prior to maturity over the next 12 months. The new stock repurchase program, in combination with the 2005 program, will result in the retirement of almost 13 percent of the company's common stock. The new debt retirement program is in addition to the previously announced repayment of \$228.0 million of debt that matures in 2006 and \$49.0 million of debt that will be repaid in 2007. The combination of the previously announced debt repayments and the new debt retirement program total \$427.0 million of debt that may be repaid during 2006 and 2007 and will result in a reduction of 11 percent of the company's debt.

The company expects to receive approximately \$64.6 million in cash upon the liquidation of the Rural Telephone Bank during the second quarter of 2006. In addition, the previously announced sale of Electric Lightwave, LLC (ELI) for \$247.0 million (including \$243.0 million in cash) is expected to close during the third quarter of 2006.

The company expects to produce during 2006 between \$500.0 million and \$525.0 million of free cash flow assuming that the sale of ELI closes during the third

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quarter of 2006. This estimate of free cash flow does not take into account the effect of the new debt retirement program announced today.

The company's next regular quarterly cash dividend of \$0.25 per share will be paid on March 31, 2006 to shareholders of record on March 9, 2006. The company expects that dividends paid to stockholders in 2006 will be treated as dividends for federal income tax purposes. Shareholders are encouraged to consult with their tax advisors.

The company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow. A reconciliation of the differences between free cash flow and the most comparable financial measure calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definition not measures of financial performance under generally accepted accounting principles and are not alternatives to operating income or net income reflected in the statement of operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the company may not be comparable to similarly titled measures of other companies.

The company believes that presentation of non-GAAP financial measures provides useful information to investors regarding the company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the company's core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the company and its results of operations. Management uses these non-GAAP financial measures to plan and measure the 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.

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Management uses these non-GAAP financial measures to (i) assist in analyzing the company's underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions; and (v) assist management in understanding the company's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures. The company believes that the non-GAAP financial measures are meaningful and useful for the reasons outlined above.

While the company utilizes these non-GAAP financial measures in managing and analyzing its business and financial condition and believes they are useful to management and to investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments and dividends are not deducted from such measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. The information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents to be filed with the U.S. Securities and Exchange Commission.

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### About Citizens Communications

More information about Citizens can be found at [www.czn.net](http://www.czn.net).

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties are based on a number of factors, including but not limited to: our ability to effectively manage our operations, costs and capital spending; our ability to successfully introduce new product offerings, including bundled service packages; our ability to sell enhanced services; our ability to comply with federal and state regulations; changes in the number of our revenue generating units; general and local economic and employment conditions; the effects of ongoing changes in the regulation of the communications industry; overall changes in the telecommunications market; and greater than anticipated competition from wireless or wireline carriers. In addition, we may be unable to implement some of our current business initiatives if we fail to recognize the benefits we expect to receive from certain transactions, including but not limited to, the anticipated sale of ELI and the liquidation of Rural Telephone Bank. These and other uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission, including our reports on Forms 10-K and 10-Q. We undertake no obligation to publicly update or revise any forward-looking statement or to make any other forward-looking statements, whether as a result of new information, future events or otherwise unless required to do so by securities laws.

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TABLES TO FOLLOW

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

	For the quarter ended December 31,		%	
(Amounts in thousands - except per-share amounts)	2005	2004	Change	
 Income Statement Data (2)				
Revenue (3)	\$ 556,112	\$ 539,127	3%	\$2

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Cost of services (exclusive of depreciation and amortization)	49,725	47,023	6%	
Other operating expenses	201,201	203,877	-1%	
Management succession and strategic alternatives expenses (4)	-	-	-	
Stock based compensation	1,994	3,204	-38%	
Depreciation and amortization	129,969	142,617	-9%	
Operating income	173,223	142,406	22%	
Investment and other income (loss)	3,813	(36,592)	110%	
Interest expense (includes interest on convertible debt)	85,807	92,725	-7%	
Income tax expense (benefit)	14,448	(2,447)	690%	
Income from discontinued operations, net of tax	-	1,244	-100%	
Net income attributable to common shareholders	76,781	16,780	358%	
Weighted average shares outstanding	331,180	335,143	-1%	
Basic net income per share attributable to common shareholders (5)	\$ 0.23	\$ 0.05	360%	\$
Other Financial Data				
Total capital expenditures	\$ 92,999	\$ 75,024	24%	\$
Free cash flow (6)	123,904	127,575	-3%	

- (1) Our conferencing business was sold on March 15, 2005. Prior periods have been restated to present our conferencing business as discontinued operations.
- (2) Our Vermont distribution facilities were sold on April 1, 2004. This sale affects the comparability of data presented.
- (3) Revenue for the year ended December 31, 2004 includes \$9,735 of revenue from electric operations sold.
- (4) Includes \$36,618 related to stock based compensation expense for the twelve months ended December 31, 2004.
- (5) Calculated based on weighted average shares outstanding.
- (6) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

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

	For the quarter ended December 31,		%
(Dollars in thousands, except operating data)	2005	2004	Change

### TELECOMMUNICATIONS

#### Select Income Statement Data

Revenue

Access services	\$ 168,529	\$ 159,797	5%
Local services	205,434	210,719	-3%
Long distance services	40,405	44,657	-10%
Data and internet services	48,220	37,020	30%
Directory services	28,226	27,636	2%
Other	22,914	20,545	12%

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ILEC revenue	513,728	500,374	3%
Electric Lightwave	42,384	38,753	9%
<b>Total revenue</b>	<b>556,112</b>	<b>539,127</b>	<b>3%</b>
<b>Expenses</b>			
Network access expense	49,725	47,023	6%
Other operating expenses	201,201	203,075	-1%
Management succession and strategic alternatives expenses	-	-	-
Stock based compensation	1,994	3,204	-38%
Depreciation and amortization	129,969	142,617	-9%
<b>Total expenses</b>	<b>382,889</b>	<b>395,919</b>	<b>-3%</b>
<b>Operating Income</b>			
ILEC	\$ 164,954	\$ 137,979	20%
ELI	8,269	5,229	58%
<b>Other Financial and Operating Data</b>			
ILEC capital expenditures	\$ 89,987	\$ 71,259	26%
ELI capital expenditures	2,965	3,578	-17%
ILEC depreciation and amortization	123,790	136,457	-9%
ELI depreciation and amortization	6,179	6,160	0%
ILEC access lines	2,218,570	2,320,772	-4%
High-speed internet subscribers	311,416	212,277	47%
ILEC switched access minutes of use (in millions)	2,705	2,895	-7%
ILEC average monthly revenue per average RGU (2)	\$ 67.60	\$ 65.85	3%

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

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

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

	For the quarter ended December 31,		%	
(Dollars in thousands)	2005	2004	Change	2005

#### GAS AND ELECTRIC SECTORS (1)

##### Select Income Statement Data

Revenue	\$ -	\$ -	-	
Gas, electric energy and fuel oil purchased	-	-	-	
Other operating expenses	-	802	-100%	
Operating income (loss)	-	(802)	100%	

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

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### Citizens Communications Company Condensed Consolidated Balance Sheet Data (1)

(Amounts in thousands)

	December 31, 2005	December 31, 2004
<b>ASSETS</b>		
-----		
Current assets:		
Cash and cash equivalents	\$ 265,775	\$ 163,000
Accounts receivable and other current assets	276,320	282,000
Assets of discontinued operations	-	24,000
Total current assets	542,095	470,000
Property, plant and equipment, net	3,186,465	3,335,000
Other long-term assets	2,683,549	2,861,000
Total assets	\$ 6,412,109	\$ 6,668,000

### LIABILITIES AND EQUITY

-----

Current liabilities:		
Long-term debt due within one year	\$ 227,734	\$ 6,000
Accounts payable and other current liabilities	388,908	410,000
Liabilities of discontinued operations	-	-
Total current liabilities	616,642	417,000
Deferred income taxes and other liabilities	754,282	621,000
Long-term debt	3,999,376	4,266,000
Shareholders' equity	1,041,809	1,362,000
Total liabilities and equity	\$ 6,412,109	\$ 6,668,000

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

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

(Amounts in thousands)

	For the year ended December 31	
	2005	2004
Cash flows provided by (used in) operating activities:		
Net income	\$ 202,375	\$ 72,100



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Deduct: Gain on sale of discontinued operations	(1,167)	-
Income from discontinued operations	(1,040)	(5,2)
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization	541,959	570,8
Gain on expiration/settlement of customer advances	(681)	(25,3
Loss on debt exchange	3,175	-
Stock based compensation	8,427	47,5
Other	91,169	51,4
	-----	-----
Net cash provided by operating activities	844,217	711,4
Cash flows from investing activities:		
Proceeds from sales of assets, net of selling expenses	24,195	30,9
Proceeds from sale of discontinued operations	43,565	-
Securities sold	1,112	26,5
Capital expenditures	(268,459)	(275,2
Other assets (purchased) distributions received, net	5,724	(28,1
	-----	-----
Net cash used by investing activities	(193,863)	(245,8
Cash flows from financing activities:		
Long-term debt borrowings	-	700,0
Debt issuance costs	-	(15,5
Long-term debt payments	(6,433)	(1,214,0
Premiums paid to retire debt	-	(66,4
Issuance of common stock	47,550	544,5
Dividends paid	(338,364)	(832,7
Shares repurchased	(250,000)	
Other	(1,662)	(2,0
	-----	-----
Net cash used by financing activities	(548,909)	(886,2
Cash flows of discontinued operations		
Operating cash flows	578	1,3
Investing cash flows	(7)	(5
Financing cash flows	-	
	-----	-----
	571	7
Increase (decrease) in cash and cash equivalents	102,016	(419,9
Cash and cash equivalents at January 1,	163,759	583,6
	-----	-----
Cash and cash equivalents at December 31,	\$ 265,775	\$ 163,7
	=====	=====
Cash paid during the period for:		
Interest	\$ 318,638	\$ 370,1
Income taxes (refunds)	\$ 4,711	\$ (4,9

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

Reconciliation of Non-GAAP Financial Measures (1)  
(unaudited)

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(Amounts in thousands)	For the quarter ended December 31,	
	2005	2004
-----		
Net Income to Free Cash Flow; Net Cash Provided by		
-----		
Operating Activities		
-----		
Net income	\$ 76,781	\$ 16,780
Add back:		
Depreciation and amortization	129,969	142,617
Income tax expense (benefit)	14,448	(2,447)
Management succession and strategic alternatives expenses	-	-
Stock based compensation	1,994	3,204
Subtract:		
Cash paid (refunded) for income taxes	2,476	(7,097)
Gain on sale of discontinued operations	-	-
Income from discontinued operations	-	1,244
Investment and other income (loss)	3,813	(36,592)
Capital expenditures	92,999	75,024
Free cash flow	----- 123,904	----- 127,575
Add back:		
Deferred income taxes	44,405	8,893
Non-cash (gains)/losses, net	14,439	64,413
Investment and other income (loss)	3,813	(36,592)
Cash paid (refunded) for income taxes	2,476	(7,097)
Capital expenditures	92,999	75,024
Subtract:		
Changes in current assets and liabilities	25,722	56,920
Income tax expense (benefit)	14,448	(2,447)
Management succession and strategic alternatives expenses	-	-
Stock based compensation	1,994	3,204
Net cash provided by operating activities	----- \$ 239,872 =====	----- \$ 174,539 =====

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