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CITIZENS COMMUNICATIONS CO

Form 8-K

July 29, 2005

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): July 29, 2005

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 July 29, 2005, Citizens Communications Company, issued a press release. A copy of the press release is attached hereto as Exhibit 99.1.

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

(c) Exhibits

99.1 Press release of Citizens Communications Company released July 29, 2005 announcing 2005 2nd 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
Executive Vice President and
Chief Financial Officer

Date: July 29, 2005

Exhibit 99.1

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Citizens Communications Reports
2005 Second-Quarter Results; Declares Quarterly Dividend

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Stamford, Conn., July 29, 2005 -- Citizens Communications (NYSE:CZN) today reported second quarter 2005 consolidated revenues of \$531.8 million; consolidated operating income of \$146.9 million; and consolidated net income of \$44.6 million.

Second quarter 2005 revenue from the company's ILEC operations was \$492.8 million, a decrease from \$499.5 million in the second quarter of 2004. The decrease is due primarily to a reserve for state earnings limitations, fewer access lines, lower access service revenues and reduced long distance revenue. Growth in data and enhanced service revenues partially offset the decreases. Data service revenues increased 26.1 percent compared to the second quarter of 2004.

The company's revenue generating units (which consists of access lines and high speed internet subscribers) increased almost 1% from a year ago as the company added 24,500 high speed internet customers during the quarter and had 267,300 high speed data subscribers at June 30, 2005. The number of the company's high speed internet subscribers has increased by more than 103,000 or 63% from a year ago. The company's access line count decreased 23,000 lines during the quarter.

ILEC operating income for the second quarter of 2005 was \$142.1 million and operating income margin was 28.8 percent, compared to \$125.1 million and 25.0 percent in the second quarter of 2004. Capital expenditures for the ILEC were \$57.0 million for the second quarter of 2005.

Free cash flow increased 30 percent to \$138.1 million during the second quarter of 2005. The company's dividend represents a payout of 58.8 percent of free cash flow for the first six months of 2005.

During the second quarter, the company repurchased \$18.6 million of stock at an average price of \$13.28 per share and exchanged \$50 million of debt due in 2006 for debt that matures in 2031.

The company's next regular quarterly cash dividend of \$0.25 per share will be paid on September 30, 2005 to shareholders of record on September 9, 2005.

--MORE --

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

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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.

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.

--MORE --

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. 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.

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TABLES TO FOLLOW

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

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(Amounts in thousands - except per-share amounts)	For the quarter ended June 30,		%
	2005	2004	Change
Income Statement Data (2)			
Revenue	\$ 531,798	\$ 537,796	-1%
Cost of services (exclusive of depreciation and amortization)	43,698	46,710	-6%
Other operating expenses	201,069	208,032	-3%
Management succession and strategic alternatives expenses	-	10,392	-100%
Stock based compensation	2,116	2,728	-22%
Depreciation and amortization	138,018	143,920	-4%
Operating income	146,897	126,014	17%
Investment and other income	1,208	5,208	-77%
Interest expense (includes interest on convertible debt)	84,083	97,652	-14%
Income tax expense	19,438	11,098	75%
Income from discontinued operations, net of tax	-	1,320	-100%
Net income attributable to common shareholders	44,584	23,792	87%
Weighted average shares outstanding	340,389	284,782	20%
Basic net income per share attributable to common shareholders (3)	\$ 0.13	\$ 0.08	63%
Other Financial Data			
Total capital expenditures	\$ 62,120	\$ 78,103	-20%
Free cash flow (4)	138,131	106,400	30%

- (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) Calculated based on weighted average shares outstanding.
- (4) 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)

(Dollars in thousands, except operating data)	For the quarter ended June 30,		%
	2005	2004	Change
TELECOMMUNICATIONS			
Select Income Statement Data			
Revenue			
Access services	\$ 152,152	\$ 155,224	-2%

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Local services	205,751	213,417	-4%
Long distance services	42,337	45,546	-7%
Data services	42,392	33,624	26%
Directory services	28,541	28,201	1%
Other	21,598	23,482	-8%
ILEC revenue	492,771	499,494	-1%
Electric Lightwave	39,027	38,302	2%
Total revenue	531,798	537,796	-1%
Expenses			
Network access expense	43,698	46,710	-6%
Other operating expenses	201,069	207,013	-3%
Management succession and strategic alternatives expenses	-	10,392	-100%
Stock based compensation	2,116	2,728	-22%
Depreciation and amortization	138,018	143,920	-4%
Total expenses	384,901	410,763	-6%
Operating Income			
ILEC	\$ 142,135	\$ 125,076	14%
ELI	4,762	1,957	143%
Other Financial and Operating Data			
ILEC capital expenditures	\$ 57,013	\$ 73,535	-22%
ELI capital expenditures	5,089	4,397	16%
ILEC depreciation and amortization	131,711	137,975	-5%
ELI depreciation and amortization	6,307	5,945	6%
ILEC access lines	2,275,465	2,362,285	-4%
High-speed internet subscribers	267,270	164,184	63%
ILEC switched access minutes of use (in millions)	2,830	2,917	-3%
ILEC average monthly revenue per average RGU (2)	\$ 64.62	\$ 66.02	-2%

(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)

(Dollars in thousands)	For the quarter ended		%	Fo
	2005	2004		
				2

GAS AND ELECTRIC SECTORS (1)

Select Income Statement Data

Revenue	\$ -	\$ -	-
Gas, electric energy and fuel oil purchased	-	-	-
Other operating expenses	-	1,019	-100%
Operating income (loss)	-	(1,019)	-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)

	(unaudited) June 30, 2005	December 31, 2004
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 368,772	\$ 167,000
Accounts receivable and other current assets	246,432	279,000
Assets of discontinued operations	-	24,000
Total current assets	615,204	470,000
Property, plant and equipment, net	3,234,734	3,335,000
Other long-term assets	2,771,359	2,861,000
Total assets	\$ 6,621,297	\$ 6,668,000
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Long-term debt due within one year	\$ 175,973	\$ 6,000
Accounts payable and other current liabilities	382,968	410,000
Liabilities of discontinued operations	-	-
Total current liabilities	558,941	417,000
Deferred income taxes and other liabilities	673,454	621,000
Long-term debt	4,070,712	4,266,000
Shareholders' equity	1,318,190	1,362,000
Total liabilities and equity	\$ 6,621,297	\$ 6,668,000

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

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

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(Amounts in thousands)

	For the six months ended	

	2005	

Income from continuing operations	\$ 85,011	\$
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:		
Depreciation and amortization	277,663	2
Gain on expiration/settlement of customer advances	(668)	(
Loss on debt exchange	3,175	
Stock based compensation	4,381	
Other	46,607	
	-----	-----
Net cash provided by continuing operating activities	416,169	3
Cash flows from investing activities:		
Proceeds from sales of assets, net of selling expenses	24,195	
Securities sold	1,112	
Capital expenditures	(114,303)	(1
Other assets (purchased) distributions received, net	(1,775)	
	-----	-----
Net cash used by investing activities	(90,771)	(1
Cash flows from financing activities:		
Long-term debt payments	(5,924)	(
Issuance of common stock	24,953	
Dividends paid	(171,022)	
Shares repurchased	(14,587)	
Other	(1,645)	
	-----	-----
Net cash used by financing activities	(168,225)	(
Cash provided (used) by discontinued operations	44,136	
Increase in cash and cash equivalents	201,309	1
Cash and cash equivalents at January 1,	167,463	5
	-----	-----
Cash and cash equivalents at June 30,	\$ 368,772	\$ 7
	=====	=====
Cash paid during the period for:		
Interest	\$ 143,436	\$ 2
Income taxes	\$ 838	\$

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

Reconciliation of Non-GAAP Financial Measures (1)

(Amounts in thousands)

	For the quarter ended June 30,	

	2005	2004

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Net Income from Continuing Operations to Free Cash Flow ;

Net Cash Provided by Continuing Operating Activities

Net income from continuing operations	\$ 44,584	\$ 22,472
Add back:		
Depreciation and amortization	138,018	143,920
Income tax expense	19,438	11,098
Management succession and strategic alternatives expenses	-	10,392
Stock based compensation	2,116	2,728
Subtract:		
Cash paid for income taxes	2,697	899
Investment and other income	1,208	5,208
Capital expenditures	62,120	78,103
Free cash flow	138,131	106,400
Add back:		
Deferred income taxes	20,892	21,316
Non-cash (gains)/losses, net	8,400	11,917
Investment and other income	1,208	5,208
Cash paid for income taxes	2,697	899
Capital expenditures	62,120	78,103
Subtract:		
Changes in current assets and liabilities	628	40,831
Income tax expense	19,438	11,098
Management succession and strategic alternatives expenses	-	10,392
Stock based compensation	2,116	2,728
Net cash provided by continuing operating activities	\$211,266	\$158,794

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