

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

Filed 02/25/02 for the Period Ending 02/25/02

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, CO 80021
Telephone	7208881000
CIK	0000794323
Symbol	LVLT
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

LEVEL 3 COMMUNICATIONS INC

FORM 8-K

(Unscheduled Material Events)

Filed 2/25/2002 For Period Ending 2/25/2002

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021
Telephone	720-888-1000
CIK	0000794323
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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 25, 2002

Level 3 Communications, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0210602

(I.R.S. Employer
Identification No.)

1025 Eldorado Blvd., Broomfield, Colorado
(Address of principal executive offices)

80021
(Zip code)

720-888-1000

(Registrant's telephone number including area code)

Not applicable

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

Item 7. Financial Statements and Exhibits

(a) Financial Statements of business acquired

None

(b) Pro forma financial information

None

(c) Exhibits

99.1 Press Release dated February 25, 2002, relating to execution of definitive agreement to acquire CorpSoft, Inc.

99.2 Press Release dated February 25, 2002, relating to updated financial information.

Item 9. Regulation FD Disclosure

On February 25, 2002, Level 3 Communications, Inc. ("Level 3") issued a press release relating to the execution of a definitive agreement to acquire CorpSoft, Inc. This press release is filed as Exhibit 99.1 to this Current Report and incorporated by reference as if set forth in full. In addition, on February 25, 2002, Level 3 issued a press release relating to updated financial information. This press release is filed as Exhibit 99.2 to this Current Report and incorporated by reference as if set forth in full. The furnishing of this information shall not be deemed an admission as to the materiality of the information included in this Current Report. This information is not filed but is furnished pursuant to Regulation FD.

SIGNATURES

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.

Level 3 Communications, Inc.

February 25, 2002
Date

By: /s/ Neil J. Eckstein
Neil J. Eckstein, Vice President

1025 Eldorado Boulevard Broomfield, Colorado 80021 www.Level3.com

NEWS RELEASE

Level 3 contacts:

Media: Josh Howell Investors: Robin Grey 720-888-2517 720-888-2518

Level 3 to Acquire Corporate Software

Leading Distributor of Business Software Had 2001 Revenues of Approximately \$1.1 Billion

Acquisition Strengthens Level 3's Position in Information Services Industry

BROOMFIELD, Colo., February 25, 2002 -- Level 3 Communications, Inc. (Nasdaq:LVT) today announced it has signed a definitive agreement to acquire CorpSoft, Inc., a major distributor, marketer and reseller of business software, which conducts its business under the name Corporate Software.

Level 3 will pay approximately \$89 million in cash to acquire the equity of Corporate Software. At the time of closing, it is anticipated that Corporate Software will have debt obligations, net of cash, of approximately \$50 million. The privately held company had 2001 revenues of approximately \$1.1 billion. Corporate Software had 2001 EBITDA of approximately \$18 million, excluding stock-based compensation expense, one-time restructuring charges and other non-recurring employee costs.

Based in Norwood, MA, Corporate Software is an industry leader in the field of software marketing, procurement and license management. It is a leading distributor of software products from Microsoft, IBM/Lotus, Novell, Sun Microsystems, Computer Associates, Symantec and 200 other software publishers, and serves more than 5,000 business customers in 128 countries. Corporate Software counts half the Fortune 500 among its existing customer base.

"This transaction affords a number of distinct advantages to Level 3," said James Q. Crowe, Level 3's chief executive officer of Level 3.

"Through our

(i)Structure subsidiary, Level 3 already provides a variety of information technology services to major companies operating in North America. This acquisition will enable (i)Structure to attain scale and to leverage Corporate Software's customer base, worldwide presence and IT professional relationships as it expands its portfolio of services.

"Under Level 3's ownership, Corporate Software will continue to deliver the same high-quality products and services that it currently offers the marketplace, and will leverage its new relationship with us to expand its value proposition to existing and new customers. We also believe that the nature of software distribution will evolve now that broadband communication services are widely available."

Paul Bazley, vice president of U.S. Enterprise and Partner Sales at Microsoft, said, "We are fully supportive of this transaction. Microsoft and Level 3 share a common view on the direction of the broadband and the software distribution industries, and we believe our interests are closely aligned. We value our relationships with both Corporate Software and Level 3 and look forward to working with them in the future."

Commenting further on the transaction, Crowe noted the reputation Corporate Software has built over the years. "Since 1983, Corporate Software has built a global reputation for excellence, the best evidence of which is its impressive list of multi-national customers. We want to capitalize on the knowledge and experience the team at Corporate Software has gained over almost two decades in the software, license procurement, management and distribution business."

Howard Diamond, chairman and chief executive of Corporate Software, commented on the continuing convergence of the broadband and software distribution industries. "For the past few years, the trend in software distribution has been to migrate away from physical distribution via disks or CD-ROMs toward distribution over broadband networks. We believe that the cost structure and operational capabilities of the Level 3 network will prove to be significant advantages to Corporate Software as it expands its software distribution business. Equally important, it will enable us to continue fulfilling our mission of making it exceedingly easy for customers to do business with us around the world, by enhancing our customers' ability to cost-effectively and quickly obtain software."

Corporate Software, which employs approximately 800 people worldwide, will continue to be headquartered in Norwood. The company's existing management team will remain in place after the transaction closes.

The transaction is subject to governmental clearance and customary closing conditions and is expected to close by the end of the first quarter.

Level 3 will hold an investor conference call to discuss the transaction and to provide a financial update at 11 a.m. eastern time today. The dial-in numbers are (651) 291-0900 and (612) 338-1917. Additionally, the conference call will be webcast on Level 3's website, www.Level3.com. A replay of the conference call will be available until Wednesday, February 27, 2002 at (320) 365-3844, access code 629107, as well as on Level 3's web site, www.Level3.com.

About Corporate Software

Corporate Software is a global leader in improving the way companies acquire, implement and manage software technology. Founded in 1983, Corporate Software delivers a full-service offering that helps more than 5,000 customers in 128 countries achieve maximum return on their software investments through dedicated software licensing experts, comprehensive procurement and license management tools, and product selection consultation on business-critical software, including desktop, storage, security, infrastructure and data management. Corporate Software's industry recognition

includes rankings in Software Magazine's and VARBusiness' lists of the worlds foremost software and services providers. Based in Norwood, MA, Corporate Softwares annual worldwide revenues exceed \$1 billion. For more information, visit www.corpsoft.com.

About Level 3 Communications

Level 3 (Nasdaq:LVT) is a global communications and information services company offering a wide selection of services including IP services, broadband transport, colocation services and the industrys first Softswitch based services. Its Web address is www.Level3.com.

Corporate Software is a registered trademark of CorpSoft, Inc.

Forward Looking Statement

Some of the statements made by Level 3 in this press release are forward-looking in nature. Actual results may differ materially from those projected in forward-looking statements. Level 3 believes that its primary risk factors include, but are not limited to: changes in the overall economy relating to, among other things, the September 11 attacks and subsequent events, substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; technology; the number and size of competitors in its markets; law and regulatory policy; and the mix of products and services offered in the company's target markets. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this release should be evaluated in light of these important factors.

NEWS RELEASE

FOR IMMEDIATE RELEASE

Level 3 Contacts:

Media: Josh Howell Investors: Robin Grey 720/888-2517 720/888-2518

Level 3 Provides Updated Financial Information

BROOMFIELD, Colo., February 25, 2002 -- Level 3 Communications, Inc. (Nasdaq:LVLT) today announced that it has signed a definitive agreement to acquire CorpSoft, Inc., which conducts business under the name Corporate Software. As a result of this transaction, the company is updating certain financial information.

Financial Projections: Level 3 expects to meet or exceed first quarter 2002 financial projections provided on January 29, including positive Consolidated EBITDA for the first quarter. The company plans to provide full year 2002 projections in April in conjunction with reporting its first quarter 2002 results.

Credit Facility: The company has a \$1.775 billion senior secured credit facility. Currently, \$1.125 billion of the \$1.775 billion senior secured credit facility is drawn. The balance represents the undrawn \$650 million revolving credit facility.

The credit facility has customary covenants, or requirements that the company and certain of its subsidiaries must meet to remain in compliance with the contract, including a financial covenant that measures minimum revenues (Minimum Telecom Revenue). The subsidiaries of the company that must comply with the terms and conditions of the credit facility are referred to as Restricted Subsidiaries.

The Minimum Telecom Revenue covenant generally requires that the company meets or exceeds specified levels of cash revenue from communications and information services businesses

generated by the Restricted Subsidiaries. The Minimum Telecom Revenue covenant is calculated quarterly on a trailing four quarter basis. The Restricted Subsidiaries currently include those engaged in the company's communications businesses and certain subsidiaries of (i) Structure engaged in the company's information services businesses.

Those subsidiaries of the company that are not subject to the limitations of the Credit Agreement are referred to as Unrestricted Subsidiaries. The Unrestricted Subsidiaries include Level 3's coal mining and toll road properties and its holdings in RCN Corporation and Commonwealth Telephone Enterprises, Inc.

On January 29, 2002, the company stated that it was in compliance with all of the terms, conditions, and covenants under its credit facility and expected to remain in compliance through the end of the first quarter based on its publicly disclosed financial projections. However, the company stated that if sales, disconnects and cancellations were to continue at the levels experienced during the second half of 2001, it may violate the Minimum Telecom Revenue covenant as early as the end of the second quarter 2002. The company also stated that to the extent the company's operational performance improves or it completes acquisitions that generate sufficient incremental revenue, a potential violation of the covenant could be delayed beyond the second quarter of 2002 or eliminated entirely.

Level 3 announced earlier today that it has signed a definitive agreement to acquire Corporate Software, Inc., a Norwood, Massachusetts based marketer, distributor and reseller of business software. Corporate Software had 2001 revenues of approximately \$1.1 billion. Corporate Software had 2001 EBITDA of approximately \$18 million, excluding stock-based compensation expense, one-time restructuring charges and other non-recurring employee costs. The transaction is expected to close by the end of the first quarter 2002. Upon closing, revenues as measured by the Minimum Telecom Revenue covenant will include Corporate Software revenues.

"As a result of this transaction, we believe that the company will remain in compliance with the terms and conditions of our credit facility until the second half of 2003," said Sureel Choksi, CFO of Level 3. "This expectation assumes that we take no other actions, our sales levels do not improve beyond those experienced during the second half of 2001, and disconnects and cancellations trend down during the second half of 2002 in accordance with the company's previously disclosed customer credit analysis."

"Additionally, given other actions the company may take, and based on our longer term expectations for improvements in our rate of sales, disconnects and cancellations, new product and service introductions and the potential for additional acquisitions, we believe we will continue to remain in compliance with the terms and conditions of our credit facility over the term of that agreement," added Choksi.

Funding Update: As of the end of fourth quarter 2001, Level 3 had available liquidity of approximately \$2.1 billion, consisting of \$1.5 billion in cash and marketable securities and \$650 million under its undrawn and available revolving credit facility. These amounts exclude any proceeds from the sale of non-strategic assets, such as the proposed Commonwealth Telephone transaction described below.

Since the end of 2001, Level 3 has completed a number of strategic transactions, including the sale of its Asian operations to Reach Ltd. As a result of this sale, the company expects to save approximately \$300 million through free cash flow breakeven. Additionally, Level 3 has closed the acquisition of McLeodUSA's wholesale Internet dial access business.

Level 3 has also recently announced or completed certain financial transactions to further strengthen its balance sheet and funding position. On February 8, 2002, the company announced its plan to sell approximately 2.75 million shares of Commonwealth Telephone in an underwritten public offering. Additionally, during the first quarter, Level 3 has retired approximately \$195 million face amount of debt securities, approximately half through debt for equity swaps and the balance using excess cash to repurchase debt. Including these transactions, Level 3 has retired approximately \$2.1 billion face amount of debt over the past six months on what the company believes are attractive terms.

"Taking into account all recent transactions and events," said James Q. Crowe, CEO of Level 3, "we believe that Level 3 remains fully funded to free cash flow breakeven with a substantial cushion in accordance with our business plan, even if our current rate of sales does not improve over time."

Level 3 will hold an investor conference call to discuss the transaction and to provide a financial update at 11 a.m. eastern time today. The dial-in numbers are (651) 291-0900 and (612) 338-1917. Additionally, the conference call will be webcast on Level 3's website, www.Level3.com. A replay of the conference call will be available until Wednesday, February 27, 2002 at (320) 365-3844, access code 629107, as well as on Level 3's web site, www.Level3.com.

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End of Filing

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