

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

Filed 04/25/02 for the Period Ending 04/23/02

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 4/25/2002 For Period Ending 4/23/2002

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021
Telephone	720-888-1000
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Industry	Communications Services
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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): April 23, 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 April 23, 2002, relating to revised financial projections.

Item 9. Regulation FD Disclosure

On April 23, 2002, Level 3 Communications, Inc. ("Level 3") issued a press release relating to, among other things, first quarter 2002 financial results. This press release is filed as Exhibit 99.1 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.

April 24, 2002
Date

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

NEWS RELEASE

FOR IMMEDIATE RELEASE

Level 3 Contacts:

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

Level 3 Reports First Quarter Results

Level 3 Reports Consolidated EBITDA of \$51 Million

Company Has Signed Over \$450 Million in (3)Connect Modem Contracts Year to Date

Company Reports Communications Gross Margin of 76 Percent

BROOMFIELD, Colo., April 23, 2002 - Level 3 Communications, Inc. (Nasdaq:LVLT) today announced its first quarter 2002 results. Consolidated revenue increased to \$386 million from \$326 million in the fourth quarter 2001. Consolidated EBITDA, excluding stock-based compensation expense, increased to positive \$51 million from negative \$83 million for the previous quarter and negative \$101 million for the same period last year. Consolidated Adjusted EBITDA was \$124 million for the first quarter, an increase from \$71 million in the fourth quarter 2001.

The net loss for the quarter was \$0.23 per share, or \$90 million, including a \$130 million gain from previously announced debt repurchases and a tax refund of \$119 million. Excluding these items, the net loss was \$339 million, or \$0.87 per share versus previously announced projections of a net loss per share of \$1.10.

"We significantly exceeded our previous projection of \$10 million of Consolidated EBITDA, which underscores our ability to tightly control costs and to meet our customers' needs, despite the challenging times our industry faces," said James Q. Crowe, CEO of Level 3.

Overview

The company's core business consists of communications and information services. The company's non-core businesses include coal mining and toll road operations. On March 13, 2002, the company completed its acquisition of CorpSoft, Inc., a software manager, marketer and reseller whose customers include many of the world's largest corporations. CorpSoft conducts business under the name Corporate SoftwareSM. For financial reporting purposes, the company combines the financial results of Corporate Software with the results of the company's existing (i)Structure information services business. Beginning with this release, the company will report separately the financial results of the company's communications business, information services business and other businesses.

Results from 2001 exclude the company's Asian operations, which were sold in the first quarter 2002.

Communications Business Segment

First Quarter Communications Business Financial Highlights

Metric (\$ in millions)	First Quarter Actuals	First Quarter Projections(1)
Communications Cash Revenue	\$349	\$350
Communications GAAP Revenue	\$278	\$270
Communications Services Revenue	\$246	\$235
Reciprocal Compensation Revenue	\$32	\$35
Communications Cost of Revenue	\$66	NA
Communications SG&A	\$170	NA
Communications EBITDA	\$42	NA
(1) Projections issued January 29, 2002.		

Communications Cash Revenue and GAAP Revenue Communications cash revenue for the first quarter was \$349 million. Communications cash revenue is defined as communications GAAP revenue plus changes in cash deferred revenue (\$71 million for the first quarter). Communications cash revenue includes upfront cash received for dark fiber and other capacity IRU sales that are recognized as GAAP revenue over the life of the contract, generally ranging from 5 to 20 years.

Communications GAAP revenue for the first quarter was \$278 million, a 3 percent increase from \$269 million for the previous quarter. Included in total communications GAAP revenue was \$246 million of communication services revenue and \$32 million attributable to reciprocal compensation revenue.

Consistent with the company's focus on more established companies with substantial communications services needs, the company had approximately 1,775 customers at the end of the quarter - down from approximately 2,000 as of the end of the fourth quarter. Approximately 70 percent of the customer base currently purchases more than one Level 3 service.

The company's recently announced customer agreements include AOL Time Warner, BELNET, SBC Communications, Triumph Communications and United Online.

"Although we experienced weakness in our optical transport business, it was more than offset by increases in revenue from (3)Connect Modem, the company's dial-up Internet access service and (3)CrossRoads Internet Access, the company's dedicated Internet access service," said Kevin O'Hara, president and COO of Level 3. "We continue to be especially encouraged by Level 3's ability to take advantage of its strong position in the dial-up Internet access business. We have signed over \$450 million in (3)Connect Modem contracts year to date. We believe we are well positioned to continue to increase market share as a result of our quality of service, our expansive geographic coverage and our low cost position, which is based on the most advanced softswitch platform in the industry."

Cost of Revenue

Communications cost of revenue for the first quarter 2002 was \$66 million, resulting in a 76 percent gross margin, an increase from 67 percent in the fourth quarter 2001 and 42 percent in the same period last year.

"Our gross margins result from the success of our network in meeting our customers' needs," said O'Hara. "We believe these gross margins result from our offering the right set of services, to the right customers in the right geographic locations."

Selling, General and Administrative Expenses (SG&A) Communications SG&A expenses were \$170 million for first quarter 2002, versus \$205 million for the fourth quarter 2001, and versus \$263 million for the same period last year. SG&A expenses exclude cash impairment and restructuring charges of \$10 million for the first quarter 2001 and \$58 million for the fourth quarter 2001. The total number of employees in the communications business was approximately 3,025 at the end of the first quarter.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) EBITDA, excluding stock-based compensation expense, from the communications business was positive \$42 million for the first quarter, versus negative \$76 million for the previous quarter and negative \$112 million for the same period last year.

Capital Expenditures

Consolidated capital expenditures for property, plant and equipment were \$53 million for the quarter, declining from \$173 million during the fourth quarter. This reduction in capital expenditures reflects the company's successful implementation of previously announced cost management initiatives, as well as higher than expected use of pre-provisioned inventory. Capital expenditures for the first quarter include approximately \$6 million for the information services and other businesses.

"Our ability to control overall expenditure levels is a significant contributor to our financial strength," said Sureel Choksi, CFO of Level 3.

Network Highlights

At the end of the first quarter, Level 3 offered services in 66 markets, 57 North American markets and nine European markets. The company has local fiber networks in 36 markets and has constructed approximately 932,000 local fiber miles to date.

As previously announced, the company is expanding its network in Europe and expects to begin to offer communications services in eight additional markets across Western Europe during the third quarter of 2002. Level 3 has acquired capacity and metropolitan facilities in order to complete the build out. The eight new markets are Madrid, Geneva, Stockholm, Milan, Zurich, Cologne, Karlsruhe and Stuttgart.

In addition, during the first quarter, the company completed its purchase of McLeodUSA Incorporated's wholesale dial-up access business assets. As a result of this acquisition, the company's (3)Connect Modem service is offered in areas covering approximately 80 percent of the U.S. population, an increase from approximately 60 percent at the end of the fourth quarter 2001. As a result of continued network expansion, the company expects its (3)Connect Modem service to be available to over 85 percent of the U.S. population by the end of 2002.

Information Services Business Segment

Revenue

Information services revenue was \$80 million for the first quarter 2002, representing a 176 percent increase over the previous quarter as a result of the acquisition of Corporate Software. Information services revenue includes the company's (i)Structure and Corporate Software subsidiaries. The results of Corporate Software are consolidated with Level 3's results subsequent to March 13, 2002, when the company completed the purchase of Corporate Software.

The total number of employees in the information services business was approximately 1,175 at the end of the first quarter.

EBITDA

EBITDA, excluding stock-based compensation expense, from the information services business was positive \$6 million for the first quarter, compared to negative \$3 million for the previous quarter and positive \$1 million for the same period last year.

"We are pleased to have completed our acquisition of Corporate Software during the first quarter," said Crowe. "This transaction affords a number of distinct advantages to Level 3. This acquisition will enable (i)Structure to attain scale and to leverage Corporate Software's customer base, worldwide presence and IT professional relationships as (i)Structure expands its portfolio of services. As communications technology continues to improve at unprecedented rates, we see an opportunity to change the way software is purchased and utilized. This evolution should be a longer-term benefit for both our communications and information services businesses."

Other Businesses

Revenue

Revenue from the company's coal mining business and its interest in California Private Transportation Company (CPTC) was \$28 million for the first quarter 2002 as well as for the fourth quarter 2001, and \$31 million for the same period last year.

EBITDA

EBITDA from the company's coal mining business and its interest in CPTC was positive \$3 million for the first quarter compared to negative \$3 million last quarter and positive \$10 million for the same period last year.

Consolidated Expenses

Stock-Based Compensation Expense

The company recognized \$64 million in non-cash expense for stock-based compensation during the quarter. The OSO Program represents the principal component of the company's stock-based compensation. This expense is accounted for in accordance with SFAS No. 123, "Accounting For Stock-Based Compensation." Level 3 expenses the value of OSOs and its other stock-based compensation over the respective vesting period. This approach is in contrast to the current practice of most corporations under which conventional stock options are not accounted for as an expense on the income statement.

Under Level 3's plan, OSOs are issued quarterly to all employees, with the value of the options indexed to the performance of the company's common stock relative to the performance of the Standard & Poor's 500 (S&P 500) Index.

Depreciation and Amortization

Depreciation and amortization expenses for the quarter were \$210 million, a 19 percent decrease over the previous quarter. The year over year decrease in depreciation and amortization primarily is the result of the asset impairment charge recognized in the fourth quarter 2001.

Business Outlook

Customer Credit Analysis

In late January, the company stated that approximately 25 percent of its recurring communications revenue as of year end 2001 was from at-risk, or financially weaker, customers. Of the 25 percent of its revenue from at-risk customers, the company expected approximately 80 percent of that revenue to disconnect during the first half of 2002. During the first quarter, customer disconnects and cancellations from at-risk customers were in line with the company's expectations.

The company continually updates its customer credit analysis. As of the end of the first quarter, the company believes that approximately 15 percent of its recurring communications revenue is derived from at-risk customers. During the second quarter 2002, the company expects to see customer disconnects at levels generally in line with those experienced during the first quarter 2002. As previously announced, these actual and projected customer disconnects during the first two quarters of 2002 are expected to represent approximately 20 percent of current recurring revenue as of the end of 2001. This estimate has been incorporated in the company's 2002 cash-flow projections, as described below. The company continues to expect disconnects and

cancellations to trend down during the second half of 2002, as a result of the improving credit quality of its customer base.

Asset Sales

In addition to the \$166 million in net proceeds received from the recent sale of common stock of Commonwealth Telephone Enterprises, Inc. (Commonwealth), the company continues to evaluate the sale of other non-core assets to improve its liquidity position.

The company has reached a non-binding letter of intent to sell its 65 percent interest in CPTC. If this transaction is consummated, Level 3 would receive approximately \$45 million in cash proceeds upon the close of the transaction and the company's consolidated long-term debt would decrease by approximately \$140 million. A sale is subject to execution of definitive documentation and approval by appropriate legislative and regulatory authorities. There can be no assurance that the company will complete the sale of its interest in CPTC.

Second Quarter Projections

Level 3 expects consolidated revenue to be approximately \$560 million, including \$270 million from the communications business, \$260 million from information services and \$30 million of other revenue. Communications cash revenue for the second quarter is expected to be \$300 million. The quarter over quarter decline in communications cash revenue is a result of lower dark fiber IRU sales. Approximately \$240 million of the communications GAAP revenue is expected to be from services revenue and the balance from reciprocal compensation.

Metric (\$ in millions except net loss per share)	Second Quarter Projections
Communications Cash Revenue	\$300
Communications GAAP Revenue	\$270
Information Services Revenue	\$260
Revenue from Other Businesses	\$30
Consolidated GAAP Revenue	\$560
Consolidated EBITDA	\$60
Consolidated Adjusted EBITDA	\$90
Capital Expenditures	\$50
Net Loss per Share	(\$0.70)

The company expects Consolidated Adjusted EBITDA of \$90 million. The expected decline in Consolidated Adjusted EBITDA quarter over quarter is the result of lower communications cash revenue, offset partially by continued expense reductions. Consolidated EBITDA, excluding stock-based compensation expense, is expected to be positive \$60 million for the second quarter, of which approximately \$45 million is anticipated to be generated by the communications business, \$5 million by the information services business and the balance by other businesses.

Consolidated capital expenditures for the second quarter are expected to be approximately \$50 million. The company expects the net loss for the second quarter to be \$0.70 per share, including a \$102 million gain, or \$0.26 a share, from the previously announced sale of Commonwealth common stock.

"Achieving positive Consolidated EBITDA for the first quarter was an important milestone for the company," said Choksi. "As we continue to focus on managing cash flow, we expect to continue to see improvements in our overall cost structure. The quarterly cash consumption of our continuing operations, defined as Consolidated Adjusted EBITDA minus working capital requirements, capital expenditures and net interest expense, is expected to decrease to approximately \$100 million in the second quarter from approximately \$180 million in the first quarter. Including proceeds from the recently completed sale of Commonwealth common stock, we expect our liquidity position to improve during the second quarter of 2002."

2002 Projections "While we believe that the worst is behind us, there continues to be uncertainty regarding the timing and effect of the economic recovery on both the communications services industry and on enterprise information technology budgets," said Choksi. "We believe, however, that Level 3 is well positioned to benefit from the inevitable recovery. In the meantime, we remain focused on managing cash flow and preserving our strong liquidity position.

"Given the volatility surrounding revenue projections and the company's focus on cash flow management, we believe cash flow projections are currently the most relevant metrics upon which to base projections. Consequently, we are providing Consolidated Adjusted EBITDA, capital expenditure and working capital, as well as year-end liquidity projections for 2002."

The company expects Consolidated Adjusted EBITDA of \$400 million and consolidated capital expenditures of \$225 million for the full year 2002. Working capital requirements are expected to be \$225 million for the year. Total cash and marketable securities, excluding restricted securities and the \$650 million undrawn revolving credit facility, are expected to be approximately \$1 billion at the end of 2002.

The company expects to generate positive Operating Cash Flow, defined as Consolidated Adjusted EBITDA minus consolidated capital expenditures and working capital requirements, during the fourth quarter 2002. For the full year 2002, Operating Cash Flow is expected to be negative \$50 million. "We believe that turning Operating Cash Flow positive is a significant milestone towards achieving positive free cash flow," said Choksi.

Summary

"Our existing liquidity position, our ongoing cost management effort and our belief that we will turn Operating Cash Flow positive during the fourth quarter 2002, give us confidence in the strength of our financial position," said Crowe. "We have taken steps during the first quarter to further strengthen our financial position, and we continue to believe we are fully funded to free cash flow breakeven with an adequate cushion, in accordance with our business plan. We remain well positioned with our target customer base and believe we will continue to increase our market share of their transport, IP, colocation and dial-up access business needs."

About Level 3 Communications

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

The company offers information services through its wholly-owned subsidiaries,

(i)Structure and Corporate Software. (i)Structure is an Application Infrastructure Provider that provides managed IT infrastructure services and enables businesses to outsource IT operations. Its Web address is www.i-structure.com.

Corporate Software helps Fortune 500 companies acquire, implement, and manage software. Its Web address is www.corporatesoftware.com.

(3)CrossRoads and (3)Connect Modem are service marks of Level 3 Communications.

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.

Attachment No. 1

LEVEL 3 COMMUNICATIONS, INC.
Consolidated Condensed Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
(dollars in millions)	2002	2001
Revenue:		
Communications	\$ 278	\$ 384
Information Services	80	33
Other	28	31
	----	----
Total Revenue	386	448
Costs and Expenses:		
Cost of Revenue	146	266
Depreciation and Amortization	210	236
Selling, General and Administrative	189	283
Stock-Based Compensation	64	76
	----	----
Total Costs and Expenses	609	861
	----	----
Loss from Operations	(223)	(413)
Other Loss, net	(116)	(105)
	----	----
Loss from Continuing Operations before Income Taxes	(339)	(518)
Income Tax Benefit	119	-
	----	----
Net Loss from Continuing Operations	(220)	(518)
Loss from Discontinued Operations, net	-	(17)
Extraordinary Gain on Debt Extinguishment, net	130	-
	----	----
Net Loss	\$ (90)	\$ (535)
	=====	=====
Loss per Share:		
Basic and Diluted		
Net Loss from Continuing Operations	\$ (0.56)	\$ (1.41)
Discontinued Operations, net	-	(0.04)
Extraordinary Gain on Debt Extinguishment, net	0.33	-
	----	----
Net Loss	\$ (0.23)	\$ (1.45)
	=====	=====
Weighted Average Shares Outstanding (in thousands):		
Basic and Diluted	391,279	367,810
	=====	=====

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
(unaudited)

(dollars in millions)	March 31, 2002	December 31, 2001
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,110	\$ 1,297
Marketable securities	-	206
Restricted securities	136	155
Accounts receivable, less allowances of \$45 and \$46, respectively	351	239
Current assets of discontinued Asian operations	-	74
Other	86	63
	----	----
Total Current Assets	1,683	2,034
Property, Plant and Equipment, net		
	6,746	6,890
Intangibles and Goodwill	252	28
Other Assets, net	370	364
	----	----
	\$ 9,051	\$ 9,316
	=====	=====
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	\$ 690	\$ 714
Current portion of long-term debt	30	7
Accrued payroll and employee benefits	143	162
Accrued interest	65	86
Deferred revenue	127	124
Current liabilities of discontinued Asian operations	-	74
Other	277	225
	----	----
Total Current Liabilities	1,332	1,392
Long-Term Debt, less current portion	5,981	6,209
Deferred Revenue	1,353	1,335
Accrued Reclamation Costs	92	92
Other Liabilities	358	353
Stockholders' Deficit	(65)	(65)
	----	----
	\$ 9,051	\$ 9,316
	=====	=====

End of Filing

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