

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

Filed 07/20/06 for the Period Ending 07/20/06

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

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**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): **July 20, 2006**

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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ 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))
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Item 8.01. Other Information

On July 20, 2006, Level 3 Communications, Inc. ("Level 3") issued a press release relating to its execution of a definitive agreement to sell its indirect, wholly owned subsidiary Software Spectrum, Inc. to Insight Enterprises, Inc. The press release is filed as Exhibit 99.1 to this Form 8-K and is incorporated by reference as if set forth in full.

The following unaudited pro forma condensed consolidated data supplements the pro forma financial information that was included in Level 3's current report on Form 8-K/A, which was filed with the SEC on March 3, 2006 and should be read in conjunction therewith. The unaudited pro forma condensed consolidated financial information gives effect, as described below, to:

- the acquisition of WiTel Communications Group, LLC, or WiTel, on December 23, 2005;
- the issuance by Level 3's wholly owned subsidiary Level 3 Financing, Inc. of \$150 million of Floating Rate Senior Notes due 2011 and \$250 million of 12.25% Senior Notes due 2013 on March 14, 2006;
- the issuance by Level 3 Financing, Inc. of \$300 million of 12.25% Senior Notes due 2013 on April 6, 2006;
- the underwritten public offerings (together, the "Offerings") of 125,000,000 shares of Level 3's common stock and Level 3's 3.5% convertible senior notes due 2012 in the aggregate principal amount of \$335 million on June 13, 2006;
- Level 3's redemption of all of its outstanding 9.125% Senior Notes due 2008 and 10.5% Senior Discount Notes due 2008 on July 13, 2006; and
- the removal of Software Spectrum, Inc.'s ("Software Spectrum") results of operations and financial position from the pro forma condensed consolidated financial statements due to its pending sale, which was announced on July 20, 2006.

The following unaudited pro forma condensed consolidated financial information does not give effect to (i) Level 3's acquisition of ICG Communications, Inc., (ii) Level 3's pending acquisitions of TelCove Inc. and Looking Glass Networks, Inc., (iii) the intended uses of the net proceeds of the Offerings (except for the redemption of all outstanding 9.125% Senior Notes due 2008 and 10.5% Senior Discount Notes due 2008) or (iv) the amendment and restatement of the Level Financing, Inc. secured credit facility completed on June 27, 2006, which among other things, reduced the interest rate payable under the agreement, modified the pre-payment provisions and made other specified changes.

The following unaudited pro forma condensed consolidated statement of operations data for the year ended December 31, 2005 gives effect to the acquisition of WiTel, each of the note issuances, including the 3.5% convertible senior notes due 2012, referred to above, and the proposed disposition of Software Spectrum as though each such transaction occurred on January 1, 2005.

The following unaudited pro forma condensed consolidated statement of operations data for the three months ended March 31, 2006 gives effect to each of the note issuances including

the 3.5% convertible senior notes due 2012, referred to above, and the proposed disposition of Software Spectrum as though each such transaction occurred on January 1, 2005.

The following unaudited pro forma condensed consolidated balance sheet information as of March 31, 2006 presents the effects of the issuance of \$300 million of 12.25% Senior Notes due 2013 on April 6, 2006, the effects of the Offerings on June 13, 2006, the redemption of the 9.125% Senior Notes due 2008 and 10.5% Senior Discount Notes due 2008 on July 13, 2006, and the proposed disposition of Software Spectrum as though the transactions had occurred on March 31, 2006.

The pro forma earnings per share amounts in the pro forma information have not been adjusted for Level 3's common stock offering because the uses of the net proceeds of such offering are not reflected in pro forma adjustments in the income statements.

The unaudited pro forma condensed consolidated financial information is not necessarily and should not be assumed to be an indication of the results that would have been achieved had the transactions included in the unaudited pro forma financial information been completed as of the dates indicated or that may be achieved in the future.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the year ended December 31, 2005
(dollars in millions, except per share data)

	Historical Level 3 (a)	Historical WiTel (b)	Inter Company Adjustments (c)	WiTel Adjustments	Debt Offerings	Software Spectrum Adjustment (o)	Pro Forma Level 3
Revenue	\$ 3,613	\$ 1,959	\$ (5)	\$ (243)(d)	\$ —	\$ (1,894)	\$ 3,430
Cost of revenue	2,233	1,204	(5)	(159)(e)		(1,717)	1,715
Depreciation and amortization	657	159		107(f) (17)(g)		(10)	754
Selling, general and administrative	912	278		4(h)		(143)	1,034
Restructuring and impairment charges	23	42		(42)(i)		—	23
Total costs and expenses	3,825	1,683	(5)	(107)	—	(1,870)	3,526
Operating income (loss)	(212)	276	—	(136)	—	(24)	(96)
Other income (expense):							
Interest income	35	9		(7)(j)			37
					(51)(1)		
					(37)(m)		
Interest expense	(530)	(34)		34(k)	(13)(n)		(631)
Other, net	28	1				1	30
Total other income (expense)	(467)	(24)	—	27	(101)	1	(564)
Income (loss) from continuing operations before income tax	(679)	252	—	(109)	(101)	(23)	(660)
Income tax expense	(8)	—				3	(5)
Net income (loss) from continuing operations	\$ (687)	\$ 252	\$ —	\$ (109)	\$ (101)	\$ (20)	\$ (665)
Weighted average shares outstanding (in 000's)	699,589			112,133			811,722
EPS: Net loss from continuing operations	\$ (0.98)						\$ (0.82)

Adjustments:

- (a) Represents the historical 2005 statement of operations of Level 3 and its consolidated subsidiaries.
- (b) Represents 2005 results of operations of WiTel and consolidated subsidiaries through the acquisition date of December 23, 2005. Certain reclassifications have been made relative to WiTel's historical financial statements in order to present them on a basis consistent with Level 3.
- (c) Eliminates the historical intercompany transactions between Level 3 and WiTel.
- (d) Removes income attributable to the June 2005 Termination, Mutual Release and Settlement Agreement among Leucadia, WiTel and SBC. This income was retained by Leucadia in the WiTel transaction.
- (e) This entry removes the historical depreciation and amortization expense attributable to WiTel.
- (f) This entry records depreciation and amortization expense for tangible and intangible assets obtained in the transaction based on a preliminary purchase price allocation.
- (g) This entry removes the historical selling, general and administrative expenses attributable to the assets and liabilities not included in the transaction.
- (h) Records rent expense attributable to the leased Tulsa corporate facility. Level 3 is leasing space in the Tulsa corporate facility from Leucadia subsequent to the closing of the transaction.
- (i) Removes impairment charge attributable to the Tulsa corporate facility. This facility was retained by Leucadia in the transaction.
- (j) Removes interest income attributable to the cash, cash equivalents and marketable securities retained by Leucadia.
- (k) Removes interest expense on the historical debt not assumed in the WiTel transaction.
- (l) Records interest expense attributable to the \$150 million of Floating Rate Senior Notes due 2011 (based on an interest rate of 11.42%) and \$250 million of 12.25% Senior Notes due 2013 issued on March 14, 2006.
- (m) Records interest expense attributable to the \$300 million of 12.25% Senior Notes due 2013 issued on April 6, 2006.

- (n) Records interest expense attributable to the \$335 million of 3.5% Convertible Senior Notes due 2012 issued on June 13, 2006.
- (o) Removes the historical consolidated results of Software Spectrum due to its pending sale announced on July 20, 2006.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the three months ended March 31, 2006
(dollars in millions, except per share data)

	<u>Historical Level 3 (a)</u>	<u>Debt Offerings</u>	<u>Software Spectrum Adjustment (e)</u>	<u>Pro Forma Level 3</u>
Revenue	\$ 1,267	\$ —	\$ (445)	\$ 822
Cost of revenue	817		(405)	412
Depreciation and amortization	190		(3)	187
Selling, general and administrative	313		(37)	276
Restructuring and impairment charges	5		(1)	4
Total costs and expenses	<u>1,325</u>	<u>—</u>	<u>(446)</u>	<u>879</u>
Operating income (loss)	(58)	—	1	(57)
Other income (expense):				
Interest income	9			9
		(11)(b)		
		(9)(c)		
Interest expense	(150)	(3)(d)		(173)
Other, net	31			31
Total other income (expense)	<u>(110)</u>	<u>(23)</u>	<u>—</u>	<u>(133)</u>
Income (loss) from continuing operations before income tax	(168)	(23)	1	(190)
Income tax expense	—		1	1
Net income (loss) from continuing operations	<u>\$ (168)</u>	<u>\$ (23)</u>	<u>\$ 2</u>	<u>\$ (189)</u>
Weighted average shares outstanding (in 000's)	821,918			821,918
EPS: Net loss from continuing operations	<u>\$ (0.20)</u>			<u>\$ (0.23)</u>

Adjustments:

- (a) Represents the historical statement of operations of Level 3 and its consolidated subsidiaries.
- (b) Records incremental interest expense in order to reflect one full quarter of interest expense attributable to the offering \$150 million of Floating Rate Senior Notes (based on an interest rate of 11.42%) and \$250 million of 12.25% Senior Notes issued on March 14, 2006.
- (c) Records interest expense attributable to the offering of \$300 million of 12.25% Senior Notes issued on April 6, 2006.
- (d) Records interest expense attributable to the \$335 million of 3.5% Convertible Senior Notes due 2012 issued on June 13, 2006.
- (e) Removes the historical consolidated results of Software Spectrum due to its pending sale announced on July 20, 2006.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Consolidated Balance Sheet at March 31, 2006
(dollars in millions)

	Historical Level 3 (a)	Adjustments	Software Spectrum Adjustment (f)	Pro Forma Level 3
Assets				
Current assets:				
		\$ 300(b)		
		326(c)		
		542(d)		
Cash and cash equivalents	\$ 580	(478)(e)	\$ —	\$ 1,270
Marketable securities	412			412
Restricted cash and securities	35			35
Receivables, net	717		(315)	402
Current assets of discontinued operations	—		373	373
		1(b)		
		2(c)		
Other	157	(1)(e)	(58)	101
Total current assets	1,901	692	—	2,593
Property, plant and equipment, net	5,588		(6)	5,582
Restricted cash and securities	87			87
Goodwill and other intangibles, net	567		(240)	327
Noncurrent assets of discontinued operations	—		266	266
		5(b)		
		7(c)		
Other assets, net	141	(2)(e)	(20)	131
Total assets	\$ 8,284	\$ 702	\$ —	\$ 8,986
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities:				
Accounts payable	\$ 622	\$ —	\$ (251)	\$ 371
Current portion of long-term debt	1			1
Accrued payroll and employee benefits	67		(15)	52
Accrued interest	120	(17)(e)		103
Deferred revenue	233		(34)	199
Current liabilities of discontinued operations	—		329	329
Other	145		(29)	116
Total current liabilities	1,188	(17)	—	1,171
		306(b)		
		335(c)		
Long-term debt, less current portion	6,357	(460)(e)		6,538
Deferred revenue	734		(11)	723
Noncurrent liabilities of discontinued operations	—		27	27
Other liabilities	551		(16)	535
Stockholders' equity (deficit:)				
Common stock	8	2(d)		10
Additional paid-in capital	7,851	540(d)		8,391
Accumulated other comprehensive loss	(42)			(42)
Accumulated deficit	(8,363)	(4)(e)		(8,367)
Total stockholders' equity (deficit)	(546)	538	—	(8)
Total liabilities and stockholders' equity (deficit)	\$ 8,284	\$ 702	\$ —	\$ 8,986

Balance Sheet Adjustments:

- (a) This column reflects the historical balance sheet of Level 3 and its subsidiaries.
- (b) Reflects the issuance of \$300 million of 12.25% Senior Notes, the resulting net proceeds, and the current and noncurrent portions of the debt issuance costs. The offering premium of \$6 million is reflected as an increase in long-term debt.

- (c) Reflects the issuance of \$335 million of 3.5% Convertible Senior Notes due 2012, the resulting net proceeds and the current and noncurrent portions of the debt issuance costs.
- (d) Reflects the issuance of 125,000,000 shares of Level 3 common stock, net of issuance costs.
- (e) Reflects the redemption of the outstanding 9.125% Senior Notes due 2008 and 10.5% Senior Discount Notes due 2008, the redemption premium paid to holders of the 10.5% Senior Discount Notes due 2008, the payment of accrued interest attributable to the redeemed notes at March 31, 2006 and the recognition of the remaining deferred debt issuance costs as interest expense.
- (f) Reflects the the financial position of Software Spectrum as discontinued operations due to its pending sale announced on July 20, 2006.

Item 9.01. Financial Statements and Exhibits

- (a) Financial Statements of Business Acquired

None

- (b) Pro Forma Financial Information

None

- (c) Shell Company Transactions

None

- (d) Exhibits

99.1 Press Release dated July 20, 2006, relating to the execution by Level 3 Communications, Inc. of a definitive agreement to sell its indirect, wholly owned subsidiary Software Spectrum, Inc. to Insight Enterprises, Inc.

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.

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

Date: July 20, 2006



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

NEWS RELEASE

Level 3 contacts:

Media: Josh Howell
720-888-2517

Chris Hardman
720-888-2292

Investors: Robin Grey
720-888-2518

Sandra Curlander
720-888-2501

**Level 3 Signs Agreement to Sell
Software Spectrum Subsidiary for \$287 Million**

Transaction Expected to Close in Third Quarter 2006

BROOMFIELD, Colo., July 20, 2006 — Level 3 Communications, Inc. (Nasdaq: LVLT) today announced that it has signed a definitive agreement to sell its wholly owned subsidiary, Software Spectrum, to Insight Enterprises, Inc., (Nasdaq: NSIT), a leading provider of information technology products and services. Software Spectrum is a leading reseller of business software and mobility solutions to large- and medium-sized organizations.

Under the terms of the agreement, Level 3 will receive total consideration of \$287 million payable in cash at closing. The purchase price is subject to customary working capital and certain other post-closing adjustments.

“We are pleased that we have reached this agreement with Insight and believe both Software Spectrum’s and Insight’s customers will benefit from the transaction,” said Charles C. Miller III, vice chairman of Level 3. “Level 3’s communications business is presenting numerous investment and growth opportunities. The proceeds from the sale of Software Spectrum will increase Level 3’s ability to pursue those opportunities that are more central to our communications business.”

“We are looking forward to joining forces with Insight,” said Keith Coogan, chief executive officer of Software Spectrum. “Both companies share a similar, client-centered

culture. Software Spectrum's client base and its capabilities in software are a strong addition to Insight's hardware and services competencies."

"We are extremely excited about the acquisition of Software Spectrum," said Richard Fennessy, chief executive officer of Insight. "The company is an excellent complement to Insight's capabilities and geographic presence. The acquisition will accelerate our companies' joint progress toward our goal of being a trusted advisor in providing complete technology solutions to companies globally. "

The sale is subject to regulatory approval as well as certain other customary closing conditions, and is expected to close in the third quarter of 2006.

About Level 3 Communications

Level 3 (Nasdaq: LVL3), an international communications and information services company, operates one of the largest Internet backbones in the world. Through its customers, Level 3 is the primary provider of Internet connectivity for millions of broadband subscribers. The company provides a comprehensive suite of services over its broadband fiber optic network including Internet Protocol (IP) services, broadband transport and infrastructure services, colocation services, voice services and voice over IP services. These services provide building blocks that enable Level 3's customers to meet their growing demands for advanced communications solutions. The company's Web address is www.Level3.com.

Level 3 offers information services through its subsidiary, Software Spectrum, and fiber-optic and satellite video delivery and advertising distribution solutions through its subsidiary, Vyvx. For additional information, visit their respective Web sites at www.softwarespectrum.com and www.vyvx.com.

The Level 3 logo is a registered service mark of Level 3 Communications, Inc. in the United States and/or other countries. Level 3 services are provided by a wholly owned subsidiary of Level 3 Communications, 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: increasing the volume of traffic on Level 3's network; developing new products and services that meet customer demands and generate acceptable margins; successfully completing commercial testing of new technology and information systems to support new products and services, including voice transmission services; stabilizing or reducing the rate of price compression on certain of our communications services; integrating strategic acquisitions; attracting and retaining qualified management and other personnel; ability to meet all of the terms and conditions of our debt obligations; overcoming Software Spectrum's reliance on financial incentives, volume discounts and marketing funds from software publishers; and reducing downward pressure of Software Spectrum's margins as a result of the use of volume licensing and maintenance agreements. 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.
