

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

Filed 06/18/01 for the Period Ending 06/18/01

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 6/18/2001 For Period Ending 6/18/2001

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021
Telephone	720-888-1000
CIK	0000794323
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): June 18, 2001

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 5. Other Events

On June 18, 2001, Level 3 Communications, Inc. ("Level 3") issued a press release relating to revised financial projections. This press release is filed as Exhibit 99.1 to this Current Report and incorporated by reference as if set forth in full.

On June 18, 2001, Level 3 Communications, Inc. ("Level 3") issued a press release relating to an open letter to stockholders. This press release is filed as Exhibit 99.1 to this Current Report and incorporated by reference as if set forth in full.

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 June 18, 2001, relating to revised financial projections.

99.2 Press Release dated June 18, 2001, relating to open letter to stockholders.

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.

June 18, 2001
Date

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

NEWS RELEASE

FOR IMMEDIATE RELEASE

Level 3 Contacts:

Media:	Josh Howell 720/888-2517	Investors:	Robin Miller 720/888-2518
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LEVEL 3 ANNOUNCES BUSINESS INITIATIVES TO ADDRESS MARKET CONDITIONS

Company Announces Sales Initiatives Aimed at Top Global Bandwidth Customers

Updates Business Outlook for 2001 and 2002; Reduces Revenue Projections for 2001 and 2002

Plans Cost Savings of \$2.3 Billion through 2003; Reduces Global Work Force by 1,400

Company to Hold Investor/Analyst Conference Call

BROOMFIELD, Colo., June 18, 2001 - Level 3 Communications, Inc. (Nasdaq:LVT) today announced a series of business initiatives designed both to address the current weakness in general market conditions and, in the longer term, to enable the company to capitalize on opportunities as conditions improve.

"Although we did exceed expectations for the first quarter, and we expect to be substantially in line with our previous second quarter projections, the continuing slowdown in the economy is significantly impacting our business," said James Q. Crowe, CEO of Level 3. "Over the past two months, we have experienced a reduction in the growth of recurring revenue. As a result, we

have updated our business outlook consistent with our views regarding the severity and duration of the economic slowdown. While it is difficult to predict with any certainty, we, like many industry observers, anticipate a recovery in late 2001."

"We are announcing expense reductions in line with our revised business outlook," said Crowe. "Given the uncertain duration of the slowdown, we are also evaluating a number of contingency plans to ensure that we emerge from the slowdown positioned to benefit from the opportunities that will undoubtedly emerge. Our overriding goal is to be well positioned to prosper when the industry recovers."

Sales Initiatives Aimed at Top Global Bandwidth Customers

For the last three years, as part of its overall sales strategy, Level 3 has targeted bandwidth-intensive companies, a number of which were early stage companies with partially funded business plans. This strategy was designed to capitalize on the high demand from such companies for bandwidth based services. However, the market downturn has had a negative impact on a substantial number of those customers.

As a result, Level 3 has reassessed its target customer base and refocused the efforts of its global sales force. While continuing to meet the needs of innovative, new companies, Level 3 is concentrating on selling its services to established companies with substantial needs for bandwidth services.

With the activation of Level 3's metropolitan and intercity networks, the company is well positioned to meet demand for its core transport services, including wavelengths and high speed private lines. The company is experiencing growing demand for such services from a substantial number of customers. While such services typically have longer sales cycles and a number of customers have delayed purchases as a result of the industry slowdown, the company is optimistic about the fundamental demand growth.

"Our views with respect to market conditions are based on a customer by customer assessment. We believe the near-term market for wavelengths and high speed private line services exceeds \$15 billion and is dominated by approximately 300 companies," said Kevin O'Hara, Level 3's president and chief operating officer. "Further, we believe the top 40 global users represent a substantial portion of this global demand. Today, 33 of these 40 companies are existing customers for various Level 3 services. This positions us to have insight into the needs of these customers and to meet a growing portion of their bandwidth-related needs. Over the past 90 days, we have signed approximately \$60 million in wavelength service contracts and are encouraged by the early success we are having in the marketplace."

Updated Business Outlook

Level 3 has updated its business outlook and financial projections for 2001 and 2002 including cash communications revenue, GAAP communications revenue, Gross Margins, SG&A expenses, Adjusted EBITDA, EBITDA, and Capital Expenditures.

"In light of the continuing weakness and volatility in our industry, we are continuously reviewing the company's backlog, existing customer base, sales and proposal flow, capital expenditures and operating expense projections," said Sureel Choksi, Level 3's chief financial

officer. "Our revised financial projections are consistent with the more difficult environment in which we are operating and reflect a reduction of approximately \$2.3 billion in cash expenditures through free cash flow breakeven."

"We are taking these actions today in an effort to maintain our financial strength, provide a clear, disciplined focus on controlling costs, and ensure we are well positioned to benefit when the economy recovers," Choksi said. Based on our updated business outlook, we remain fully funded to free cash flow breakeven, with an appropriate cushion."

The following is a summary of our updated financial projections through 2003.

Updated Financial Projections, 2001-2003 (dollars in millions)

Metric	New 2001	Previous 2001	New 2002	Previous 2002	2003
Cash Communications Revenue	\$2,100	\$2,300-\$2,400	\$2,500-\$2,600	\$3,100-\$3,300	\$3,500-\$3,600
GAAP Communications Revenue	\$1,300	\$1,400-\$1,500	\$1,700-\$1,800	\$2,300-\$2,400	\$2,700-\$2,800
Consolidated GAAP Revenue	\$1,530	\$1,620-\$1,720	\$1,920-\$2,020	\$2,520-\$2,720	\$2,910-\$3,010
Communications Gross Margin	52%	52%	65%	60%	70%
Consolidated Gross Margin	49%	49%	61%	58%	67%
SG&A/Consolidated GAAP Revenue	76%	69%	49%	48%	37%
Adjusted EBITDA (1)	\$600	\$700	\$1,000-\$1,100	\$1,000-\$1,100	\$1,600-\$1,700
EBITDA (2)	\$(420)	\$(330)	\$200-\$250	\$200-\$250	\$850-\$950
Capital Expenditures	\$3,000	\$3,300-\$3,400	\$1,500	\$2,000-\$2,400	\$1,300

(1) 2001 Adjusted EBITDA of \$600 million excludes one-time non-cash charges totaling \$60 million.

(2) 2001 EBITDA loss includes one-time non-cash charges totaling \$60 million.

Communications Cash and GAAP Revenue: Communications cash revenue is expected to be \$2.1 billion in 2001, \$2.5 to \$2.6 billion in 2002 and \$3.5 to \$3.6 billion in 2003.

Level 3 expects communications GAAP revenue in 2001 of \$1.3 billion, an approximate 50 percent increase from 2000. Of the \$1.3 billion, approximately \$280 million is expected to come from non-recurring dark fiber sales and \$135 million from reciprocal compensation. In 2002, communications GAAP revenue is expected to be \$1.7 to \$1.8 billion, and increase to \$2.7 to \$2.8 billion in 2003.

In 2001, excluding non-recurring dark fiber sales, transport is expected to generate 40 to 45 percent of communications revenue, IP and colocation 20 to 25 percent, and Softswitch enabled services - including reciprocal compensation - 30 to 35 percent.

The company's updated business outlook is based on a detailed assessment of recurring revenue and backlog taking into account customer credit quality and financial position, as further detailed in the following two paragraphs.

Customer disconnects from lower credit quality customers continue to negatively impact Level 3's recurring revenue stream. Based on a detailed credit analysis performed by the company, Level 3 estimates that approximately 20 percent of its current recurring revenue base is at-risk over the balance of the year. Based on the level of disconnects by at-risk customers and the addition of more established customers during the balance of the year, the company expects that 85 to 90 percent of recurring revenue will be derived from higher credit quality customers by year-end.

Level 3 had a backlog of approximately \$5.3 billion as of the end of the first quarter. Backlog is defined as total communications revenue from signed contracts that have not been provisioned, as well as current revenue run-rate. Of the \$5.3 billion, 67 percent is from dark fiber and related services and 33 percent from other recurring revenue. Of the dark fiber backlog, approximately 20 percent is from at-risk customers.

Between 2000 and 2005, Level 3 expects communications cash revenue to grow at a compounded annual percentage rate in the mid-30s and communications GAAP revenue to grow at a compounded annual percentage rate in the mid-40s.

Information Services and Other Revenue: Total information services and other revenue is expected to be approximately \$230 million for 2001, \$220 million for 2002 and \$210 million for 2003.

Gross Margin: The gross margin for the communications business is expected to be approximately 52 percent for 2001, 65 percent for 2002 and 70 percent for 2003. Consolidated gross margin is expected to be approximately 49 percent in 2001, 61 percent in 2002 and 67 percent in 2003.

Selling, General and Administrative Expenses (SG&A): Consolidated SG&A expenses for 2001 are expected to be approximately 76 percent of consolidated GAAP revenue, and decrease to approximately 49 percent in 2002 and 37 percent in 2003.

The company currently has approximately 5,900 employees, including 5,200 in the communications business. The company is reducing its global work force by approximately 1,400 employees, primarily in the communications business. This reduction includes approximately 820 in North America, 550 in Europe and 30 in Asia. A one-time charge of approximately \$100 million is expected in the second quarter, of which \$40 million relates to staff reduction costs and \$60 million is for certain non-cash impairment charges resulting from project deferrals. The company has also implemented several cost control measures to reduce travel, contractors and other SG&A expenses.

Adjusted EBITDA and EBITDA: The company expects consolidated Adjusted EBITDA to be approximately \$600 million for 2001, \$1.0 to \$1.1 billion for 2002 and \$1.6 to \$1.7 billion for 2003. The company expects to turn consolidated EBITDA positive, on a run-rate basis, excluding stock-based compensation, during first quarter 2002. For 2001, the company expects negative EBITDA of approximately \$420 million (or negative \$360 million excluding one-time non-cash charges of \$60 million), \$200 to \$250 million of positive EBITDA in 2002 and \$850 to \$950 million in 2003.

Other Income/Expense: In addition to the SG&A charges described above, the company expects to record a one-time non-cash charge during the second quarter of \$35 million related to asset impairments.

Earnings Per Share: The company expects the net loss in 2001 to be approximately \$7.50 per share. Excluding one-time non-cash charges of approximately \$0.25 per share, the company expects a loss of \$7.25 per share, unchanged from previous projections.

Capital Expenditures: The company expects capital expenditures to be \$3.0 billion in 2001, \$1.5 billion in 2002 and \$1.3 billion in 2003. Reductions in capital expenditures estimates for 2001 reflect a reduction in success-based capital expenditures in line with lower revenue and the deferral of certain colocation build-outs. Reductions in 2002 and beyond are primarily a function of lower success-based capital expenditures.

Working Capital: Working capital is expected to be a \$700 to \$900 million net use of cash through early 2004. Working capital is impacted primarily by accounts receivable and accounts payable balances. This projection is higher relative to previous estimates primarily due to reduced capital expenditure projections.

Free Cash Flow Breakeven: Taking into account the factors discussed in this press release, the company expects to achieve free cash flow breakeven in early 2004 versus the previous projection of free cash flow breakeven in late 2003. The company remains prefunded with an adequate cushion in accordance with this revised business outlook.

Other Initiatives: The company continues to evaluate other initiatives and develop contingency plans to further reduce cash expenditures, including project deferrals and monetization of certain non-core assets.

Company to Hold Investor/Analyst Conference Call Level 3 will hold a conference call on Monday, June 18 at 2:30 p.m. MDT to discuss today's announcements. You may listen to the conference call live on our web site at www.level3.com or call 612-332-0530 or 612-332-0226. A replay of this call will be available until Wednesday, June 20 at 5 p.m. MDT at 320-365-3844. The access code is 591747.

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 services, colocation services, and the industry's first Softswitch based services. Its Web address is www.Level3.com.

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: substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; changes in the overall economy; 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.

Open Letter to Stockholders

BROOMFIELD, Colo., June 18, 2001 -- The following open letter to stockholders was released today by James Q. Crowe, CEO of Level 3 Communications, Inc. (Nasdaq:LVLT):

Dear fellow stockholders:

As you know from my past communications, during the last few years I have been selling a small percentage of my Level 3 shares in daily transactions in order to diversify my investments and to pay down personal debt, which I originally incurred to buy Level 3 shares. I made these sales by depositing stock in an irrevocable trust and instructing the trustee to sell a fixed amount of shares, regardless of the stock price, in the public stock market.

I believed that announcing my plans in advance and using an irrevocable trust would help assure our stockholders that I wasn't selling shares based on knowledge about the company's prospects that they didn't have. I also believed that, since the sales represented a relatively small percentage of my holdings, stockholders would be reassured as to my commitment to the company it is my privilege to lead.

However, since I started my program of stock sales, conditions in our industry have changed in a way that many observers believe is unprecedented. This, of course, is no news to you; it is the subject of daily discussion in virtually every news and media outlet.

In addition, many of our investors have communicated to me their concern that my sales, as well as sales by other senior executives, while perhaps well intentioned, have added to the negative sentiment about our company and have caused some to question our confidence in the company's future.

Given these facts, effective with the close of trading on June 22, 2001, Kevin J. O'Hara, our President and COO; Sureel A. Choksi, our CFO; and Walter Scott, Jr., our Chairman of the Board of Directors; and I have agreed not to sell shares of common stock of the company until further notice.

With respect to my existing irrevocable trust, the trustee has indicated to me that he would discontinue sales until further notice. The balance of the remaining, unsold shares will stay in the irrevocable trust.

In conjunction with today's stock sale suspension announcement, Walter Scott, through a partnership controlled by him and certain members of his family, has agreed to purchase from me, in a private transaction, approximately 2.95 million shares of common stock. The shares purchased by the Scott partnership will also be subject to Mr. Scott's agreement not to sell.

I intend to use the proceeds from this transaction to repay the pre-existing debt obligations that I have been satisfying in part with my prior stock sales. It is also the intent of my transaction with the Scott partnership to permit me not to have to sell any additional shares of Level 3 stock in order to satisfy debt obligations. I expect to complete this transaction by June 22, 2001. The transaction will also increase the stake of Mr. Scott and his family interests in Level 3, and are evidence of his continuing confidence in Level 3.

Sales by the executives listed above occurring prior to June 22, 2001 will be reported on an SEC Form 4 filing on or about July 10, 2001. I hope that this reminder will avoid any confusion, and make it clear that any reported sales occurred prior to the effective date of this announcement.

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: substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; changes in the overall economy; 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.

-30-

End of Filing

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