

# WiTel sold to Colorado company



**ROBERT S. CROSS / TULSA WORLD FILE**

The 750,000-squarefoot glass-walled WiTel Technology Center in downtown Tulsa is not included in the sale of WiTel Communications Group LLC to Colorado-based Level 3 Communications Inc.

**Level 3 mum about effect; analysts say layoffs likely**

**By D.R. STEWART World Staff Writer**

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WiTel Communications Group LLC, the Tulsa-based wholesale telecommunications provider, has been sold to Colorado-based Level 3 Communications Inc. for \$680.5 million in cash and stock, executives said Monday.

The acquisition includes all of WiTel's communications businesses, including its voice, data, video and Internet Protocol services over its 33,000-mile fiber-optic network and a multiyear contract with SBC Communications Inc., the nation's second largest local phone company.

Industry analysts said the merging of the two organizations likely will result in significant layoffs.

However, Kevin O'Hara, Level 3's president and chief operating officer, said in a telephone interview that it is too early to speculate on the ultimate size or location of the consolidated work force.

The closing of the transaction is expected in next year's first quarter and is subject to approval from state and federal regulators.

WiTel has 1,800 employees worldwide, including 1,200 in Tulsa. Level 3 has 3,100 employees worldwide, including 2,000 at its corporate headquarters in Broomfield, Colo., 30 miles northwest of Denver.

**"I wouldn't be surprised if this is sayonara, baby," said Fred Russell, chief executive officer of Fredric E. Russell Investment Management Co. in Tulsa, commenting on WiTel's continued presence in the city. "Colorado is to telecom as Houston is to oil."**

David Ahl, a telecommunications analyst in Washington, D.C., speculated that the first layoffs will occur in the personnel and accounting departments in 2006's second quarter.

"Probably 1,400 to 1,500 employees of WiTel are redundant -- people in network operations centers and field engineers," Ahl said. "Level 3 has said they will keep the best of both companies. It could be 1,200 (layoffs) from WiTel and 300 from Level 3."

Mayor Bill LaFortune said he hoped Level 3 would continue to operate in Tulsa.

"Level 3 will gain a tremendous asset in the WiTel employees," LaFortune said in a written statement. "The Mayor's Office is committed to meet with Level 3 management, discuss the

advantages of operating in Tulsa, and encourage the company to strengthen its presence in this city. We believe as Level 3 makes its assessment, the advantages of Tulsa will be apparent."

WilTel President and Chief Executive Officer Jeff Storey said the combined companies will be stronger than they were independently.

"WilTel has a reputation based on consistent delivery, operational excellence and proven customer satisfaction, and we believe Level 3 has a similar reputation and shares our vision of the future of IP communications and technology convergence," he said in a written statement.

Executives at Level 3, which has been a WilTel competitor in the consolidating broadband telecommunications market, agreed to pay WilTel's parent company, Leucadia National Corp., \$370 million in cash and 115 million newly issued shares of Level 3 common stock. The stock has a market value of \$310.5 million based on a \$2.70 per share closing price on Oct. 28.

The deal does not include WilTel's 750,000-square-foot glass-walled Technology Center, which Leucadia will retain. Level 3 has agreed to lease a portion of the Technology Center from Leucadia for two years, officials said.

Level 3 also will not assume any of WilTel's outstanding debt or mortgage obligations, company executives said.

Level 3 operates a 23,000-mile fiber-optic network that is accessible to 90 percent of the U.S. population.

The merged network will reach 50 new markets and include 3,000 new route miles compared with Level 3's pre-acquisition facilities, O'Hara said.

James Q. Crowe, Level 3's chief executive officer, said in a written statement that the WilTel acquisition will bring together some of the industry's best customers and employees.

"There is a unique and compelling fit between WilTel and Level 3," Crowe said. "Both companies are experienced providers of optical and IP-based services, and both serve similar customer bases. We believe this transaction brings together the two premier providers of communications backbone services and that our customers will benefit significantly from that shared institutional excellence."

The deal includes WilTel's contract with SBC, which plans to spend \$600 million with WilTel by the end of 2007. The SBC contract will end in 2009, when SBC plans to switch its long-distance telephone and data traffic to AT&T's network.

Regulators at the Federal Communications Commission approved the merger of SBC and AT&T on Monday. They also approved the merger of Verizon and MCI.

For WilTel, the sale to Level 3 is a sad end to a story that began with great promise in April 2001, when parent Williams Cos. Inc. spun off the company -- then known as Williams Communications Group Inc. -- as an independent telecommunications provider. At its peak, Williams Communications employed 2,900 people in Tulsa and nearly 4,000 worldwide.

Once hailed as a potential powerhouse in the industry, Williams Communications filed for

Chapter 11 bankruptcy protection a year after its initial public offering, saddled with \$7 billion in debt, declining bandwidth prices and a glut of fiber-optic capacity.

Leucadia agreed in July 2002 to invest \$150 million in cash in the company and to buy \$180 million of its debt held by Williams Cos. in return for 47.4 percent of the company. A year later, Leucadia bought the balance of the fiber-optic network operator for \$419 million.

Ahl, the telecommunications analyst, said Leucadia will make about three times its \$749 million investment to acquire WiTel. Its profits include the \$236 million in SBC payments to end its transport contract with WiTel and \$4.9 billion in net operating loss carry-forwards it can use to offset profits -- and decrease federal taxes -- in coming years.

Leucadia stock closed Monday at \$42.96, up \$1.37. Level 3 closed at \$2.88, up 18 cents.