

LEVEL 3 COMMUNICATIONS INC

FORM 8-K

(Current report filing)

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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

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 29, 2004

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 29, 2004, relating to first quarter 2004 financial results, including second quarter 2004 and certain full year 2004 financial projections.

Item 12. Results of Operations and Financial Condition

On April 29, 2004, Level 3 Communications, Inc. ("Level 3") issued a press release relating to, among other things, first quarter 2004 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 to the Securities and Exchange Commission ("SEC") pursuant to Item 12 of Form 8-K.

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 29, 2004
Date

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

Level 3 Communications, Inc. 1025 Eldorado Boulevard Broomfield, Colorado 80021 www.Level3.com

NEWS RELEASE

FOR IMMEDIATE RELEASE

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Level 3 Reports First Quarter Results

Reaffirms Full Year 2004 Business Outlook

Reports Communications Revenue of \$389 Million For The First Quarter

Announced Launch of Consumer VoIP Services; Acquired ICG's Dial Access Business

Expects Debt Reduction of Approximately \$245 Million In Second Quarter

BROOMFIELD, Colo., April 29, 2004 - Level 3 Communications, Inc. (Nasdaq:LVT) today announced its first quarter results. Consolidated revenue was \$899 million for the first quarter compared to \$988 million for the fourth quarter 2003. Communications revenue was \$389 million versus \$399 million for the previous quarter, and information services revenue was \$494 million compared to the seasonally strong fourth quarter revenue of \$565 million.

Consolidated Adjusted OIBDA(1) was \$128 million in the first quarter 2004, which exceeded the projection of \$110 million - \$120 million and compares to \$129 million for the previous quarter. The net loss for the first quarter 2004 increased to \$147 million or \$0.22 per share compared to a net loss for the previous quarter of \$121 million or \$0.18 per share. Included in the net loss for the first quarter 2004 was a \$23 million gain on the sale of the company's remaining investment in Commonwealth Telephone Enterprises, Inc., or \$0.03 per share. Included in the net loss for the previous quarter was a \$37 million gain on extinguishment of debt and a \$38 million tax benefit.

Overview

"Despite a challenging market environment, we are pleased with our market share gains and customer wins, including the government sector, as well as our improved operating margins in the first quarter," said James Q. Crowe, CEO of Level 3. "Consistent with the past few quarters, Level 3 continues to focus on launching new services and is gaining momentum in our addressable markets. We are encouraged by the initial response from our distribution partners and their customers, and expect to benefit from the continued migration of voice from traditional circuit-switched services to softswitch-based VoIP services."

First Quarter Financial Results Compared to Projections (1)

Metric (\$ in millions)	First Quarter Actuals	First Quarter Projections (1)
Communications Services Revenue (2) (excluding termination and settlement revenue)	\$359	
Reciprocal Compensation	\$23	
Termination and Settlement Revenue	\$7	
Communications Revenue	\$389	\$380-\$400
Information Services Revenue	\$494	
Other Revenue	\$16	
Consolidated Revenue	\$899	
Consolidated Adjusted OIBDA (3)(4)	\$128	\$110-\$120
Capital Expenditures (5)	\$48	\$65
Unlevered Cash Flow (4)	\$44	
Communications Gross Margin (4)	79%	

(1) Projections issued February 5, 2004

(2) Communications Services Revenue is GAAP communications revenue minus reciprocal compensation revenue

(3) Consolidated Adjusted OIBDA includes \$2 million in restructuring charges and excludes \$9 million in stock-based compensation expense

(4) See schedule of non-GAAP metrics for definition and reconciliation to GAAP measures

(5) Gross capital expenditures were \$52 million for the quarter and accrual reversals were \$4 million

Consolidated Cash Flow and Liquidity

During the first quarter 2004, unlevered cash flow(1) was \$44 million, versus \$57 million during the fourth quarter. Consolidated free cash flow for the first quarter was negative \$40 million, versus negative \$15 million for the previous quarter.

As of March 31, 2004, the company had cash and cash equivalents of approximately \$1.1 billion, which was unchanged from December 31, 2003.

"Our consolidated free cash flow for the first quarter is in line with our expected increase in capital expenditures to support previously won customer contracts and working capital needs during the quarter," said Sunit Patel, CFO of Level 3.

Communications Business Revenue

Communications revenue for the first quarter 2004 was \$389 million, versus \$399 million for the previous quarter. Total communications revenue for the first quarter consisted of \$366 million of communications services revenue and \$23 million of reciprocal compensation revenue, compared to \$376 million and \$23 million in the fourth quarter.

Included in communications services revenue was \$7 million and \$3 million of settlement and termination revenue for the first and fourth quarters, respectively.

Communications services revenue, excluding settlement and termination revenue, decreased by \$14 million quarter over quarter. This decline is primarily a result of expected, previously disclosed price decreases in managed modem related revenue during the first quarter 2004.

The communications deferred revenue balance increased by \$17 million from December 31, 2003, primarily as a result of sales to the government sector and systems integrators.

Cost of Revenue

Communications cost of revenue for the first quarter was \$81 million versus cost of revenue of \$87 million for the previous quarter. Communications gross margin(1) was 79 percent for the first quarter compared to 78 percent in the fourth quarter. Communications cost of revenue decreased in the first quarter primarily due to reduced network expenses associated with the Genuity integration.

Selling, General and Administrative Expenses (SG&A) Communications SG&A expenses decreased to \$201 million for the first quarter, versus \$214 million for the previous quarter. For the same periods, communications SG&A expenses include \$9 million and \$19 million of non-cash stock compensation expenses respectively.

The total number of employees in the communications business increased by approximately 100 during the first quarter to approximately 3,380 primarily as a result of the hiring of additional sales personnel during the quarter.

Adjusted Operating Income Before Depreciation and Amortization (OIBDA) Adjusted OIBDA(1) for the communications business increased to \$116 million for the first quarter from \$110 million for the previous quarter. Communications Adjusted OIBDA margin(1) was 30 percent for the first quarter versus 28 percent in the previous quarter.

Communications Adjusted OIBDA for the first quarter excludes \$9 million in non-cash stock compensation expense. Communications Adjusted OIBDA for the fourth quarter included \$7 million in restructuring charges and excluded \$19 million in non-cash stock compensation expense.

Information Services Business

Results for the information services business include the Software Spectrum and (i)Structure subsidiaries.

Revenue and Adjusted Operating Income before Depreciation and Amortization (OIBDA)

Information services revenue was \$494 million for the first quarter, versus \$565 million for the previous quarter and included \$4 million of termination revenue at (i)Structure. The decrease in revenue for the first quarter is due to seasonality in the company's Software Spectrum business.

Adjusted OIBDA(1) for the information services business was \$11 million for the first quarter, including \$2 million in restructuring charges, compared to \$15 million for the previous quarter, which included \$4 million in restructuring charges and excluded \$4 million in non-cash stock compensation expense.

"As expected, revenue for our information services business declined due to typical seasonality between the fourth and first quarter and continued adoption of agency type agreements," said Charles C. Miller, vice chairman of Level 3. "We continue to focus on improving operational efficiency and gaining the benefits of integrating previous acquisitions."

The total number of employees in the information services business decreased to approximately 1,310 at the end of the first quarter from approximately 1,375 at the end of the previous quarter.

Other Businesses

The company's other businesses consist primarily of coal mining operations.

Revenue and Adjusted OIBDA

Revenue and Adjusted OIBDA(1) from other businesses were \$16 million and \$1 million in the first quarter compared to \$24 million and \$4 million for the previous quarter.

Corporate Transactions

Acquisitions

As recently announced, Level 3 acquired the managed modem business of ICG Communications, Inc. in April 2004 for approximately \$35 million in cash. The business provides dial-up Internet access to America Online, EarthLink, MSN, United Online and other ISPs. The company expects the acquisition to add incremental revenue of approximately \$35 million in 2004.

Termination of Vendor Agreement

Subsequent to the end of the first quarter, the company closed its previously announced settlement to terminate its vendor agreement with Allegiance Telecom. The company paid \$54 million in cash to terminate its obligation to use certain managed modem assets through December 2006, including the use of operating equipment. The termination of this contract eliminates \$213 million in capital lease obligations.

Debt Reduction

As a result of the company's termination of its vendor agreement with Allegiance and expected principal payments on capital leases during the second quarter, capital lease obligations are expected to decrease by approximately \$245 million during the second quarter from a balance of \$268 million at March 31, 2004.

"In addition to meeting the company's cash return criteria, both transactions further expand the company's local interconnection footprint, which is key to providing cost effective VoIP services," said Kevin O'Hara, president and COO of Level 3.

New Service Offerings

"A primary focus for the company this year is deploying new services that leverage Level 3's existing network infrastructure and address large, established markets for communications services, particularly in the voice market," said O'Hara. "With the addition of our consumer-oriented VoIP services announced during the quarter, Level 3's overall addressable market has nearly tripled over the last year to approximately \$100 billion.

"Given the continued adoption of broadband, as well as the continued improvements in VoIP technology, the voice market is moving from traditional circuit-switched voice services to softswitch-based voice services, or VoIP. We believe this is a great opportunity for Level 3 as we offer high-quality, cost-effective VoIP services with enhanced functionality over our extensive softswitch platform and local interconnections that reach over 93 percent of the U.S. population."

Softswitch Services

The company currently offers wholesale VoIP services aimed at service providers and businesses, and recently announced two new wholesale services aimed at residential users. These new services are expected to serve more than 300 of the largest U.S. markets by the end of 2004.

(3)VoIPSM Enhanced Local Service is targeted towards cable operators, enhanced service providers, IXC's and others who currently operate their own switching infrastructure, but want to deploy residential voice services cost effectively with minimal involvement in local interconnection issues.

The service enables VoIP providers the flexibility to select from a number of functionalities, including: local and long distance calling, access to the traditional telephone network (PSTN), local phone numbers, operator assistance, directory listings, E911 emergency and local number portability.

HomeToneSM is a turnkey VoIP residential service offering local and long distance capabilities. Along with the features of (3)VoIP Enhanced Local Service, HomeTone also includes additional features such as voice mail, call waiting, caller ID, three-way conferencing, unified messaging, personal locator service, and end-user Web-based account management. HomeTone will be sold through distribution partners including ISPs, cable operators, and enhanced service providers.

"We believe that VoIP represents a significant opportunity for Level 3," said O'Hara. "Our extensive softswitch platform, which handles over 25 billion minutes of traffic per month, is a significant competitive advantage."

Transport and Infrastructure Services During the first quarter, the company launched two new metropolitan transport services, (3)Link(R) Metro Wavelength and (3)Link(R) Metro Ethernet, in its 36 metropolitan cities. These new services are complementary to the company's existing metropolitan offerings including private line and dark fiber.

Business Outlook

"In our fourth quarter earnings release, we announced that our largest managed modem customer, AOL, had preliminarily notified the company of its intent to significantly reduce overall purchases of dial-up capacity ports and to proportionately reduce purchases from the company," said Crowe. "We have now finalized the terms of the reduction in ports and pricing modifications and agreed to related amendments to our agreements with AOL. Based on these agreements we expect, beginning in the third quarter, to reduce ports provided to AOL by approximately one-third.

"The expected decline in 2004 managed modem revenue is a function of reduced pricing and a greater than proportionate decline in our dial-up capacity relative to the subscriber declines in the U.S. narrowband market. Over time, the company continues to expect its managed modem business to decline in line with the ongoing consumer shift from narrowband to broadband as well as continued pricing compression.

"Including the expected effects of all port reductions and price compression in our managed modem business, but excluding the positive effect of revenue from the acquisition of ICG's managed modem business, the company is reaffirming its business outlook for 2004."

"This quarter, we are pleased to report industry leading Communications Adjusted OIBDA margins of 30 percent," Crowe said. "We expect second quarter Communications Adjusted OIBDA margins to decline to approximately 20 percent primarily as a result of network and integration expenses associated with the acquisition of ICG's managed modem business.

"Additionally, in accordance with GAAP, the addition of Allegiance's managed modem assets result in a reduction of debt and an increase in our network expenses, and therefore does not result in an improvement in our operating results until the integration is complete.

"Taking into account expected overall operational performance, including the effects of both transactions, we expect Communications Adjusted OIBDA margins to improve to the mid-20 percent range for the third quarter and to the high-20 percent range by year-end.

"These expected improvements in margins, together with our previously announced projection that we will experience a return to growth in communications revenue in the latter part of this year, are a result of the company's new service initiatives and the tripling of our addressable market to approximately \$100 billion."

Second Quarter 2004

Metric (\$ in millions)	Second Quarter Projections
Communications Revenue	\$375-\$395
Consolidated Adjusted OIBDA	\$80-\$90
Capital Expenditures	\$70

"Our projection for second quarter communications revenue reflects the benefit of additional revenue from the ICG acquisition offset by expected reductions in revenue from our existing managed modem business from pricing and other factors," said Patel.

Consolidated Adjusted OIBDA is expected to decline to \$80 million - \$90 million in the second quarter primarily as a result of additional network expense related to the termination of the Allegiance vendor agreement, which shifts approximately \$9 million of capital lease principal payments and interest expense to network expenses, as well as expenses associated with the integration of ICG managed modem traffic, and an expected increase in sales, marketing and promotion expenses. The company expects to achieve network expense synergies from both the Allegiance and ICG transactions in the second half of 2004, with corresponding improvements in Communications Adjusted OIBDA margins back to recently reported levels. Revenue from the ICG acquisition in the second quarter is expected to be offset by an equal amount of network expense and therefore does not contribute to Communications Adjusted OIBDA until the latter half of 2004.

Capital expenditures are expected to increase to approximately \$70 million in the second quarter as the company continues investing in previously announced service initiatives and network build-out related to previously awarded contracts.

Summary

"I am pleased with our successes in the marketplace during the first quarter, including our government channel, and the increased pace of new services introduction," said Crowe. "We remain encouraged by the discussions and market trials we are having with our customers for VoIP services.

"While the communications marketplace certainly remains challenging, we continue to believe the combination of our new services and increased addressable market, together with our strong liquidity and solid balance sheet, put us in a strong competitive position."

Conference Call Information

Level 3 will hold a conference call to discuss the company's first quarter results at 11 a.m. Eastern Time today. To join the call, please dial 612-326-1011. A live broadcast of the call can also be heard on Level 3's web site at www.level3.com. An audio replay of the call will be accessible on the company's web site or by dialing 320-365-3844; access code 724885.

(1) Non-GAAP Metrics Pursuant to Regulation G, the company is hereby providing a reconciliation of non-GAAP financial metrics to the most directly comparable GAAP measure.

The company provides projections that include non-GAAP metrics that the company deems relevant to management and investors. These non-GAAP metrics are Consolidated Adjusted OIBDA, communications gross margin, Communications Adjusted OIBDA margin, unlevered cash flow and consolidated free cash flow. The following reconciliation of these non-GAAP financial metrics to GAAP includes forward-looking statements with respect to the information identified as a projection. Level 3 has made a number of assumptions in preparing our projections, including assumptions as to the components of financial metrics. These assumptions, including dollar amounts of the various components that comprise a financial metric, may or may not prove to be correct. We caution you that these forward-looking statements are only predictions, which are subject to risks and uncertainties including technological uncertainty, financial variations, changes in the regulatory environment, industry growth and trend predictions. Please see the company's Annual Report on Form 10-K for a description of these risks and uncertainties.

In order to provide projections with respect to non-GAAP measures, we are required to indicate a range for GAAP measures that are components of the reconciliation of the non-GAAP metric. The provision of these ranges is in no way meant to indicate that the company is explicitly or implicitly providing projections on those GAAP components of the reconciliation. In order to reconcile the non-GAAP financial metric to GAAP, the company has to use ranges for the GAAP components that arithmetically add up to the non-GAAP financial metric. While the company feels reasonably comfortable about the projections for its non-GAAP financial metrics, it fully expects that the ranges used for the GAAP components will vary from actual results. We will consider our projections of non-GAAP financial metrics to be accurate if the specific non-GAAP metric is met or exceeded, even if the GAAP components of the reconciliation are different from those provided in an earlier reconciliation.

Communications Gross Margin (\$) is defined as communications revenue less communications cost of revenue from the consolidated condensed statements of operations.

Cost of Revenue for the communications business includes leased capacity, right-of-way costs, access charges and other third party circuit costs directly attributable to the network, as well as costs of assets sold pursuant to sales-type leases.

Communications Gross Margin (%) is defined as communications gross margin (\$) divided by communications revenue. Management believes that communications gross margin is a relevant metric to provide to investors, as it is a metric that management uses to measure the margin available to the company after it pays third party network services costs; in essence, a measure of the efficiency of the company's network.

COMMUNICATIONS GROSS MARGIN (\$ in millions)	Q403	Q104
-----	-----	-----
Communications revenue	\$399	\$389
-----	-----	-----
Communications cost of revenue	\$87	\$81
-----	-----	-----
Communications Gross Margin (\$)	\$312	\$308
-----	-----	-----
Communications Gross Margin (%)	78%	79%
-----	-----	-----

Consolidated Adjusted OIBDA is defined as operating income from the consolidated condensed statements of operations, plus depreciation and amortization plus non-cash impairment charges plus non-cash stock compensation expense.

Communications Adjusted OIBDA Margin is defined as Communications Adjusted OIBDA divided by communications revenue.

Management believes that Consolidated Adjusted OIBDA and Communications Adjusted OIBDA Margins are relevant and useful metrics to provide to investors, as they are an important part of the company's internal reporting and are indicators of profitability and operating performance, especially in a capital-intensive industry such as telecommunications. Management also uses Consolidated Adjusted OIBDA and Communications Adjusted OIBDA Margins to compare the company's performance to that of its competitors. Consolidated Adjusted OIBDA excludes non-cash impairment charges and non-cash stock compensation expense due to the company's adoption of the expense recognition provisions of SFAS No. 123. Additionally, Consolidated Adjusted OIBDA excludes interest expense and income tax expense and other gains/losses not included in operating income. Excluding these items eliminates the expenses associated with the company's capitalization and tax structures. Consolidated Adjusted OIBDA excludes depreciation and amortization expense in order to eliminate the impact of capital investments which management believes should be evaluated through consolidated free cash flow.

There are limitations to using non-GAAP financial measures, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from the company's calculations. Additionally, this financial measure does not include certain significant items such as depreciation and amortization, interest expense and non-cash impairment charges. Consolidated Adjusted OIBDA and Communications Adjusted OIBDA Margin should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Consolidated Adjusted OIBDA Three Months Ended March 31, 2004 (\$ in millions)	Communications	Information Services	Other	Con- solidated
Net Earnings/(Loss)	(\$175)	\$5	\$23	(\$147)
Income Tax (Benefit)/Expense	--	--	\$1	\$1
Plus Other (Income)/Expense	\$111	(\$1)	(\$24)	\$86
Operating Income/(Loss)	(\$64)	\$4	--	(\$60)
Plus Depreciation and Amortization Expense	\$171	\$7	\$1	\$179
Plus Non-Cash Stock Compensation Expense	\$9	--	--	\$9
Consolidated Adjusted OIBDA	\$116	\$11	\$1	\$128

Consolidated Adjusted OIBDA Three Months Ended December 31, 2003 (\$ in millions)	Communications	Information Services	Other	Con- solidated
Net Earnings/(Loss)	(\$166)	\$4	\$41	(\$121)
Income from Discontinued Operations	(\$4)	--	--	(\$4)
Income Tax (Benefit)/Expense	--	\$1	(\$39)	(\$38)
Plus Other (Income)/Expense	\$87	--	--	\$87
Operating Income/(Loss)	(\$83)	\$5	\$2	(\$76)
Plus Depreciation and Amortization Expense	\$174	\$6	\$2	\$182
Plus Non-Cash Stock Compensation Expense	\$19	\$4	--	\$23
Consolidated Adjusted OIBDA	\$110	\$15	\$4	\$129

Communications Adjusted OIBDA Margin (\$ in millions)	Q403	Q104
Communications revenue	\$399	\$389
Communications Adjusted OIBDA	\$110	\$116
Communications Adjusted OIBDA Margin	28%	30%

Projected Consolidated Adjusted OIBDA Three Months Ended June 30, 2004 (\$ in millions)	Consolidated Range	
	Low	High
Net Earnings/(Loss)	(\$230)	(\$205)
Plus Other (Income)/Expense	\$120	\$110
Operating Income/(Loss)	(\$110)	(\$95)
Plus Depreciation and Amortization Expense	\$180	\$175
Plus Non-Cash Stock Compensation Expense	\$10	\$10
Consolidated Adjusted OIBDA	\$80	\$90

Unlevered Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures offset by release of capital expenditure accruals, and adding back cash interest paid, less interest income all as disclosed in the consolidated condensed statements of cash flows or the consolidated condensed statements of operations. Management believes that unlevered cash flow is a relevant metric to provide to investors, as it is an indicator of the operational strength and performance of the company and, measured over time, provides management and investors with a sense of the growth pattern of the business.

There are material limitations to using unlevered cash flow to measure the company against some of its competitors as it excludes certain material items such as cash spent on merger and

acquisition activity and interest expense. Level 3 does not currently pay income taxes due to net operating losses, and therefore, generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to accounts receivable and accounts payable. Unlevered cash flow should not be used as a substitute for net change in cash and cash equivalents on the consolidated condensed statements of cash flows.

Consolidated Free Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures offset by release of capital expenditure accruals as disclosed in the consolidated condensed statements of cash flows. Management believes that consolidated free cash flow is a relevant metric to provide to investors, as it is an indicator of the company's ability to generate cash to service its debt.

There are material limitations to using consolidated free cash flow to measure the company against some of its competitors as Level 3 does not currently pay income taxes due to net operating losses, and therefore, generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to accounts receivable and accounts payable. This financial measure should not be used as a substitute for net change in cash and cash equivalents on the consolidated condensed statements of cash flows.

UNLEVERED CASH FLOW AND CONSOLIDATED FREE CASH FLOW Three Months Ended March 31, 2004 (\$ in millions)		
	Unlevered Cash Flow	Consolidated Free Cash Flow
Net Cash Provided by Continuing Operations	\$8	\$8
Gross Capital Expenditures	(\$52)	(\$52)
Release of Capital Expenditure Accruals	\$4	\$4
Cash Interest Paid	\$87	N/A
Interest Income	(\$3)	N/A
Total	\$44	(\$40)

UNLEVERED CASH FLOW AND CONSOLIDATED FREE CASH FLOW Three Months Ended December 31, 2003 (\$ in millions)		
	Unlevered Cash Flow	Consolidated Free Cash Flow
Net Cash Provided by Continuing Operations	\$29	\$29
Gross Capital Expenditures	(\$49)	(\$49)
Release of Capital Expenditure Accruals	\$5	\$5
Cash Interest Paid	\$75	N/A
Interest Income	(\$3)	N/A
Total	\$57	(\$15)

PROJECTED CONSOLIDATED FREE CASH FLOW Twelve Months Ended December 31, 2004 (\$ in millions)	Consolidated Range	
	Low	High
Net Cash Provided by Continuing Operations	\$70	\$100
Gross Capital Expenditures	(\$254)	(\$304)
Release of Capital Accruals	\$4	\$4
Total	(\$180)	(\$200)

About Level 3 Communications

Level 3 (Nasdaq:LVT) is an international communications and information services company. The company operates one of the largest Internet backbones in the world, is one of the largest providers of wholesale dial-up service to ISPs in North America and is the primary provider of Internet connectivity for millions of broadband subscribers, through its cable and DSL partners. The company offers a wide range of communications services over its 22,500 mile broadband fiber optic network including Internet Protocol (IP) services, broadband transport and infrastructure services, colocation services, and patented Softswitch managed modem and voice services. Its Web address is www.Level3.com.

The company offers information services through its subsidiaries, Software Spectrum and (i)Structure. For additional information, visit their respective web sites at www.softwarespectrum.com and www.i-structure.com.

The Level 3 logo, (3)Link Metro Wavelength and (3)Link Metro Ethernet are registered service marks and (3)VoIP Enhanced Local Service and HomeTone are service marks of Level 3 Communications, Inc. in the United States and/or other countries.

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, the challenges of integration, 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 #1

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Operations
(unaudited)

(dollars in millions)	Three Months Ended	
	March 31, 2004	December 31, 2003
Revenue:		
Communications	\$ 389	\$ 399
Information Services	494	565
Other	16	24
	--	--
Total Revenue	899	988
Costs and Expenses:		
Cost of Revenue	543	620
Depreciation and Amortization	179	182
Selling, General and Administrative, including non-cash compensation of \$9 and \$23, respectively	235	251
Restructuring Charges, including noncash impairment charges of \$-, and \$-, respectively	2	11
	-	--
Total Costs and Expenses	959	1,064
	---	-----
Operating Income (Loss)	(60)	(76)
Other Income (Loss), net		
Interest Income	3	3
Interest Expense	(127)	(128)
Other Income	38	38
	--	--
Other Income (Loss)	(86)	(87)
	---	---
Loss Before Income Taxes	(146)	(163)
Income Tax (Expense) Benefit	(1)	38
	--	--
Loss Before Discontinued Operations	(147)	(125)
Income From Discontinued Operations	-	4
	-	-
Net Loss	\$ (147)	\$ (121)
	=====	=====
Basic Earnings (Loss) per Share:		
Loss Before Discontinued Operations	\$ (0.22)	\$ (0.19)
Income From Discontinued Operations	-	0.01
	----	----
Net Loss	\$ (0.22)	\$ (0.18)
	=====	=====
Weighted Average Shares Outstanding (in thousands)		
Basic	679,991	671,992
	=====	=====

ATTACHMENT #2

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

(dollars in millions)	March 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,161	\$ 1,129
Marketable securities	-	42
Restricted securities	47	74
Accounts receivable, less allowances of \$26 and \$28, respectively	429	561
Other	110	140
	---	---
Total Current Assets	1,747	1,946
Property, Plant and Equipment, net	5,598	5,727
Restricted Securities	63	61
Intangibles, net and Goodwill	445	459
Other Assets, net	99	100
	--	---
	\$ 7,952	\$ 8,293
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 510	\$ 651
Current portion of long-term debt	103	125
Accrued payroll and employee benefits	94	135
Accrued interest	118	100
Deferred revenue	154	189
Other	220	231
	---	---
Total Current Liabilities	1,199	1,431
Long-Term Debt, less current portion	5,276	5,250
Deferred Revenue	970	954
Other Liabilities	476	477
Stockholders' Equity	31	181
	--	---
	\$ 7,952	\$ 8,293
	=====	=====

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ATTACHMENT #3

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended	
	March 31, 2004	December 31, 2003
(dollars in millions)		
Cash Flows from Operating Activities:		
Net Loss	\$ (147)	\$ (121)
Income from discontinued operations	-	(4)
	-	--
Loss before discontinued operations	(147)	(125)
Adjustments to reconcile loss before discontinued operations to net cash provided by continuing operations:		
Depreciation and amortization	179	182
Gain on sale of property, plant and equipment, and other assets	(32)	(4)
Gain on debt extinguishments, net	-	(37)
Non-cash compensation expense attributable to stock awards	9	23
Deferred revenue	(16)	82
Amortization of debt issuance costs	4	4
Accreted interest on discount debt	18	25
Accrued interest on long-term debt	18	24
Deferred income taxes	-	(45)
Changes in working capital items net of amounts acquired:		
Receivables	121	(198)
Other current assets	30	(21)
Payables	(136)	141
Other liabilities	(35)	(14)
Other	(5)	(8)
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Net Cash Provided by Continuing Operations	8	29
Cash flows from Investing Activities:		
Decrease in restricted cash and securities, net	25	18
Capital expenditures	(52)	(49)
Release of capital expenditure accruals	4	5
Proceeds from sale of Commonwealth Telephone	41	-
Proceeds from sale of property, plant and equipment	9	7
Genuity acquisition	-	35
	--	--
Net Cash Provided by Investing Activities	27	16
Cash Flows from Financing Activities:		
Purchases of and payments on long-term debt, including current portion	(1)	(743)
Long-term debt borrowings, net of issuance costs	-	487
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Net Cash Used in Financing Activities	(1)	(256)
Net Cash Provided by Discontinued Operations	-	20
Effect of Exchange Rates on Cash	(2)	3
	--	-
Net Change in Cash and Cash Equivalents	32	(188)
Cash and Cash Equivalents at Beginning of Year	1,129	1,317
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Cash and Cash Equivalents at End of Period	\$ 1,161	\$ 1,129
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Supplemental Disclosure of Cash Flow Information:		
Cash interest paid	\$ 87	\$ 75