

LEVEL 3 COMMUNICATIONS INC

FORM 10-K (Annual Report)

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FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 0-15658

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 Boulevard, Broomfield, Colorado
(Address of principal executive offices)

80021-8869
(Zip code)

(720) 888-1000
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to section 12(g) of the Act:
Common Stock, par value \$.01 per share
Rights to Purchase Series A Junior Participating Preferred Stock, par value \$.01 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

As of June 30, 2003 the aggregate market value of common stock held by non-affiliates of the registrant approximated \$2.7 billion based

upon the closing price of the common stock as reported on the Nasdaq National Market as of the close of business on that date. Shares of common stock held by each executive officer and director and by each entity that owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title	Outstanding
Common Stock, par value \$.01 per share	677,858,269 as of March 4, 2004

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Portions of the Company's Definitive Proxy Statement for the 2004 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K

Table of Contents

Part I	
Item 1	Business
Item 2	Properties
Item 3	Legal Proceedings
Item 4	Submission of Matters to a Vote of Security Holders
Part II	
Item 5	Market for Registrant's Common Equity and Related Stockholder Matters
Item 6	Selected Financial Data
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operation
Item 7A	Quantitative and Qualitative Disclosures About Market Risk
Item 8	Financial Statements and Supplementary Data
Item 9	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
Item 9A	Controls and Procedures
Part III	
Item 10	Directors and Executive Officers of the Registrant
Item 11	Executive Compensation
Item 12	Security Ownership of Certain Beneficial Owners and Management
Item 13	Certain Relationships and Related Transactions
Item 14	Principal Accounting Fees and Services
Part IV	
Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K

[Index to Consolidated Financial Statements](#)

This report contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to Level 3 Communications, Inc. and its subsidiaries ("Level 3" or the "Company"). When used in this report, the words "anticipate", "believe", "plans", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. These forward-looking statements include, among others, statements concerning:

- the Company's communications and information services business, its advantages and the Company's strategy for continuing to pursue its business;
- anticipated development and launch of new services in the communications portion of the Company's business;
- anticipated dates on which the Company will begin providing certain services or reach specific milestones in the development and implementation of its business;
- growth and recovery of the communications and information services industry;
- expectations as to the Company's future revenue, margins, expenses and capital requirements; and
- other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These forward-looking statements are subject to risks and uncertainties, including financial, regulatory, environmental, industry growth and trend projections, that could cause actual events or results to differ materially from those expressed or implied by the statements. The most important factors that could prevent Level 3 from achieving its stated goals include, but are not limited to, the Company's failure to:

- overcome the softness in the economy given its disproportionate effect on the telecommunications industry;
- increase the volume of traffic on Level 3's network;
- attract and retain qualified management and other personnel;
- successfully complete commercial testing of new technology and Company information systems to support new products and services, including voice transmission services;
- develop new products and services that meet customer demands and generate acceptable margins.
- ability to meet all of the terms and conditions of the Company's debt obligations;
- integrate strategic acquisitions;
- overcome Software Spectrum's reliance on financial incentives, volume discounts and marketing funds from software publishers;
- reduce downward pressure of Software Spectrum's margins as a result of the use of volume licensing and maintenance agreements; and

The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Further disclosures that the

Company makes on related subjects in its additional filings with the Securities and Exchange Commission should be consulted. For further information regarding the risks and uncertainties that may affect the Company's future results, please review the information set forth below under "Forward Looking Statements."

ITEM 1. BUSINESS

Level 3 Communications, Inc. and its subsidiaries ("Level 3" or the "Company") engage primarily in the communications and information services businesses.

The Company is a facilities based provider (that is, a provider that owns or leases a substantial portion of the plant, property and equipment necessary to provide its services) of a broad range of integrated communications services. The Company has created, generally by constructing its own assets, but also through a combination of purchasing and leasing of facilities, the Level 3 network—an advanced, international, facilities

based communications network. The Company has designed Level 3's network to provide communications services, which employ and leverage rapidly improving underlying optical and Internet Protocol technologies.

Market and Technology Opportunity. The Company believes that ongoing technology advances in both Internet Protocol and optical technologies have been revolutionizing the communications industry and will facilitate rapid decreases in unit costs for communications service providers that are able to most effectively leverage these technology advances. Service providers that can effectively leverage technology advances and rapidly reduce unit costs will be able to offer significantly lower prices, which, the Company believes, will drive substantial increases in the demand for communications services. The Company believes there are two primary factors that are continuing to drive this market dynamic:

- *Rapidly Improving Technologies.* Over the past few years, both Internet Protocol and optical based networking technologies have undergone extremely rapid innovation, due, in large part, to market based development of underlying technologies. This rapid technology innovation has resulted in both a rapid improvement in price-performance for optical and Internet Protocol systems, as well as rapid improvement in the functionality and applications supported by these technologies. For example, these improvements are enabling Voice-over-IP services to begin to challenge traditional telephone network or PSTN services. The Company believes that this rapid innovation will continue well into the future across a number of different aspects of the communications marketplace.
- *High Demand Elasticity.* The Company believes rapid decreases in communication services costs and prices causes the development of new bandwidth-intensive applications, which, over time, drive even more significant increases in bandwidth demand. In addition, communications services are direct substitutes for other, existing modes of information distribution such as traditional broadcast entertainment and distribution of software, audio and video content using physical media delivered over motor transportation systems. The Company believes that as communications services improve more rapidly than these alternative content distribution systems, significant demand will be generated from these sources. The Company believes that high elasticity of demand from both these new applications and the substitution for existing distribution systems will continue for the foreseeable future. The Company believes that while high demand elasticity will be manifested over time, government regulation, communications supply chain inefficiencies and monopolization of local access networks may cause realization of demand to be delayed.

In connection with the Company's belief that communications services are direct substitutes for existing modes of information distribution, during 2002, the Company completed the acquisitions of CorpSoft, Inc., and Software Spectrum, Inc. Today, this business is conducted under the name Software Spectrum, Inc.

Level 3 believes that companies will, over time, seek information technology operating efficiency by purchasing software functionality and data storage as commercial services procured over broadband networks such as Level 3's network. Level 3 believes that the combination of Level 3's network infrastructure and service development capabilities, and Software Spectrum's expertise in software lifecycle management and marketing, as well as strong customer relationships, will position Level 3 to benefit as companies change the manner in which they buy and use software capability.

The Company also believes that there are several significant implications that result from this market dynamic:

- *Incorporating Technology Changes.* Given the rapid rate of improvement in Internet Protocol and optical technologies, those communications service providers that are most effective at rapidly deploying new services that take advantage of these technologies will have an inherent cost and service advantage over companies that are less effective at deploying new services that use these technologies.
- *Capital Intensity.* The rapid improvements in these technologies and the need to move to new technologies more quickly results in shortened economic lives of underlying assets. To achieve the rapid unit cost reductions and improvements in service capabilities, service providers must deploy new generations of technology sooner, resulting in a more capital-intensive business model. Those providers with the technical, operational and financial ability to take advantage of the rapid advancements in these technologies are expected to have higher absolute capital requirements, shortened asset lives, rapidly decreasing unit costs and prices, rapidly increasing unit demand and higher cash flows and profits.
- *Industry Structure.* As a result of the rapid innovation in the underlying technology, the communications industry is visibly shifting from a utility model to a technology model. Just as in the computing industry, where market-based standards and rapid price performance improvements have existed for over 20 years, it is extremely difficult for a single communications company to be best-of-class across a wide variety of disciplines in a rapidly changing environment. Rather, an opportunity exists for companies to focus on areas in which they have significant competitive advantages and develop significant market share in a disaggregated industry structure.

Level 3's Communications Strategy. The Company is seeking to capitalize on the opportunities presented by significant and rapid advancements in Internet Protocol and optical technologies. Key elements of the Company's strategy include:

- *Offer a Comprehensive Range of Communications Services.* The Company provides a comprehensive range of communications services designed to meet the needs of the top global bandwidth customers, that is, customers that are of higher credit quality and have existing demand for the services that the Company sells. These service offerings include: Softswitch based services including managed modem for the dial-up access business, wholesale VoIP services, business- oriented VoIP services, Internet Protocol and data services and broadband transport services such as wavelengths, dark fiber, private line services including transoceanic, backhaul, intercity, metro and unprotected private line services , field technical services and colocation services. The availability of these services varies by location.

During 2003, the Company embarked on a program to develop new services that take advantage of the investment that the Company has made in the Company's network and that generally target large, existing markets. Through this effort, the Company is seeking to increase significantly its addressable market by adding new voice and data services that take advantage of the geographic coverage and cost advantages of Level 3's network. These services include:

business oriented VoIP services, wholesale VoIP services, data services and additional MPLS-based services.

The Company provides customers with several options for accessing Level 3's intercity network—including its metropolitan networks and colocation facilities. The Company's metropolitan networks enable the Company to connect directly to points of high traffic aggregation. These traffic aggregation facilities are typically locations where Level 3's customers wish to interconnect with Level 3's intercity network. Level 3's metropolitan networks allow the Company to extend its network services to these aggregation points at low costs. As of December 31, 2003, the Company had constructed metropolitan networks totaling approximately 14,560 conduit miles and approximately 792,000 fiber miles in the United States, and approximately 3,580 conduit miles and approximately 155,000 fiber miles in Europe.

Level 3 believes that providing colocation services on its network attracts communications intensive customers by allowing Level 3 to offer those customers reduced bandwidth costs, rapid provisioning of additional bandwidth, interconnection with other third-party networks and improved network performance. Therefore, Level 3 believes that controlling colocation facilities in its Gateways provides it with a competitive advantage. Additionally, the Company's metropolitan networks allow it to compete for certain local communications traffic, which constitutes a significant percentage of the communications market. As of December 31, 2003, Level 3 had secured approximately 5.0 million square feet of space for its Gateway and colocation facilities and other technical space and had completed the build-out of approximately 3.3 million square feet of this space.

For those locations that are not on Level 3's network, the Company works with other network providers to access these customer locations.

- *Target Top Global Bandwidth Customers.* The Company's primary communications services distribution strategy is to utilize a direct sales force focused on high bandwidth usage businesses. These businesses include incumbent local exchange carriers, established next generation carriers, international carriers also known as PTTs, major ISPs, broadband cable television operators, wireless providers, major interexchange carriers, governments, system integrators, satellite companies, value added resellers (referred to as VARs), academic consortia and media and entertainment content providers. Providing communications services at continually declining bandwidth costs and prices is at the core of the Company's market enabling strategy since bandwidth generally represents a substantial portion of these businesses' costs.
- *Sell to End-Users Through Distribution Partners.* The Company continues to expand its addressable market by offering communications services to enterprises and consumers through distribution partners. The Company is focusing these relationship development efforts on those VARs, systems integrators, PTTs, interexchange carriers, ISPs and enhanced service providers that have significant direct relationships with the end user in both the business and consumer markets. The Company believes that the gaps in geographic coverage and service offerings that many of these distribution partners have will give the Company an attractive opportunity to increase the addressable market for the Company's communications services.
- *Become the Low Cost Provider of Backbone Services Through An Upgradeable Backbone Network.* Level 3's intercity and metropolitan networks have been designed to provide high quality communications services at a lower cost. Level 3's network is constructed using multiple conduits and flexible equipment spacing to allow the Company to cost-effectively deploy future generations of optical and IP networking components (both fiber and transmission electronics and optronics) and thereby expand capacity and reduce unit costs. In addition, the Company's strategy is to maximize the use of open, non-proprietary interfaces in the design of its network software and hardware. This approach is intended to provide Level 3 with the ability to purchase

the most cost-effective network equipment from multiple vendors and allow Level 3 to deploy new technology more rapidly and

effectively.

- *Pursue Acquisition Opportunities.* The Company from time to time evaluates possible acquisition opportunities. In evaluating potential consolidation opportunities, among other criteria, the Company evaluates the potential acquisition according to the transaction's ability to generate positive cash flow from high credit quality customers. For these opportunities, the Company generally looks for companies with recurring revenue that come predominantly from services the Company already provides, in geographic areas that are already served, with customers that are consistent with Level 3's existing customer base. An example of the implementation of this strategy was the Company's acquisition of substantially all of the assets and operations of Genuity Inc., a Massachusetts-based provider of communications services ("Genuity"). As the Company seeks to expand the addressable market for its services, the Company also evaluates opportunities that would expand the Company's service capabilities. Transactions that would be included in this category would expand the geographic scope of Level 3's network or would provide capabilities for additional products or distribution channels. For these opportunities, the Company generally considers whether the targeted company's distribution strategy is consistent with Level 3's distribution strategy and whether management believes that the expenses of operating the target's business can be significantly reduced as a result of a combination with Level 3's cost structure and network. An example of the implementation of this strategy was the Company's acquisition of Terverse Communications, Inc.
- *Develop Advanced Operational Processes and Business Support Systems.* The Company has developed and continues to develop substantial, scalable and web-enabled operational processes and business support system infrastructure specifically designed to enable the Company to offer services efficiently to its targeted customers. The Company believes that these systems offer the Company's customers industry leading performance standards, reduces its operating costs, gives its customers direct control over some of the services they buy from the Company and allows the Company to grow rapidly while minimizing redesign of its business support systems.
- *Attract and Motivate High Quality Employees.* The Company has developed programs designed to attract and retain employees with the technical and business skills necessary for its business. The programs include the Company's Outperform Stock Option program.

Competitive Advantages. The Company believes that it has the following competitive advantages that, together with its strategy, will assist it in implementing its strategy:

- *Experienced Management Team.* Level 3 has assembled a management team that it believes is well suited for its business objectives and strategy. Level 3's senior management has substantial experience in leading the development and marketing of communications and information technology products and services and in managing, designing and constructing intercity, metropolitan and international networks.
- *Softswitch-based Co-Carrier Network.* The Company's experience in operating its Softswitch-based co-carrier network is combined with a set of infrastructure and other management experiences, which include extensive local interconnection with local exchange carriers, experience in scaling a Softswitch-based platform, and an ability to provide seamless interconnection to the traditional telephone network (also referred to as the PSTN). The Company believes that its extensive co-carrier network and Softswitch infrastructure provides it with a competitive advantage in the emerging Voice-over-IP marketplace.
- *Market Neutrality.* Although the Company is seeking to expand the size of its addressable market by developing services that are sold to enterprises and consumers, Level 3 does not focus on selling directly to these customers. Rather, Level 3 is seeking to establish distributor

relationships to target these customers in an indirect manner. As a result, the Company is not in a position where it typically competes with its targeted customer base for these end user customers. The Company believes this positions it to become the vendor of choice for retail service providers looking to fill gaps in their communications service offerings.

- *A More Readily Upgradeable Network Infrastructure.* Level 3's network design takes advantage of recent technological innovations, incorporating many of the features that are not present in older communication networks, and provides Level 3 flexibility to take advantage of future developments and innovations. Level 3 has designed the transmission network to optimize all aspects of fiber and optonics simultaneously as a system to deliver the lowest unit cost to its customers. As fiber and optical transmission technology changes, Level 3 expects to realize new unit cost improvements by deploying the latest fiber in available empty or spare conduits in the multiple-conduit Level 3 network. Each new generation of fiber enables associated optical transmission equipment to be spaced further apart and carry more traffic than the same equipment deployed on older generations of fiber. The Company believes that its spare conduits and other design characteristics of its network will enable Level 3 to continually lower costs and prices while enjoying higher margins than its competitors.
- *Integrated End-to-End Network Platform.* Level 3's strategy has been and continues to be to deploy network infrastructure in major metropolitan areas and to link these networks with significant intercity networks in North America and Europe. The

Company believes that the integration of its metropolitan and intercity networks with its colocation facilities will expand the scope and reach of its on-net customer coverage, facilitate the uniform deployment of technological innovations as the Company manages its future upgrade paths and allow the Company to grow or scale its service offerings rapidly. Level 3 believes that it is the only global communications service provider with the unique combination of large fiber-count, multi-conduit metropolitan networks, uniformly deployed multi-conduit intercity networks and substantial colocation facilities.

Level 3's network.

Level 3's network is an advanced, international, facilities based communications network. Today, the Company primarily provides services over its own facilities. Through 2000, the Company primarily offered its communications services using local and intercity facilities that had been leased from third parties. This enabled the Company to develop and offer certain of its services during the construction of its own facilities. At December 31, 2003, the Company's network encompasses:

- an intercity network covering approximately 18,889 miles in North America;
- leased or owned local networks in 72 North American markets;
- an intercity network covering approximately 3,600 miles across Europe;
- leased or owned local networks in 20 European markets;
- approximately 5.0 million square feet of Gateway and transmission facilities in North America and Europe; and
- a 1.28 Tbps transatlantic cable system.

Intercity Networks. The Company's nearly 19,000 mile fiber optic intercity network in North America consists of the following:

- Multiple conduits throughout the vast majority of its intercity network connecting approximately 200 North American cities. In general, Level 3 has installed groups of 10 to 12 conduits in its intercity network. The Company believes that the availability of spare conduit will allow it to deploy future technological innovations in optical networking components as well as providing Level 3 with the flexibility to offer conduit to other entities.

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- Initial installation of optical fiber strands designed to accommodate dense wave division multiplexing transmission technology. In addition, the Company believes that the installation of newer optical fibers will allow a combination of greater wavelengths of light per strand, higher transmission speeds and longer physical spacing between network electronics. The Company also believes that each new generation of optical fiber will allow increases in the performance of these network design aspects and will therefore enable lower unit costs.
 - High speed SONET transmission equipment employing self-healing protection switching and designed for high quality and reliable transmission. The Company expects that over time, SONET equipped networks will be replaced with network designs that employ a "mesh" architecture made possible by advances in optical technologies. A mesh architecture allows carriers to establish alternative protection schemes that reduce the amount of capacity required to be reserved for protection purposes.
 - A design that maximizes the use of open, non-proprietary hardware and software interfaces to allow less costly upgrades as hardware and software technology improves.

During the first quarter of 2001, the Company completed its construction activities relating to its North American intercity network. Also during 2001, the Company completed the migration of customer traffic from its original leased capacity network to the Company's completed North America intercity network. During 2000, the Company had substantially completed the construction of this intercity network. Deployment of the North American intercity network was accomplished through simultaneous construction efforts in multiple locations, with different portions being completed at different times. In 2003, the Company added approximately 2,985 miles to its North America intercity network as part of the Genuity transaction.

In Europe, the Company has completed construction of, its approximately 3,600 route mile fiber optic intercity network with characteristics similar to those of the North American intercity network in a two Ring architecture. During 2000, the Company completed the construction of both Ring 1 and Ring 2 of its European network. Ring 1, which is approximately 1,800 miles, connects the major European cities of Paris, Frankfurt, Amsterdam, Brussels and London and was operational at December 31, 2000. Ring 2, which is approximately 1,600 miles, connects the major German cities of Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart. Ring 2 became operational during the first quarter of 2001.

During 2002, the Company completed an expansion of its European operations to seven additional cities. The additional European cities

include: Karlsruhe and Cologne, Germany; Milan, Italy; Zurich and Geneva, Switzerland; Madrid, Spain; and Stockholm, Sweden. The Company's expansion to these additional locations was facilitated through the acquisition of available capacity from other carriers in the region. During 2003, the Company completed an expansion of its European operations to four additional cities. The additional European cities include: Copenhagen, Denmark; Leipzig, Germany; Manchester, England and Vienna, Austria.

Level 3's European network is linked to the Level 3 North American intercity network by the Level 3 transatlantic 1.28 Tbps cable system, which was also completed and placed into service during 2000. The transatlantic cable system—referred to by the Company as the Yellow system—has an initial capacity of 320 Gbps and is upgradeable to 1.28 Tbps. The deployment of Yellow was completed pursuant to a co-build agreement announced in February 2000, whereby Global Crossing Ltd. participated in the construction of, and obtained a 50% ownership interest in, Yellow. Under the co-build agreement, Level 3 and Global Crossing Ltd. each now separately own and operate two of the four fiber pairs on Yellow. Level 3 also acquired additional capacity on Global Crossing Ltd.'s transatlantic cable, Atlantic Crossing 1, during 2000 to serve as redundant capacity for its fiber pairs on Yellow.

The Company established an Asia Pacific headquarters in Hong Kong in 1999, and during 2000 the Company completed and opened Gateway facilities in Tokyo and Hong Kong. In January 2000, Level 3 announced its intention to develop and construct a Northern Asia undersea cable system initially connecting Hong Kong and Japan. The Hong Kong-Japan cable was intended to be the first stage of the Company's construction of an undersea network in the region. At that time, the Company indicated its intention to share construction and operating expenses of the system with one or more industry partners. In December 2000, the Company signed an agreement to collaborate with FLAG Telecom on the development of the Northern Asia undersea cable system connecting Hong Kong, Japan, Korea and Taiwan.

During the fourth quarter of 2001 the Company announced the disposition of its Asian operations in a sale transaction with Reach, Ltd. Although the Company believed that Asia represented an attractive longer-term investment opportunity, given current volatile market and economic conditions the Company determined that it was necessary to focus its resources, both capital and managerial, on the immediate opportunities provided by the Company's operational assets in North America and Europe. This transaction closed on January 18, 2002.

As part of the agreement, Reach and Level 3 agreed that Level 3 will provide capacity and services to Reach over Level 3's North American intercity network, and Level 3 will buy capacity and services from Reach in Asia. This arrangement will allow Level 3 to continue to service its customer base with capacity needs in Asia and provide Reach access to the Level 3 intercity networks in North America and Europe.

Local Market Infrastructure. The Company's local facilities include fiber optic metropolitan networks connecting Level 3's intercity network and Gateway's to ILEC and CLEC central offices, long distance carrier points-of-presence or POPs, buildings housing communication-intensive end users and Internet peering and transit facilities. Level 3's high fiber count metropolitan networks allow the Company to extend its services directly to its customers' locations at low costs, because the availability of this network infrastructure does not require extensive multiplexing equipment to reach a customer location, which is required in ordinary fiber constrained metropolitan networks. In addition, at December 31, 2003, the Company had an aggregate of approximately 740 points POPs located on Level 3's network in the United States and Europe.

The Company had secured approximately 5.0 million square feet of space for its Gateway and transmission facilities as of December 31, 2003, and had completed the buildout of approximately 3.3 million square feet of this space. The Company's initial Gateway facilities were designed to house local sales staff, operational staff, the Company's transmission and Internet Protocol routing and Softswitch facilities and technical space to accommodate colocation services—that is, the colocation of equipment by high-volume Level 3 customers, in an environmentally controlled, secure site with direct access to Level 3's network generally through dual, fault tolerant connections. The Company's newer facilities are typically larger than the Company's initial facilities and were designed to include a smaller percentage of total square feet for the Company's transmission and Internet Protocol routing/Softswitch facilities and a larger percentage of total square feet to support colocation services. Availability of these services varies by location.

As of December 31, 2003, the Company had operational, facilities based local metropolitan networks in 27 U.S. markets and nine European markets.

At March 10, 2004, the Company had a total of 92 markets in service: 72 in the United States and 20 in Europe. In the United States, the Company markets in service include:

Akron	Fort Worth	New Orleans	Salt Lake City
Albany	Hartford	New York	San Antonio
Atlanta	Houston	Newark	San Diego
Austin	Indianapolis	Oakland	San Francisco
Baltimore	Jacksonville	Oklahoma City	San Jose

Birmingham	Jersey City	Omaha	San Luis Obispo
Boston	Kalamazoo	Orlando	Santa Barbara
Buffalo	Kansas City	Orange County	Seattle
Charlotte	Las Vegas	Philadelphia	Springfield
Chicago	Long Island	Phoenix	St. Louis
Cincinnati	Los Angeles	Pittsburgh	Stamford
Cleveland	Louisville	Portland	Syracuse
Columbus	Manchester	Poughkeepsie	Tampa
Dallas	Memphis	Princeton	Toledo
Denver	Miami	Providence	Tulsa
Detroit	Milwaukee	Raleigh	Washington, D.C.
Durham	Minneapolis	Richmond	White Plains
El Paso	Nashville	Sacramento	Wilmington

In Europe, the markets in service include:

Amsterdam	Geneva	Milan
Berlin	Hamburg	Munich
Brussels	Karlsruhe	Paris
Cologne	Leipzig	Stockholm
Copenhagen	London	Vienna
Dusseldorf	Madrid	Zurich
Frankfurt	Manchester	

Services

Level 3 offers a comprehensive range of communications services, which currently includes the following:

- *Softswitch Services.* Level 3 pioneered and developed the Softswitch—a distributed computer system that emulates the functions performed by traditional circuit switches—which enables Level 3 to control and process voice and data calls over an Internet Protocol network. Currently, Level 3 is offering hosted IP voice, managed modem, voice origination and termination services over its Softswitch platform.
- *(3)ToneSM Business.* The Company recently began offering (3)Tone Business, a hosted IP voice service for small and medium sized businesses that provides local, long distance, and enhanced communications features combined or bundled into one service offering. (3)Tone Business service (provided by Level 3 Enhanced Services, LLC) provides all the classic local service features (referred to as Class 5 features and includes among others dial tone, call forwarding, call waiting, caller ID and automatic redial) with additional advanced features such as unified messaging (one in-box location for email, fax and voice mail), remote calling and a web-based portal for the user to set personal preferences and manage communications. (3)Tone Business applications are hosted in the Level 3 facilities, delivered over the Level 3 Multi Protocol Label Switching or MPLS network,

and processed by the Level 3 Softswitch platform. Level 3 believes that the (3)Tone Business service allows its customers to save both capital and operating costs associated with maintaining the infrastructure for business voice services. The (3)Tone Business service provides cost advantages over PBX models by providing a hosted service that does not require customers to purchase costly telephone line connections from another provider, install a telephone switch on their premise, or hire specialized staff for installation and ongoing management of the telephone service. The (3)Tone Business service is sold through third party distributors. In 2004, Level 3 plans to expand the portfolio of IP voice services to include a comprehensive set of consumer-oriented, business-oriented and wholesale Voice-over-IP or VoIP services, which will be delivered through a range of third party distributors.

- *(3)Connect® Modem.* The Company offers to its (3)Connect Modem customers an outsourced, turn-key infrastructure solution for the management of dial up access to the public Internet. (3)Connect Modem was the first service offered by the Company that used Softswitch technology to seamlessly interconnect to the traditional public switched telephone network or PSTN. ISPs comprise a majority of the customer base for (3)Connect Modem and are provided a fully managed dial up network infrastructure.

As part of this service, Level 3 arranges for the provision of local network coverage, dedicated local telephone numbers, racks and modems as well as dedicated connectivity from the customer's location to the Level 3 Gateway facility. Level 3 also provides monitoring of this infrastructure 24 hours a day, seven days a week. By providing a turn-key infrastructure

modern solution, Level 3 believes that this service allows its customers to save both capital and operating costs associated with maintaining the infrastructure.

- *(3)Voice® Termination.* The Company offers (3)Voice Termination, an Internet Protocol based long distance service, which uses Softswitch technology. The end users of the (3)Voice Termination service place a long distance call by using existing telephone equipment and dialing procedures. The local service provider transfers the call to the Level 3 Softswitch where it is converted to Internet Protocol format. The call is then transmitted along Level 3's network to another Level 3 Gateway where it is sent to the called party in whatever format is desired, including a standard telephone call. Calls on the Level 3 Softswitch network can be terminated or completed anywhere in the world. The (3)Voice Termination long distance service is offered at a quality level equal to that of the traditional circuit switched telephone network.
- *(3)VoIPSM Inbound Local.* The Company recently began offering (3)VoIP Inbound Local service, which terminates traditional telephone network or PSTN originated calls to Internet Protocol termination points. Customers, such as Call Centers, Conferencing Providers, and Enhanced Voice Services Providers, can obtain telephone numbers from Level 3 or port-in local telephone numbers that the customer already controls. These local calls are then converted to IP and transported over Level 3's MPLS enabled backbone to a customer's IP voice application at a customer-selected IP voice end point.
- *(3)VoIP Toll FreeSM.* The Company recently began offering (3)VoIP Toll Free, a service that terminates toll free calls that are originated or placed on the traditional telephone network. These toll free calls are then converted to IP and transported over Level 3's MPLS-based network to a customer's IP voice application at a customer-selected IP voice end point. Customers for this service include call centers, conferencing providers, and enhanced voice services providers.

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- *Internet Protocol (IP) and Data Services.* The Company's IP and Data Services are branded (3)CrossRoads®, Internet AdvantageSM, (3)FlexSM Data, DSL Backbone Aggregation, VPN Advantage® and Site Patrol®. Level 3 operates one of the largest international, redundant, MPLS-based IP networks, or backbones. By building and operating its own intercity and metropolitan networks in North America and Europe, the Company is able to provide customers with uniformity in performance across its entire network. Level 3's Internet Protocol services deliver a broad range of IP transit and network interconnection solutions tailored to meet the varied needs of high-bandwidth companies.
 - *(3)CrossRoads®.* (3)CrossRoads is a high quality and high-speed Internet access service offering. The service is offered in a variety of capacities—100BaseT, GigE, DS-1, DS-3, OC-3 and OC-12, OC-48 and 10 GigE—using a variety of interfaces including Ethernet and SONET.
 - *Internet AdvantageSM.* Internet Advantage is a high quality Internet access service for enterprises and service providers. Internet Advantage provides connectivity directly to the Internet through an end-to-end, dedicated, fully managed, high-speed connection. Level 3 offers a broad spectrum of dedicated connection types with flexible pricing structures, as well as comprehensive service level agreements. Dedicated Internet access is offered at speeds ranging from DS-1, including fractional DS-1, up to OC-3.
 - *(3)FlexSM Data Services.* (3)Flex Data Services represent Level 3's suite of private data networking solutions. Available throughout Level 3's network across North America and Europe, the full suite includes (3)Flex Ethernet, (3)Flex ATM, and (3)Flex Frame Relay services.
 - () *(3)Flex Ethernet.* The (3)Flex Ethernet service extends the Ethernet standard used for Local Area Network or LAN design to Wide Area Networking or WAN. By using the standard that information technology managers are the most familiar with, the (3)Flex Ethernet service provides network designers with a cost-effective solution that requires no new training.
 - () *(3)Flex ATM and (3)Flex Frame Relay.* The (3)Flex ATM service is a cost-reducing alternative to traditional ATM networks that were built with SONET-based private lines. With customer interfaces up to OC-48, (3)Flex Frame Relay service has significant scale versus the Frame Relay services offered by other providers. Level 3 believes that both (3)Flex ATM and (3)Flex Frame Relay services are appropriate for assembling high-speed, reliable, scalable, and secure multi-location, "hub-and-spoke" networks. The capabilities of these services allow for the delivery of higher priority applications, such as voice and video, ahead of lower priority applications, such as e-mail and Web access, with predictable performance.
 - *DSL Backbone Aggregation.* Level 3's digital subscriber line or DSL access service provides ISPs with reliable connectivity between the ILECs' Local Access and Transport Areas or LATA's, and Level 3's Internet backbone. This service consists of inter- and intra-LATA connections, aggregation equipment, backbone transport, and network management control. Level 3's DSL Capacity Management System enables ISPs to self-manage the provisioning and capacity management process in selected LATAs. Level 3 also provides IP address assignment and management.

- *VPN Advantage®* . With its VPN Advantage service, Level 3 enables an enterprise and its employees, customers, and business partners to securely send and receive information to and from each other via encrypted dial-up, dedicated, DSL or cable-modem Internet connections. VPN Advantage is a managed VPN service that makes it possible to

communicate securely over Level 3's Internet backbone or over the Internet from virtually anywhere in the world where a connection to the Internet is possible. With VPN Advantage, customers benefit from the capabilities of a large, shared IP-based network infrastructure while maintaining the look and feel of their own private corporate network.

- *Site Patrol® Managed Security Services* . With the Company's Site Patrol managed security service, Level 3 enables customers to establish a highly secure network defense strategy to monitor and control information sent to, and received by, the enterprise. The Company's managed security services are scalable and can be customized to meet the security needs of a growing enterprise. Level 3's managed security services include monitoring the network perimeters of enterprise customers 24 hours a day, seven days a week, and using firewall management, maintenance and proactive response techniques to ensure the security of access points into their computing infrastructure.

- *Transport and Infrastructure Services* .

The Company's Transport services are branded (3)Link® Inter-City Wavelength, (3)Link® Metro Wavelength, (3)Link® Metro Ethernet, (3)Link® Private Line , (3)HubSM Private Line, and (3)Link® Dark Fiber services.

- *(3)Link ® Inter-City Wavelength* . Level 3 offers (3)Link Inter-City Wavelength service—a point-to-point connection of a fixed amount of bandwidth on a particular color of light. Currently, (3)Link Global Wavelength service is available at 2.5 Gbps and 10 Gbps speeds. This service offering targets customers who both require significant amounts of bandwidth and desire to provide their own traffic protection schemes. The approach enables customers to build and manage a network by deploying their own SONET, ATM or IP equipment at the end points where the wavelength is delivered. Level 3 typically offers (3)Link Global Wavelength service through short-term, annual and long-term pre-paid agreements.
- *(3)Link ® Metro Wavelength* . (3)Link Metro Wavelength service provides a high-speed, dedicated, point-to-point optical connection between locations within a metropolitan area based on a WDM infrastructure. The service is available at 2.5 Gbps or 10 Gbps speeds, with unprotected or protected options. The service provides solutions for applications within a metropolitan area such as traffic aggregation, peering, disaster recovery, IP connectivity, and converged networks, as well as long-haul extension applications.
- *(3)Link ® Metro Ethernet* . (3)Link Metro Ethernet service provides a high-speed, dedicated, point-to-point Ethernet connection between locations within a metropolitan area based on a WDM infrastructure. GigE and 10 GigE service options are available. Customers can also choose unprotected and protected configurations. The service allows customers to use a single protocol (Ethernet) in the LAN and MAN, use existing Ethernet-based equipment, and deploy a solution that eliminates the need to manage a multi-protocol environment.
- *(3)Link ® Private Line* . (3)Link Private Line service consists of a fixed amount of dedicated bandwidth between fixed locations for the exclusive use of the customer. These services are offered with committed levels of quality and built-in network protection schemes. These services are typically offered through short-term, annual and long-term pre-paid contracts. The Company is offering the following types of private line services:

- () *(3)Link Private Line-Intercity*. Level 3 provides this dedicated, point-to-point, inter-city transport service. This service is SONET-protected and traverses over diverse network facilities. Available transmission speeds include DS-3, OC-3, OC-12 and OC-48. In addition, on a selective basis, Level 3 also offers DS-1 speeds.

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- () *(3)Link Private Line-Metro*. Level 3 provides this service within a metropolitan area. Available transmission speeds that include DS-3, OC-3, OC-12 and OC-48. (3)Link Private Line-Metro service currently provides four distinct configuration options. Metro Point-to-Point is a dedicated and fully route-diverse circuit between two or more customer-specified locations within one metropolitan or Level 3 Gateway. Metro Access connects a customer location to the nearest Level 3 Gateway or point of presence (POP). The service accesses a Level 3 backbone service, such as (3)Link Private Line-Intercity. It can also access and terminate in a (3)Center Colocation cabinet within a Level 3 Gateway. Metro Managed Ring Service (MMRS) provides the customer with a dedicated optical metro ring service connecting two or more on-net locations within a single metro market. Metro

Hub and Spoke provides connectivity from multiple locations within a metropolitan area (DS-3 and above) aggregated (or hubbed) into a single customer location.

- () (3)Link Unprotected Private Line. Level 3 provides this private line service between two locations on a point-to-point, unprotected basis—that is, without any network protection scheme. As (3)Link Unprotected Private Line is offered as an unprotected service, it provides a cost advantages when a customer desires to purchase private line capacity without a network protection scheme, for purposes of creating a meshed network or for adding additional capacity or protection to the customer's existing network. Available transmission speeds for this service are either OC-3/STM-1 or OC-12/STM-4.
- (3)Hub SM Private Line . (3)Hub Private Line service is a more flexible version of traditional private line offerings, allows SONET/SDH facilities to be dedicated to customers at a low cost, and allows them to activate and control circuits on this facility on an as-needed basis. Customers only pay for the circuits when activated. The service's flexibility and "pay-as-you-grow" pricing model benefit both local and wide area customer networks.
 - Transoceanic Services . Customers may purchase Level 3's transoceanic (3)Link Private Line, (3)Link Unprotected Private Line, and (3)Link Inter-city Wavelength services between any two Level 3 Gateways in Europe and the United States.
 - Backhaul Services . Backhaul services provide connectivity between the cable landing stations and Level 3's network. Level 3 offers SONET-based private line and wavelength options for backhaul facilities.
 - (3)Link® Metro and Intercity Dark Fiber . Through the option of either a lease or an IRU of dark fiber and conduit along Level 3's local and intercity networks, (3)Link Dark Fiber service gives carriers, service providers and enterprises the infrastructure required to "own" a fiber optic network without the burden of network construction. (3)Link Dark Fiber service includes optical fiber cable, colocation and running line facility space, power, and operation and maintenance of the network.
 - (3)Tech SM Field Support . Level 3 recently began offering "remote hands" field technical support services 24 hours a day, seven days a week, 365 day per year to companies wishing to outsource their equipment support at Level 3 on-network locations across North American and Europe. Customers can often realize cost savings utilizing the Level 3 personnel instead of hiring technicians in each local market to cover field support requirements.

The Company's infrastructure services are branded (3)Center® colocation services.

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- (3)Center® Colocation . The Company offers high quality, data center grade space where customers can locate servers, content storage devices and communications network equipment in a safe and secure technical operating environment.

At its colocation sites, the Company offers high-speed, reliable connectivity to Level 3's network and to other networks, including both local and wide area networks, the PSTN and the Internet. Level 3 also offers customers AC/DC power, emergency back-up generator power, HVAC, fire protection and security. These sites are monitored and maintained 24 hours a day, seven days a week, 365 days per year.

As of December 31, 2003, Level 3 offered (3)Center Colocation service in 73 facilities in 66 markets located in the United States and Europe. Level 3 believes that its ability to offer both metropolitan and intercity communications services to its (3)Center Colocation customers provides it with an advantage over its competitors, because (3)Center Colocation customers often spend a substantial portion of their operating expenses on communications services. This service is typically offered through annual and long-term contracts.

For a discussion of the contribution to the Company's communications revenue by each of its strategic business units—Softswitch Services, IP and Data Services and Transport and Infrastructure—please see Management's Discussion and Analysis of Financial Condition and Results of Operations appearing later in this report. Level 3 management continues to review its existing lines of business to determine how those lines of business assist with the Company's focus on delivery of communications and information services and meeting its financial objectives. To the extent that certain lines of business are not considered to be compatible with the delivery of communications and information services or with obtaining financial objectives, Level 3 may exit those lines of business.

Distribution Strategy

Level 3's communications services sales strategy is to utilize a direct sales force focused on high bandwidth generating businesses. These businesses include incumbent local exchange carriers, established next generation carriers, international carriers also known as PTTs, major ISPs, broadband cable television operators, major interexchange carriers, governments and media and entertainment content providers. Providing continually declining bandwidth costs to these companies is at the core of Level 3's market enabling strategy.

Beginning in 2001, Level 3 changed its communications services customer focus to the top global users of bandwidth capacity. These top customers tend to be financially more viable than certain Internet early stage companies. The Company has in place policies and procedures to review the financial condition of potential and existing customers and concludes that collectibility is probable prior to commencement of services. If the financial condition of an existing customer deteriorates to a point where payment for services is in doubt, the Company will not recognize revenue attributable to that customer until cash is received. Based on these policies and procedures, the Company believes its exposure to collection risk within the communications business and effect to the financial statements is limited. The Company is not immune from the affects of the downturn in the economy and specifically the telecommunications industry; however, the Company believes the concentration of credit risk with respect to receivables is mitigated due to the dispersion of the Company's customer base among geographic areas and remedies provided by terms of contracts and statutes.

The Company is also seeking to offer communications services to enterprises and consumers through third party distributor relationships. The Company is focusing these relationship development efforts on those value-added resellers, systems integrators, PTTs, interexchange carriers, ISPs and enhanced service providers that are used by its targeted customers, as many of these companies have significant direct relationships with end users. The Company believes that the gaps in geographic

coverage and service offerings that many of these distributors have will present the Company with an attractive means of increasing the addressable market for the Company's communications services.

The Company is developing new voice services that in addition to its existing voice services target large and existing markets. The Company believes that the efficiencies of Level 3's IP and optical based network, including its Softswitch technology, will provide customers a lower cost alternative than the existing circuit-switched networks of its competitors. Several other competitors with IP technologies have recently announced that they will be entering this market as well. In order to expedite the penetration of this market, Level 3 has expanded its sales force to specifically target voice service providers, value added resellers and other channels that reach both the consumer and enterprise markets for voice services. While the new voice services being launched by Level 3 target a large addressable market, the Company must quickly develop both its capability to market and sell through various channels in the voice market and develop the internal systems and processes necessary to support the new products being launched. The market for voice services is large, however it is expected to continue to decline over time as a result of the new low cost IP and optical based technologies.

For the year ended December 31, 2003, approximately 43% of the Company's sales were to network providers (which includes carriers and broadband access providers), 50% were to service providers (which includes ISPs and web-based service providers) and 7% were to end-users. For the year ended December 31, 2003, two customers accounted for more than 10% of the Company's communications services or consolidated total revenue. Time Warner, Inc. and its affiliates represented approximately 24% of communications revenue and approximately 11% of consolidated total revenue and Verizon Communications, Inc. and its affiliates represented approximately 10% of communications revenue and approximately 5% of consolidated total revenue. For the year ended December 31, 2003, the Company's top 10 communications services customers accounted for approximately 61% of the Company's total communications revenue.

Business Support Systems

In order to pursue its sales and distribution strategies, the Company has developed and is continuing to develop and implement a set of integrated software applications designed to automate the Company's operational processes. Through the development of a robust, scalable business support system, the Company believes that it has the opportunity to develop a competitive advantage relative to traditional telecommunications companies. In addition, the Company recognizes that for its strategy of increasing its relationships with third party distributors to succeed, Level 3's business support systems will need to be easily accessible and usable by these third party distributors.

Key design aspects of the business support system development program are:

- integrated modular applications to allow the Company to upgrade specific applications as new services are available;
- a scalable architecture that allows certain functions that would otherwise have to be performed by Level 3 employees to be performed by the Company's distributors;
- phased completion of software releases designed to allow the Company to test functionality on an incremental basis;
- "web-enabled" applications so that on-line access to order entry, network operations, billing, and customer care functions is available to all authorized users, including Level 3's customers and distributors;
- use of a tiered, client/server architecture that is designed to separate data and applications, and is expected to enable continued improvement of software functionality at minimum cost; and

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- use of pre-developed or "shrink wrapped" applications, where applicable, which will interface to Level 3's internally developed applications.

Interconnection and Peering

As a result of the Telecom Act, properly certificated companies may, as a matter of law, interconnect with ILECs on terms designed to help ensure economic, technical and administrative equality between the interconnected parties. The Telecom Act provides, among other things, that ILECs must offer competitors the services and facilities necessary to offer local switched services. See "—Regulation."

As of December 31, 2003, the Company had entered into approximately 150 interconnection agreements. The Company may be required to negotiate new or renegotiate existing interconnection agreements as Level 3 expands its operations in current and additional markets in the future and as existing agreements expire or are terminated.

Peering agreements between the Company and ISPs are necessary in order for the Company to exchange traffic with those ISPs without having to pay transit costs. The Company is considered a Tier 1 Internet Service Provider and has settlement free peering arrangements with all Tier 1 ISPs in North America. In Europe, the Company has settlement free peering arrangements with all ISPs. The basis on which the large national ISPs make peering available or impose settlement charges is evolving as the provision of Internet access and related services has expanded.

Employee Recruiting and Retention

As of December 31, 2003, Level 3 had approximately 3,275 employees in the communications portion of its business and information services had approximately 1,375 employees, for a total of approximately 4,650 employees. The Company believes that its success depends in large part on its ability to attract and retain substantial numbers of qualified employees.

The primary purpose of the Company's 1995 Stock Plan, as amended, has been to increase the value of Shares and the profitability of the Company and its subsidiaries (i) by enabling the Company to attract, retain, motivate and reward certain employees, directors and service providers and (ii) by aligning the interests of those employees, directors and service providers with the interests of the Company and the holders of the Company's common stock.

In order to attract and retain highly qualified employees, the Company believes that it is important to provide a work environment that encourages each individual to perform to his or her potential and facilitates cooperation towards shared goals and a compensation program designed to attract the kinds of individuals the Company needs and to align employees' interests with the Company's stockholders.

With respect to compensation programs, the Company believes that short-term financial rewards alone are not sufficient to attract and retain qualified employees, and a properly designed long-term compensation program is a necessary component of employee recruitment and retention. In this regard the Company's philosophy is to pay annual cash salary compensation that is moderately less than the annual cash salary compensation paid by competitors and an annual performance-based cash bonus, which, if the Company's annual goals are met, when added to the annual cash salary cash compensation results in a total that is moderately greater than the total annual cash compensation paid on average by competitors. In addition, employees may, from time to time, receive additional cash bonus compensation relating to the individual employee's contribution to the Company achieving special initiatives or programs. The Company's non-cash benefit programs (including medical and health insurance, life insurance, disability insurance, etc.) are designed to be comparable to those offered by its competitors.

The Company continues to believe that the qualified candidates it seeks, as well as the current employees it wants to retain and motivate, place particular emphasis on equity-based long term incentive ("LTI") programs. The Company currently has two complementary programs: (i) a 401(k) Plan matching contribution in the form of shares of Level 3 common stock up to 7% of eligible earnings or regulatory limits for 401(k) Plan contributions; and (ii) an innovative stock-indexed program referred to as the Outperform Stock Option or OSO program. If an employee remains employed by the Company for three years from the date of hire, the shares that are contributed by the Company to the 401(k) Plan vest. The 401(k) Plan also provides the Company with the flexibility, subject to satisfactory Company performance, to make discretionary grants to the employees' 401(k) Plan accounts of shares of Level 3's common stock of up to a set percentage of the employees' compensation determined by the Compensation Committee of the Board of Directors, all of which shares will vest three years from the employee's date of hire. These grants would be in addition to contributions made by the employee during the course of the year, which are matched by the Company as described above. For the year ended December 31, 2003, the Company approved a 3% discretionary grant to eligible employees, to be deposited in their 401(k) Plan accounts.

The Company has adopted the OSO program, which differs from LTI programs generally adopted by many public companies in which employees are typically eligible for conventional non-qualified stock options or NQSOs. NQSO programs generally award the recipient the right

to purchase stock at a fixed price, typically at the price on the date the NQSO was granted. While widely adopted, the Company believes such NQSO programs sometimes reward employees even if company stock price performance is inferior to investments of similar risks, dilute public stockholders in a manner not directly proportional to performance and fail to provide a preferred return on stockholders' invested capital over the return to option holders. The Company believes that the OSO program is superior to an NQSO-based program with respect to these issues while, at the same time, providing employees a success-based reward balancing the associated risk.

The Company's OSO program has been the primary component of Level 3's stock based LTI compensation programs. The Company designed the OSO program so that the Level 3 Common Stock price performance must exceed a broad-based, market stock index before OSO holders receive any return on their options. In other words, the Level 3 Common Stock price must pass a "hurdle" of a stock index growth prior to the OSO having any value upon exercise. Currently, the broad-based, market stock index used in the OSO program is the S&P 500® Index, although the Compensation Committee reserves the right to select another broad-based, market stock index for use in this program.

The Company believes that an OSO-style program better aligns employees' and stockholders' interests by basing stock option value on the Company's ability to outperform the market in general, as measured by the relative performance of the Company's common stock to the S&P 500® Index. The value received for options under the OSO plan is based on a formula involving a multiplier related to how much the Company's common stock outperforms the S&P 500® Index. Participants in the OSO program do not realize any value from options unless the Level 3 Common Stock price outperforms the S&P 500® Index. To the extent that the Level 3 Common Stock significantly outperforms the S&P 500® Index, the value of OSOs to an option holder may exceed the value of NQSOs issued to comparable employees at other companies.

In July 2000, the Company adopted a convertible outperform stock option program or C-OSO, as an extension of the existing OSO plan. The program is a component of the Company's ongoing employee retention efforts and offers similar features to those of an OSO, but provides an employee with the greater of the value of a single share of the Company's common stock at exercise, or the calculated OSO value of a single OSO at the time of exercise.

C-OSO awards were made to eligible employees employed on the date of the grant. The awards were made in September 2000 and December 2000. Each award vests over three years as follows: $\frac{1}{6}$ of

17

each grant at the end of the first year, a further $\frac{2}{6}$ at the end of the second year and the remaining $\frac{3}{6}$ in the third year. Each award is immediately exercisable upon vesting. Awards expire four years from the date of the grant. In September 2001, the Company granted Special Convertible Outperform Stock Option or Special COSO to certain employees on the date of grant. Each Special COSO vests in equal quarterly installments over three years and is immediately exercisable upon vesting. Special COSOs expire four years from the date of grant.

As stated above, since late 1997 the Company adhered to a compensation philosophy that includes the payment of annual cash compensation, which, if the Company's annual goals are met, is moderately greater than the cash compensation paid on average by competitors, and the delivery of equity based, LTI compensation that is based on the performance of the Level 3 Common Stock. In determining the levels of grants of LTI compensation, the Company has strived to deliver approximately 25 percent of the "outperformance" value of the Level 3 Common Stock to employees. The Compensation Committee defines "outperformance" as the increase in the price of a share of Level 3 Common Stock from the date of grant until the date of exercise, relative to the increase in a broad-based, market stock index such as the S&P 500® Index. In addition, the Compensation Committee of the Board has determined that LTI compensation grants by the Company are to be set at levels necessary to control the overall amount of dilution to public stockholders, even in the situation of extreme common stock price appreciation, while maintaining the goal of delivering on average no more than approximately 25 percent of the outperformance to employees.

The following modifications, affecting August 19, 2002, and later grants, were made to the OSO program:

- OSO targets will be defined in terms of number of OSOs rather than a target theoretical dollar value.
- The success multiplier was reduced from eight to four.
- Awards will continue to vest over 2 years and have a 4-year life. However, 50% of the award will vest at the end of the first year after grant, with the remaining 50% vesting over the second year (12.5% per quarter).
- A 2-year exercise moratorium was enacted for Senior Vice Presidents and the senior executive team on quarterly OSO grants above a given threshold.

The mechanics for determining the value of an individual OSO is described below:

The initial strike price, as determined on the OSO grant date, is adjusted over time (the "Adjusted Strike Price"), until the exercise date. The adjustment is an amount equal to the percentage appreciation or depreciation in the value of the S&P 500® Index from the date of grant to the date of exercise. The value of the OSO increases for increasing levels of outperformance. OSOs granted prior to August 19, 2002, have a multiplier range from zero to eight depending upon the performance of Level 3 common stock relative to the S&P 500® Index as shown in the following table. OSOs granted August 19, 2002, and later have a multiplier range from zero to four depending upon the performance of Level 3

common stock relative to the S&P 500® Index as shown in the following table.

If Level 3 Stock Outperforms the S&P 500® Index by:	Then the Pre-multiplier Gain Is Multiplied by a Success Multiplier of:	
	Pre August 19, 2002 Grants	August 19, 2002 and Later Grants
0% or Less	0.00	0.00
More than 0% but Less than 11%	Outperformance percentage multiplied by 8/11	Outperformance percentage multiplied by 4/11
11% or More	8.00	4.00

18

The Pre-multiplier gain is the Level 3 common stock price minus the Adjusted Strike Price on the date of exercise.

The Company adopted the recognition provisions of SFAS No. 123 in March 1998 (the effective date of the separation of the Company's former construction business) and amortizes the fair value of the OSOs over their vesting period. The recognition provisions of SFAS No. 123 are applied prospectively upon adoption. As a result, they are applied to all stock awards granted in the year of adoption and are not applied to awards granted in previous years unless those awards are modified or settled in cash after adoption of the recognition provisions. The adoption of SFAS No. 123 resulted in non-cash charges to continuing operations of \$86 million in 2003, \$181 million in 2002, and \$314 million in 2001 and will continue to result in non-cash charges to operations for future periods that the Company believes will also be material. The amount of the non-cash charge will be dependent upon a number of factors, including the number of options granted and the fair value estimated at the time of grant.

Competition

The communications industry is highly competitive. A number of factors in the past eight years have increased the number of competitors in the market. First, the Telecommunications Act of 1996 created opportunities for non-incumbent providers to enter the marketplace. Second, the capital markets responded by making funding more available to new and existing competitors. Third, enthusiasm over the early evolution of the Internet led the capital markets in general to overestimate the rate at which demand for communications services would grow. Finally, the emergence of new IP-based services has created prospects for new entrants with non-traditional business models to compete with legacy providers.

The Company believes that a confluence of these factors created an unsustainable level of competition in the market. Level 3 believes that this was evidenced by both the number of competitors vying for similar business and by the amount of inventory or capacity each brings to the market for many services. The result of these actions was an oversupply of capacity and an intensely competitive environment.

The Company does not believe the current industry structure can be sustained over the long-term. With the growth of communications demand, excess capacity will be absorbed over some timeframe. Similarly, some form of consolidation will occur based on underlying industry economics. Given the large ongoing fixed costs associated with operating a backbone network, Level 3 believes that the natural industry structure will evolve to a more limited number of competitors with each having high traffic scale across their networks.

19

While the long-run structure appears clear, great uncertainty surrounds how the existing competitive landscape will evolve toward this new structure. For example, while a number of next-generation and incumbent providers have entered and emerged from bankruptcy protection, the Company believes these competitors are still operating fundamentally poor business models, have severe resource constraints, and are unlikely to be long-term survivors in their current forms. The exact timeframe for the new industry structure to evolve is unknowable. Until it does, the competitive environment is likely to remain intense.

The Company believes that each competitor's long-run success in the market will be driven by its available resources (for example, financial, personnel, marketing, customers) and the effectiveness of its business model (for example, service focus and mix, cost effectiveness, ability to adapt to new technologies, channel effectiveness). Level 3 recognizes that many of the Company's existing and potential competitors in the communications industry have resources significantly greater than those of the Company.

The Company's primary competitors are IXCs, ILECs, CLECs, PTTs and other companies that provide communications services. The following information identifies key competitors for each of the Company's product offerings.

The Company's key competitors for its managed modem services are other providers of dial up Internet access including MCI, Sprint, Qwest, ICG and AT&T. In addition, the key competitors for the Company's voice service offerings are other providers of wholesale communications services including AT&T, MCI, Sprint and certain RBOCs and CLECs.

For the Company's IP and Data services, Level 3 competes with companies that include MCI, Sprint, AT&T, Savvis Communications, and Qwest in North America, and Sprint, MCI, France Telecom and Deutsche Telecom in Europe.

For transport services, Level 3's key competitors in the United States are other facilities based communications companies including AT&T, MCI, Sprint, WilTel Communications, Global Crossing and Qwest Communications. In Europe, the Company's key competitors are other carriers such as PTTs, Telia International, Colt Telecom Group plc, MCI, and Global Crossing.

Level 3's key competitors for its colocation services are other facilities based communications companies, and other colocation providers such as web hosting companies and third party colocation companies. In the United States, these companies include AT&T, Savvis Communications, Equinix, Switch & Data and Qwest Communications. In Europe, competitors include Global Switch, InterXion, Redbus, Telecity and Telehouse Europe.

The communications industry is subject to rapid and significant changes in technology. For instance, recent technological advances permit substantial increases in transmission capacity of both new and existing fiber, and the introduction of new products or emergence of new technologies may reduce the cost or increase the supply of certain services similar to those which the Company plans on providing. Accordingly, in the future the Company's most significant competitors may be new entrants to the communications and information services industry, which are not burdened by an installed base of outmoded or legacy equipment.

Regulation

The Company's communications and information services business will be subject to varying degrees of federal, state, local and international regulation.

Federal Regulation

The Federal Communications Commission or the FCC has jurisdiction over interstate and international telecommunications services, among other things. The FCC imposes extensive regulations on common carriers such as incumbent local exchange carriers or ILECs that have some degree of market power. The FCC imposes less regulation on common carriers without market power, such as the Company. The FCC permits these non-dominant carriers to provide domestic interstate services (including long distance and access services) without prior authorization; but it requires carriers to receive an authorization to construct and operate telecommunications facilities and to provide or resell telecommunications services, between the United States and international points. The Company has obtained FCC approval to land its transatlantic cable in the U.S. The Company has obtained FCC authorization to provide international services on a facilities and resale basis. Under the Telecommunications Act of 1996 or the 1996 Act, any entity, including cable television companies, and electric and gas utilities, may enter any telecommunications market, subject to reasonable state regulation of safety, quality and consumer protection. Because implementation of the 1996 Act is subject to numerous federal and state policy rulemaking proceedings and judicial review, there is still uncertainty as to what impact it will have on the Company. The 1996 Act is intended to increase competition. The 1996 Act opens the local services market by requiring ILECs to permit competitive carriers to interconnect to their networks and requires them to lease certain parts of their networks at FCC-regulated (generally cost-based) rates; it also establishes requirements applicable to all local exchange carriers.

- *Reciprocal Compensation.* Requires all ILECs and CLECs to complete calls originated by competing carriers under reciprocal arrangements at prices based on a reasonable approximation of incremental cost or through mutual exchange of traffic without explicit payment.
- *Resale.* Requires all ILECs and CLECs to permit resale of their telecommunications services without unreasonable restrictions or conditions. In addition, ILECs are required to offer wholesale versions of all retail services to other telecommunications carriers for resale at discounted rates, based on the costs avoided by the ILEC in the wholesale offering.
- *Interconnection.* Requires all ILECs to permit interconnection at any technically feasible point within their networks, on nondiscriminatory terms and at prices based on cost (which may include a reasonable profit). At the option of the carrier seeking interconnection, colocation of the requesting carrier's equipment in an ILEC's premises must be offered, except where the ILEC can demonstrate space limitations or other technical impediments to colocation.
- *Unbundled Access.* Requires all ILECs to provide nondiscriminatory access to specified unbundled network elements (including certain network facilities, equipment, features, functions, and capabilities) at any technically feasible point within their networks, on nondiscriminatory terms and at prices based on cost (which may include a reasonable profit).
- *Number Portability.* Requires all ILECs and CLECs to permit, to the extent technically feasible, users of telecommunications

services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications carrier to another.

- *Dialing Parity.* Requires all ILECs and CLECs to provide "1+" equal access to competing providers of telephone exchange service and toll service, and to provide nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listing, with no unreasonable dialing delays.
- *Access to Rights-of-Way.* Requires all local exchange carriers (including ILECs and CLECs) or any other public utility that owns or controls poles, conduits, ducts, or rights of way used in whole or in part for wire communications, to permit competing carriers (and cable television

systems) access to poles, ducts, conduits and rights-of-way at regulated prices. CLEC rates for access to poles, ducts, conduits and rights-of-way, however, are not regulated.

Generally speaking, CLEC access to ILEC networks and utility poles are implemented through individual negotiations, which are governed by the Telecom Act and applicable FCC Rules. Under the Telecom Act, CLEC access to ILEC networks is heavily regulated and the rules governing that access have been contentious. Over the past several years, however, the United States Supreme Court has affirmed FCC jurisdiction over ILEC unbundling, certain specific unbundling requirements and the FCC's authority to set the mechanism which governs the rates ILECs may charge for interconnection and unbundling.

On August 21, 2003, the FCC issued new rules, in a proceeding known as the "UNE Triennial Review", governing ILEC obligations to provide unbundled network elements or UNEs to CLECs at cost-based rates. These rules were issued in response to a May 24, 2002 decision in which the United States Court of Appeals for the D.C. Circuit (or D.C. Circuit) overturned two earlier FCC decisions establishing ILEC unbundling obligations. The FCC's August 2003 order, also known as the "Triennial Review Order" or "TRO" eliminated some ILEC unbundling requirements, limited others, and delegated to state public utility commissions the task of determining whether ILECs must still unbundle specific network elements on a route-specific basis.

On March 2, 2004, the DC Circuit, in a case entitled *USTA v. FCC*, vacated much of the FCC's unbundling determinations contained in its August 21, 2003 TRO. The court specifically vacated the FCC's delegation of power to state public utility commissions for determining where competitive "impairment" existed such that ILECs should be required to provide CLECs access to UNEs. The court additionally vacated the FCC's interpretation of what constitutes "impairment", resulting in a determination that almost all of the FCC's rules requiring ILEC unbundling of loops, transport and other network elements are no longer valid. The court, however, stayed the effectiveness of this order for 60 days, presumably to give the FCC and parties time to seek reconsideration and a longer stay from the full appeals court, or a direct appeal and request for stay to the Supreme Court. If the full appeals court or Supreme Court does not grant a stay, ILECs may argue that most, if not all, of their UNE obligations are unenforceable starting in early May.

In addition to the significant regulatory uncertainty the DC Circuit's opinion in *USTA v. FCC* creates at the federal level, it also affects the state regulatory landscape. If the court's ruling is not stayed, it is likely that ILECs will trigger change of law provisions in existing CLEC interconnection agreements to replace unbundling commitments with new language reflecting the court's opinion.

To the limited extent that the Company relies upon unbundled network elements, therefore, the Company cannot at this time assess how the DC Circuit's opinion in *USTA v. FCC* will impact its business.

The 1996 Act also codifies the ILECs' equal access and nondiscrimination obligations and preempts inconsistent state regulation. The 1996 Act contains special provisions that modify previous court decrees that prevented RBOCs from providing long distance services and engaging in telecommunications equipment manufacturing. These provisions permit a RBOC to enter the long distance market in its traditional service area if it satisfies several procedural and substantive requirements, including obtaining FCC approval upon a showing that the RBOC has entered into interconnection agreements (or, under some circumstances, has offered to enter into such agreements) in those states in which it seeks long distance relief, the interconnection agreements satisfy a 14-point "checklist" of competitive requirements, and the FCC is satisfied that the RBOC's entry into long distance markets is in the public interest. As of January 1, 2004, Qwest, Verizon, BellSouth and SBC Communications had received authority to enter the long distance market in the in-region service territories.

In October 1996, the FCC adopted an order in which it eliminated the requirement that non-dominant carriers such as the Company maintain tariffs on file with the FCC for domestic interstate services. On February 13, 1997, the D.C. Circuit stayed implementation of the FCC order. On April 28, 2000, all litigation with respect to the FCC's order was resolved in favor of the FCC. As a result, a deadline of August 1, 2001, was established for non-dominant carriers, such as the Company, to eliminate tariffs for interstate end user services. In March 2001, the FCC also ordered that all non-dominant interexchange carriers detariff international interexchange services by January 28, 2002.

Pursuant to these orders, the Company cancelled its tariff for domestic interstate and international private line services effective July 31, 2001. The Company's state tariffs remain in place. While tariffs provided a means of providing notice of prices as well as terms and conditions for the provision of service, the Company has historically relied primarily on its sales force and marketing activities to provide information to its customers regarding these matters and expects to continue to do so. Further, in accordance with the FCC's orders the Company maintains a schedule of its rates, terms and conditions for its domestic and international private line services on its website at www.level3.com.

Beginning in June 1997, every RBOC advised CLECs that they did not consider calls in the same local calling area from their customers to CLEC customers, who are ISPs, to be local calls under the interconnection agreements between the RBOCs and the CLECs. The RBOCs claim that these calls are exchange access calls for which exchange access charges would be owed. The RBOCs claimed, however, that the FCC exempted these calls from access charges so that no compensation is owed to the CLECs for transporting and terminating such calls. As a result, the RBOCs threatened to withhold, and in many cases did withhold, reciprocal compensation for the transport and termination of such calls. To date, thirty-six state commissions have ruled on this issue in the context of state commission arbitration proceedings or enforcement proceedings. In thirty-three states, to date, the state commission has determined that reciprocal compensation is owed for such calls. Several of these cases are presently on appeal. Reviewing courts have upheld the state commissions in eleven decisions rendered to date on appeal. Decisions in the Third, Fourth, Fifth and Seventh U.S. Circuit Courts of Appeal have affirmed the reviewing courts and upheld state determinations that reciprocal compensation is owed for ISP bound traffic. On February 25, 1999, the FCC issued a Declaratory Ruling on the issue of inter-carrier compensation for calls bound to ISPs. The FCC ruled that the calls are largely jurisdictionally interstate calls, not local calls. The FCC, however, determined that this issue was not dispositive of whether inter-carrier compensation is owed.

The FCC noted a number of factors which would allow the state commissions to leave their decisions requiring the payment of compensation undisturbed. That decision was appealed to the D.C. Circuit which held on appeal that the FCC had failed to adequately support its conclusions under the requirements of the 1996 Act. On April 18, 2001, the FCC adopted a new order regarding intercarrier compensation for ISP-bound traffic. In that Order, the Commission set out to address the issues raised by the D.C. Circuit and established a new intercarrier compensation mechanism for ISP-bound traffic with declining rates over a three year period. In addition to establishing a new rate structure, the Commission capped through 2003 the amount of ISP bound traffic that would be "compensable" and prohibited payment for ISP-bound traffic to carriers entering new markets. The April 2001 order was appealed to the D.C. Circuit. On May 3, 2002, the Court of Appeals released its decision, finding that the FCC had failed to justify its reliance on Section 251(g) of the Communications Act in adopting its new intercarrier compensation regime. The court found that the FCC had not provided an adequate legal basis for its ruling, and therefore remanded the matter to the FCC for further explanation as to the legal theory supporting the FCC's rules. In the interim, the court let the FCC's rules stand on the ground that the FCC may likely have authority on other legal grounds to adopt those rules. It is unclear when the FCC will issue revised findings in response to the latest remand.

Prior to 2004, the Company entered into agreements providing for payment of compensation for terminating ISP-bound traffic with Verizon, in its former Bell Atlantic operating territory, with SBC

Corporation for the 13-state operating territory that includes its affiliates Pacific Bell, Southwestern Bell, Ameritech and Southern New England Telephone, and with BellSouth in its nine-state operating territory. The Company also entered into interconnection agreements with Qwest, Cincinnati Bell Telephone, and Sprint that reflect the intercarrier compensation rates adopted by the FCC in its most recent order. Given the general uncertainty surrounding the effect of these decisions, appeals, and the remand, the Company may have to change how it treats the compensation it receives for terminating calls bound for ISP-bound traffic if the agreements under which compensation is paid provides for the incorporation of changes in FCC rules and regulations.

On June 10, 2003, Verizon notified Level 3 of its intention to invoke the intercarrier compensation regime in the FCC's ISP Order on Remand with respect to traffic exchanged under the companies' interconnection agreements. The effect of this decision on the compensation each carrier receives from the other for terminating traffic is uncertain. In addition, the interconnection agreement between Level 3 and BellSouth expired on December 31, 2003. BellSouth has expressed its intention to invoke the FCC's ISP Order on Remand. The effect of this decision on the compensation each carrier receives from the other for terminating ISP-bound traffic is uncertain. In February 2004, the Company filed petitions for arbitration with BellSouth in nine states. In late 2003, Level 3 and SBC reached a separate agreement continuing payment for the exchange of ISP-bound traffic that could run through the end of 2004.

In December 1996, the FCC initiated a Notice of Inquiry regarding whether to impose regulations or surcharges upon providers of Internet access and information services (the Internet NOI). The Internet NOI sought public comment upon whether to impose or continue to forebear from regulation of Internet and other packet-switched network service providers. The Internet NOI specifically identifies Internet telephony as a subject for FCC consideration. On April 10, 1998, the FCC issued a Report to Congress on its implementation of the universal service provisions of the 1996 Act. In that Report, the FCC stated, among other things, that the provision of transmission capacity to ISPs constitutes the provision of telecommunications and is, therefore, subject to common carrier regulations. The FCC indicated that it would reexamine its policy of not requiring an ISP to contribute to the universal service mechanisms when the ISP provides its own transmission facilities and engages in data transport over those facilities in order to provide an information service. Any such contribution by a facilities based ISP would be related to the ISP's provision of the underlying telecommunications services. In the Report, the FCC also indicated that it would examine the question of whether certain forms of "phone-to-phone Internet Protocol telephony" are information services or telecommunications services. It noted that the FCC did not have an adequate record on which to make any definitive pronouncements on that issue at this time, but that the record the FCC had reviewed suggests that certain forms of phone-to-phone Internet Protocol telephony appear to have similar functionality to non-Internet Protocol

telecommunications services and lack the characteristics that would render them information services. If the FCC were to determine that certain Internet Protocol telephony services are subject to FCC regulations as telecommunications services, the FCC noted it may find it reasonable that the ISPs pay access charges and make universal service contributions similar to non-Internet Protocol based telecommunications service providers. The FCC also noted that other forms of Internet Protocol telephony appear to be information services.

Regulation of Voice over Internet Protocol (VoIP)

Federal and State

Due to the growing acceptance and deployment of VoIP services, the FCC and state public utility commissions are conducting regulatory proceedings that could affect the regulatory duties and rights of entities such as Level 3 or its affiliates that provide IP-based voice applications. There is regulatory uncertainty as to the imposition of access charges and other taxes, fees and surcharges on VoIP services that use the public switched telephone network. There is regulatory uncertainty as to the imposition of

traditional retail, common carrier regulation on VoIP products and services. The FCC has initiated a rulemaking proceeding to consider changes in FCC rules for IP-based voice services. The FCC has indicated that this rulemaking may address, among other things, 911 requirements, disability access requirements, access charges, and universal service requirements. The FCC has further indicated that it will begin a separate rulemaking proceeding to consider the obligations of IP-based voice services providers and network providers under the Communications Assistance to Law Enforcement Act, which establishes federal requirements for wiretapping and other electronic surveillance capabilities.

The FCC is also considering several petitions filed by individual companies concerning the regulatory rights and obligations of providers of IP-based voice services, and networks that handle IP-based voice traffic or that exchange that traffic with operators of Public Switched Telephone Network (PSTN) facilities. On December 23, 2003, the Company filed a forbearance petition with the FCC with respect to intercarrier compensation for certain types of IP-based voice communications. Specifically, the Company requested that the FCC forbear from enforcing provisions of the Communications Act that might otherwise result in the application of interstate and intrastate access charges to certain IP communications. The forbearance petition extends only to communications that either originate on the PSTN and terminate on an IP network, originate on an IP network and terminate on the PSTN, and certain traffic that originates and terminates on the PSTN that is incidental to an IP-PSTN service. The petition does not request forbearance with respect to IP-based voice communications that both originate and terminate on the PSTN, other than incidental traffic, or that originate and terminate on an IP network.

The FCC has sought public comment with respect to the Company's forbearance petition. Under the Communications Act, the FCC must make a decision on the petition within one year of the petition's filing (plus one 90-day extension available at the FCC's discretion) or the petition is deemed granted as a matter of law. The Company cannot predict the outcome of this proceeding, nor can it anticipate the manner in which the FCC's decision may affect the Company's operations or regulatory obligations.

Several other petitions are also pending. In response to one such petition filed by pulver.com, the FCC ruled that peer-to-peer IP-based voice applications between end users using IP for which a fee is not charged are not "telecommunications services" under the federal Communications Act, but are information services. On October 18, 2002, AT&T Corporation filed a petition with the FCC requesting a declaratory ruling that calls that originate and terminate on the PSTN, but which may be converted into IP during some part of the transmission, are exempt from access charges under existing FCC rules. The FCC has received public comment with respect to the AT&T petition, but it is unclear when the FCC will rule.

On September 22, 2003, Vonage Holdings Corporation or Vonage filed a petition with the FCC requesting a declaration that its offerings, which originate on a broadband network in IP format and terminate on the PSTN, or vice versa, are interstate information services not subject to state regulation under the federal Communications Act and existing FCC rules. The FCC has received public comment with respect to the Vonage petition, but it is unclear when the FCC will rule.

On February 5, 2004, SBC Communications Inc. filed two petitions with the FCC relating to IP communications. The first requests a declaratory ruling that all services offered on an IP platform are interstate information services, not telecommunications services, and that they are immune from state regulation as a result. The second requests that the FCC forbear from applying certain common carrier regulation to services offered on IP platforms. The FCC has sought public comment with respect to SBC's forbearance petition, and, under the Communications Act, the FCC must make a decision on the petition within one year of the petition's filing (with the possibility of a single 90-day extension available at the FCC's discretion). If the FCC does not act with respect to SBC's forbearance petition,

the petition is deemed granted as a matter of law. The FCC has not yet requested comment with respect to SBC's petition for declaratory ruling, and it is not clear when the FCC will rule.

The state public utility commissions are also conducting regulatory proceedings that could impact our rights and obligations with respect to IP-based voice applications. Previously, the Minnesota Public Utilities Commission or MPUC ruled that Vonage's DigitalVoice service was a telephone service under state law, and ordered Vonage to obtain state certification, file tariffs, and comply with 911 requirements before continuing to offer the service in the state. Vonage filed a request in the Federal District Court for the District of Minnesota to enjoin the MPUC's decision. On October 16, 2003, a federal judge granted Vonage's request for an injunction, concluding that Vonage provides an information service immune from state regulation and thereby barring the MPUC from enforcing its decision. The MPUC has appealed to the U.S. Court of Appeals for the Eighth Circuit. That appeal is pending.

The California Public Utilities Commission or CPUC, on February 11, 2004, initiated a rulemaking about the appropriate regulatory framework to govern Voice over Internet Protocol or VoIP. Among the issues the CPUC may consider is whether VoIP is subject to CPUC's regulatory authority, including whether VoIP providers should be required to contribute to state universal service programs, whether VoIP providers should be required to pay intrastate access charges, whether VoIP should be subject to basic consumer protection rules, and whether exempting VoIP providers from requirements applicable to traditional voice providers would create unfair competitive advantages for VoIP providers.

Proceedings and petitions relating to IP-based voice applications are also under consideration in a number of other states, including but not limited to Alabama, Kansas, New York, North Dakota, Ohio, Oregon, Pennsylvania, Virginia, Washington, and Wisconsin.

The Company cannot predict the outcome of any these petitions and regulatory proceedings or any similar petitions and regulatory proceedings pending before the FCC or state public utility commissions. Moreover, the Company cannot predict how their outcomes may affect the Company's operations or whether the FCC or state public utility commissions will impose additional requirements, regulations or charges upon the Company's provision of services related to IP communications.

The Communications Act requires that every telecommunications carrier contribute, on an equitable and non-discriminatory basis, to federal universal service mechanisms established by the FCC, and the FCC also requires providers of non-common carrier telecommunications to contribute to universal service, subject to some exclusions and limitations. At present, these contributions are calculated based on contributors' interstate and international revenue derived from U.S. domestic end users for telecommunications or telecommunications services, as those terms are defined under FCC regulations. The Company, pursuant to federal regulations, pays these contributions. The amount of the Company's contributions can vary based upon the total amount of federal universal service support being provided under the FCC's federal mechanisms and associated administrative expenses, the methodology used by the FCC to calculate each carrier's contributions, and, at present, the proportion of the Company's assessable interstate and international revenue derived from its domestic end users for telecommunications or telecommunications services to, for all contributors, the total amount of assessable interstate and international revenue derived from domestic end users for telecommunications or telecommunications services. The extent to which the Company's services are viewed as telecommunications/ telecommunications services or as information services will also affect the Company's contributions. On December 13, 2002, the FCC adopted a Report and Order modifying the current method of carrier contributions to the universal service fund. The revised revenue-based methodology will impose universal service contributions on the basis of projected, collected end-user interstate revenue, in lieu of the current system of basing contributions on historical, gross-billed revenue. This revised methodology is intended to operate as an interim solution only, subject to further revision following the comments in response to the Commission's Second Further Notice of Proposed

Rulemaking included in this Order. The FCC also increased the wireless safe harbor from 15% to 28.5% to address concerns that the current interim safe harbor for mobile wireless providers is inappropriate in light of changing market conditions. The interim changes adopted by the FCC will not have a material impact on the amount of the Company's contributions. In the Second Further Notice, the FCC seeks comment on how to further reform the manner in which the FCC assesses carrier contributions to the universal service fund. The Company is unable to predict the changes, if any, the FCC will adopt and the cumulative effect of any such changes on the Company's total universal service contribution payments.

Europe

Unlike the United States which has a fractured regulatory scheme with respect to VoIP services, the European Union has adopted a more systematic approach to the convergence of networks and VoIP regulation specifically. The European Commission will oversee the implementation by its member-states of six new directives developed to regulate electronic communications in a technology and platform-neutral manner. Implementation of the directives has not been uniform across the Member States and it is difficult to predict when they will be implemented at the national level. Even with harmonization, the national regulatory agencies will continue to be responsible for issuing general authorizations and specific licenses.

The European Union's approach to the regulation of VoIP turns on whether VoIP is voice telephony. The European Commission has defined voice telephony to have four elements: (1) commercial offering as voice telephony; (2) provision to the public; (3) provision to and from the public switched telephone network termination points; and (4) direct speech transport and switching of speech in real time, particularly at the same level of reliability and speech quality as provided by the PSTN. In its Communication from the Commission, Consultation on Voice on the Internet in June 2000, the commission directed that "Member States should continue to allow Internet access providers to offer voice over Internet protocol under data transmission general authorizations, and that specific licensing conditions are not justified."

The Commission has subsequently redefined its definitions to suggest that some VoIP offerings are voice telephony. In its December 2000 communication, the Commission noted that increasing quality and reliability as well as marketing of voice capabilities with bundled services, made certain kinds of "voice over Internet" much more like voice services. While the current Commission directives do not mandate the treatment of VoIP as voice telephony, the commission will continue to reevaluate the regulation of VoIP as service quality becomes the equivalent of traditional voice telephony.

In February 2003, the European Union adopted a new regulatory framework for electronic communications that is designed to address in a technologically neutral manner the convergence of communications across telecommunications, computer and broadcasting networks. The directives address: (1) framework (2) interconnection and access, (3) authorization and licensing, (4) universal service and (5) privacy. These directives and an additional decision on radio spectrum replace the existing 20 directives on electronic communications. Under the framework, voice telephony providers will face additional obligations, including specific licensing and universal service obligations. Others will likely face new regulation. One example could be VoIP. If it is classified as an electronic communications service, rather than voice telephony, it would still be subject to additional regulations to achieve regulatory parity with other electronic communications.

In 2004, Level 3 anticipates that it will begin to offer VoIP applications in the United Kingdom. The United Kingdom was one of the first countries to fully implement the European Union's new framework for electronic communications, which it did by July 25, 2003. At that time, certain provisions of the United Kingdom's Telecommunications Act of 1984 were repealed. Pursuant to that framework,

the licensing regime was replaced with a general authorization. Level 3's existing licenses were canceled and replaced with a general authorization.

Under the regime, the United Kingdom regulates VoIP as an electronic communication service. The degree of regulation imposed on the service depends upon whether the service is considered to be a Publicly Available Telephone Service (PATS). A service is considered to be a PATS if the following conditions are met: it is marketed as a substitute for the traditional telephone service; the service appears to the customer to be a substitute for the traditional public telephone service over which they expect access to emergency services; or the service provides the customers sole means of access to the traditional circuit switched public telephone network.

While the Ofcom, the United Kingdom regulator, has established technical standards and interconnection rights for VoIP service providers, it has recently opened a consultation to assess the appropriate allocation of phone numbers to VoIP providers. The Company cannot predict the result of this proceeding and how it will affect its ability to use phone numbers associated with its VoIP services.

As Level 3 expands the deployment of its VoIP applications in Europe, it will have to consider the appropriate regulatory requirements for each nation before deploying services.

State Regulation

The 1996 Act is intended to increase competition in the telecommunications industry, especially in the local exchange market. With respect to local services, ILECs are required to allow interconnection to their networks and to provide unbundled access to network facilities, as well as a number of other procompetitive measures. Because the implementation of the 1996 Act is subject to numerous state rulemaking proceedings on these issues, it is currently difficult to predict how quickly full competition for local services will be introduced.

State regulatory agencies have jurisdiction when Company facilities and services are used to provide intrastate telecommunications services. A portion of the Company's traffic may be classified as intrastate telecommunications and therefore subject to state regulation. The Company expects that it will offer more intrastate telecommunications services (including intrastate switched services) as its business and product lines expand. To provide intrastate services, the Company generally must obtain a certificate of public convenience and necessity from the state regulatory agency and comply with state requirements for telecommunications utilities, including state tariffing requirements. The Company currently is authorized to provide telecommunications services in all fifty states and the District of Columbia. In addition, the Company will be required to obtain and maintain interconnection agreements with ILECs where it wishes to provide service. The Company has approximately 150 interconnection agreements with limited terms. The Company expects that it should be able to negotiate or otherwise obtain renewals or successor agreements through adoption of others' contracts or arbitration proceedings, although the rates, terms, and conditions applicable to interconnection and the exchange of traffic with certain ILECs could change significantly in certain cases. The degree to which the rates, terms, and conditions may change will depend not only upon the negotiation and arbitration process and availability of other interconnection agreements, but will also depend in significant part upon state commission proceedings that either uphold or modify the current regimes governing interconnection and the exchange of certain kinds of traffic between carriers. In February of 2004, Level 3 filed arbitration petitions in respect to interconnection agreements with BellSouth in all 9 of the BellSouth states to both assert Level 3's rights and allow for continuing negotiations while the arbitration process proceeds. Interconnection agreement negotiations are continuing with Qwest, Verizon, SBC and others in an effort to avoid the necessity of pursuing arbitrations at the state level. Should such negotiations fail to result in interconnection agreements acceptable to Level 3, arbitration proceedings may need to be pursued against these carriers during the remainder of 2004.

States also often require prior approvals or notifications for certain transfers of assets, customers or ownership of certificated carriers and for issuances by certified carriers of equity or debt.

Local Regulation

The Company's networks will be subject to numerous local regulations such as building codes and licensing. Such regulations vary on a city-by-city, county-by-county and state-by-state basis. To install its own fiber optic transmission facilities, the Company will need to obtain rights-of-way over privately and publicly owned land. Rights-of-way that are not already secured may not be available to the Company on economically reasonable or advantageous terms.

Canadian Regulation

The Canadian Radio-television and Telecommunications Commission, or the CRTC, generally regulates long distance telecommunications services in Canada. Regulatory developments over the past several years have terminated the historic monopolies of the regional telephone companies, bringing significant competition to this industry for both domestic and international long distance services, but also lessening regulation of domestic long distance companies. Resellers, which, as well as facilities-based carriers, now have interconnection rights, but which are not obligated to file tariffs, may not only provide transborder services to the U.S. by reselling the services provided by the regional companies and other entities but also may resell the services of the former monopoly international carrier, Teleglobe Canada or Teleglobe, including offering international switched services provisioned over leased lines. Although the CRTC formerly restricted the practice of "switched hubbing" over leased lines through intermediate countries to or from a third country, the CRTC recently lifted this restriction. The Teleglobe monopoly on international services and undersea cable landing rights terminated as of October 1, 1998, although the provision of Canadian international transmission facilities-based services remains restricted to "Canadian carriers" with majority ownership by Canadians. Ownership of non-international transmission facilities are limited to Canadian carriers but the Company can own international undersea cables landing in Canada. The Company cannot, under current law, enter the Canadian market as a provider of transmission facilities-based domestic services. In February 2003, the Canadian House of Commons began holding hearings on whether to lift the foreign ownership restrictions that prohibit carriers like the Company from owning intra-Canadian transmission facilities. If the ownership restrictions are repealed, the Company anticipates that it will be able to expand its operations and service offerings in Canada. Recent CRTC rulings address issues such as the framework for international contribution charges payable to the local exchange carriers to offset some of the capital and operating costs of the provision of switched local access services of the incumbent regional telephone companies, in their capacity as ILECs, and the new entrant CLECs.

While competition is permitted in virtually all other Canadian telecommunications market segments, the Company believes that the regional companies continue to retain a substantial majority of the local and calling card markets. Beginning in May 1997, the CRTC released a number of decisions opening to competition the Canadian local telecommunications services market, which decisions were made applicable in the territories of all of the regional telephone companies except SaskTel (although Saskatchewan has subsequently allowed local service competition in that province). As a result, networks operated by CLECs may now be interconnected with the networks of the ILECs. Transmission facilities-based CLECs are subject to the same majority Canadian ownership "Canadian carrier" requirements as transmission facilities-based long distance carriers. CLECs have the same status as ILECs, but they do not have universal service or customer tariff-filing obligations. CLECs are subject to certain consumer protection safeguards and other CRTC regulatory oversight requirements. CLECs must file interconnection tariffs for services to interexchange service providers and wireless service providers. Certain ILEC services must be provided to CLECs on an unbundled basis and subject to mandatory pricing, including central office codes, subscriber listings, and local loops in small urban and rural areas. For a five-year period, certain other important CLEC services must be provided on an unbundled basis at mandated prices, notably unbundled local loops in large, urban areas. ILECs, which, unlike CLECs, remained fully regulated, will be subject to price cap regulation in respect of

their utility services for an initial four-year period beginning May 1, 1997, and these services must not be priced below cost. Interexchange contribution payments are now pooled and distributed among ILECs and CLECs according to a formula based on their respective proportions of residential lines, with no explicit contribution payable from local business exchange or directory revenue. CLECs must pay an annual telecommunications fee based on their proportion of total CLEC operating revenue. All bundled and unbundled local services (including residential lines and other bulk services) may now be resold, but ILECs need not provide these services to resellers at wholesale prices. Transmission facilities-based local and long distance carriers (but not resellers) are entitled to colocate equipment in ILEC central offices pursuant to terms and conditions of tariffs and intercarrier agreements. Certain local competition issues are still to be resolved. The CRTC has ruled that resellers cannot be classified as CLECs, and thus are not entitled to CLEC interconnection terms and conditions.

Information Services Business

Software Spectrum

In connection with the Company's belief that as communications price-performance improves, communications services are direct substitutes for existing modes of information distribution, during 2002, the Company completed the acquisition of CorpSoft, Inc., which

conducted its business under the name Corporate Software, a major distributor, marketer and reseller of business software. In addition, during 2002, the Company completed the acquisition of Software Spectrum, Inc., a global business-to-business software services provider. At December 31, 2002, CorpSoft, Inc. was merged with and into Software Spectrum, Inc., with Software Spectrum as the surviving entity.

The Company believes that companies will, over time, seek information technology operating efficiency by purchasing software functionality and data storage as commercial services procured over broadband networks such as Level 3's network. Level 3 believes that the combination of Level 3's network infrastructure, and Software Spectrum's expertise in software lifecycle management and marketing, as well as strong customer relationships, will position Level 3 to benefit as companies change the manner in which they buy and use software capability.

Through its Software Spectrum subsidiaries, collectively Software Spectrum, the Company is a global business-to-business software services provider with sales locations and operations located in North America, Europe and Asia/Pacific. Software Spectrum primarily sells software through volume licensing and maintenance or VLM agreements, or right-to-copy arrangements, and full-packaged software products. Software Spectrum has established supply arrangements with major software publishers, including Microsoft, IBM/Lotus, Adobe Systems, Symantec, Novell and McAfee. Software Spectrum markets software titles for all major operating systems such as Windows NT®, Windows® 2000, Windows® XP, Linux and Novell Netware®.

In 2003, Software Spectrum management, along with Level 3 management, completed their review of Software Spectrum's lines of business to determine how those lines of business assist with the Company's focus on delivery of communications and information services and reaching consolidated free cash flow breakeven. From this review, Software Spectrum and Level 3 management determined to exit the contact center business. In June 2003, Software Spectrum sold substantially all of the assets of its North American contact center business, and in October 2003, sold substantially all of the assets of its Irish contact center business. The proceeds from these sales were immaterial.

Software Spectrum's strategy is to achieve industry-leading adjusted OIBDA margins by building best-in-class operational capability and to leverage its global infrastructure to expand its product offerings and customer base while continuing to provide a high level of customer service. Software Spectrum controls its costs by centralizing its administrative and customer service operations while utilizing a geographically dispersed field sales force strategically located in major business markets worldwide. The majority of Software Spectrum's revenue are derived from sales to large organizations,

including Fortune 500® and Fortune Global 500® companies, as well as thousands of mid-sized customers from many industries.

The largest component of Software Spectrum's business is providing third-party software, licenses and related services to large organizations, including companies in the Fortune 500® and Fortune Global 500® rankings. Software Spectrum concentrates on building and expanding these relationships through personal sales contacts made throughout major global computing markets. Software Spectrum maintains a sales force which focuses on the software licensing and distribution needs of its larger customers and serves small to mid-sized customers through field-based telephone sales representatives located in major geographic markets. Through its strategically located, centralized operations centers in North America, Europe and Asia/Pacific, Software Spectrum supports the global marketing efforts of its sales force.

Software Spectrum's Internet Web site, www.softwarespectrum.com, includes an e-commerce business center, "My Account Center" or "Account Center", which helps customers meet their total procurement, asset management, reporting, standards management and order tracking needs. The Account Center also provides customers the option of obtaining their software electronically. In addition, Software Spectrum partners with its customers on e-procurement platform implementations with providers such as Ariba and Perfect Commerce. In conjunction with its electronic business-to-business Web tool, Software Spectrum maintains headquarters-based sales representatives to facilitate purchases and self-help services by Software Spectrum's customers over the Internet. See "Sales and Marketing."

Software Spectrum adapts its product-related services to specific customer requests, consults with customers on developing strategies to efficiently acquire and manage the customer's investment in distributed computing software and manages the accurate and timely delivery of products. Software Spectrum provides its customers with information, advice and assistance through its marketing, sales and technical staff on the wide range of software procurement choices available. For customers electing to standardize desktop software applications or otherwise take advantage of right-to-copy arrangements, Software Spectrum provides volume licensing and maintenance ("VLM") agreement services and support. Under VLM agreements, Software Spectrum acts as a designated service provider to sell software licensing rights that permit customers to make copies of a publisher's software program from a master disk and distribute this software within a customer's organization for a fee per copy made. Maintenance agreements entitle customers to updates and upgrades of covered products during the term of the Agreement, typically three years following the software purchase. By utilizing VLM agreements, customers are able to consolidate their worldwide purchases and acquire software under a single master agreement for a given publisher from a global supplier such as Software Spectrum. Increasingly, customers are electing to use enterprise-wide licensing agreements, which give the customer the right to use a particular suite of products offered by a publisher on all desktops across its enterprise. Software Spectrum's licensing consultants can assist customers in selecting the most advantageous form of licensing available based on specific needs or constraints. Among its other services, Software Spectrum offers on-site consultants for large corporations, who provide software selection assistance, software asset management and determination of price and availability of hard-to-find software products.

Software Spectrum serves an important role in the software industry by providing a service-oriented and cost-effective means for software

publishers to market, sell, distribute and provide support for their products. The services provided by Software Spectrum assist publishers by building product awareness, marketing products directly on behalf of publishers to businesses and other organizations, and providing additional technical support related to those software products. Software Spectrum is also instrumental in the selection, design and implementation of VLM programs for its customers. Software Spectrum believes that maintaining its relationships with major publishers is important to Software Spectrum's future growth and profitability. Software Spectrum will often coordinate product

introductions and marketing programs with publishers, which may involve joint regional product seminars and cross-selling of selected complementary products. By providing presales services and marketing support, Software Spectrum can obtain competitive discounts from many software publishers, avail itself of marketing funds provided by major publishers and work closely with publisher personnel on various marketing and selling matters such as the introduction of new products, programs and related service opportunities.

Software Spectrum continues to sell most software to its customers through VLM agreements, including enterprise-wide licensing arrangements. For the year ended December 31, 2003, sales through VLM agreements represented over 80% of software sales of Software Spectrum. Because individual software packages and documentation may not be provided to each user, and due to volume pricing incentives and lower distribution costs, customers utilizing VLM agreements can purchase licenses for software at a lower cost than by purchasing individual shrink-wrapped software packages. In general, Software Spectrum receives lower gross margins, as a percent of sales, on sales made through VLM agreements. Lower gross margins are partially offset by lower operating costs associated with such agreements.

Under VLM agreements, multinational customers can consolidate their worldwide volume software purchases under a single master agreement for a given publisher. Software Spectrum's ability to sell software globally through these programs is a key factor in its global expansion.

Software Spectrum's North American operations are based in Dallas, Texas, and Software Spectrum also maintains a product center located in Spokane, Washington. Software Spectrum's European operations are based in Munich, Germany, and Software Spectrum also maintains offices in Belgium, France, Italy, Spain, Sweden, Switzerland, The Netherlands, and the United Kingdom. Software Spectrum's Asia/Pacific headquarters is located in Sydney, Australia. Software Spectrum also has offices in Australia, New Zealand, Singapore and Hong Kong. In Japan, Software Spectrum operates through a joint venture named Uchida-Spectrum, Inc.

With centralized operations centers in North America, Europe and Asia/Pacific, Software Spectrum is able to serve the major computing technology markets around the world. Today, Software Spectrum provides software or fulfillment services to customers located in over 140 countries, invoices customers in many local currencies and provides consolidated worldwide reporting for its customers.

Product Services

Licensing, Procurement and Deployment Services. Software Spectrum's customers can purchase software applications in a number of different ways. VLM agreements, or right-to-copy agreements, allow a customer to either purchase a license for each user in a transaction-based process or track and periodically report its software copies, paying a license fee for each copy made. Software Spectrum sells, supports and services the various VLM arrangements currently utilized by software publishers. For customers, the overall cost of using one of these methods of acquiring software may be substantially less than purchasing shrink-wrapped, full-packaged software products.

Because each software publisher has chosen a different set of procedures for implementing VLM agreements, businesses are faced with a significant challenge to sort through all the alternatives and procedures to ensure that they are utilizing the appropriate agreements, complying with the publishers' licensing terms and properly reporting and paying for their software licenses. Certain publishers offer licensing programs that reduce the reporting burden of customers and Software Spectrum by requiring annual payments over a two- to three-year term, provided the customer agrees to standardize certain applications within its organization. In order to address the wide range of procurement choices available to its customers, Software Spectrum provides information, analysis, advice and assistance to its customers relating to their procurement decisions and negotiations through its team of licensing

consultants as well as by means of Software Spectrum's marketing and sales staff and through its publications. See "Publications" and "Sales and Marketing."

Increasingly, large corporate customers are electing to standardize desktop applications and coordinate their enterprise-wide computer management responsibilities. In response to this trend, publishers have developed enterprise-wide VLM agreements, which simplify the terms, conditions and administration of VLM arrangements and provide the customer with more predictable annual costs. Software Spectrum works closely with its customers to educate them regarding the options available under VLM agreements and has developed the systems needed to provide the global integration and reporting required under these programs.

New Microsoft enterprise-wide licensing arrangements are priced, billed and collected directly by Microsoft. Software Spectrum provides sales and support services related to these transactions, and earns a service fee directly from Microsoft for these activities.

Software Spectrum's sales representatives and licensing specialists are trained to provide customers with advice in the evaluation of the various VLM programs offered by publishers. In addition to Software Spectrum's extensive experience in dealing with VLM agreements, it has continued to invest in technology-based systems to support the special requirements necessary to service VLM agreements for its customers. Software Spectrum's client/server-based system provides individualized customer contract management data, assists customers in complying with VLM agreements and provides customers with necessary reporting mechanisms.

To help customers develop or improve their software management programs, Software Spectrum provides white papers and consulting advice to its customers to allow customers to effectively utilize the benefits associated with VLM programs. Software Spectrum provides its customers with a methodology for evaluating their individual software management process and analyzing issues in implementing the VLM programs offered by various publishers. The advice available from Software Spectrum is designed to assist the customer in implementing its software management plan, including internal distribution services, communicating with end-users, reporting and compliance under VLM agreements.

Most of Software Spectrum's products are ordered by the customer's procurement or information systems department and may be billed to another department of the end-user, which may be located at a different site than the procurement or information systems department. Software Spectrum provides customers, upon request, open-order status and purchase activity reports formatted to each customer's specifications. Software Spectrum has also enabled its customers to obtain this information directly from Software Spectrum's Web site. The majority of Software Spectrum's customers now determine the status of their orders via this Internet tool. Also, customers can submit orders or other data to Software Spectrum from their computer systems via Software Spectrum's electronic data interchange ("EDI") capabilities. EDI and online Web order placement improve order accuracy and reduce administrative costs for corporate customers and Software Spectrum.

The majority of customers who have elected to purchase software licenses through VLM agreements have also purchased software maintenance, which allows customers to receive new versions, upgrades or updates of software products released during the maintenance period in exchange for a specified annual fee, which may be paid in monthly, quarterly or annual installments. Upgrades and updates are revisions to previously-published software that improve or enhance certain features of the software and/or correct errors found in previous versions. Customers that have elected not to purchase maintenance agreements are still able to upgrade multiple units of specific products through Software Spectrum for a separate fee. Software Spectrum assists publishers and customers in tracking and renewing these agreements.

Electronic Software Distribution. Electronic software distribution ("ESD") supports the fast, convenient delivery of software products between businesses via electronic links such as the Internet.

Software Spectrum currently delivers a limited amount of software in this manner and intends to continue to participate in this method of distribution as demand for this service by large organizations emerges and as communication technology improvements enable this form of ESD to become more widely used.

E-procurement. Software Spectrum participates in the electronic procurement arena in two primary ways: through its online Account Center and through its Electronic Business-to-Business Partner Program or e-B2B Partner Program. Software Spectrum's online Account Center contains an Internet-based suite of tools that enable customers to manage their software procurement. For most of its larger customers, Software Spectrum creates customized electronic product catalogs containing product information and pricing. These catalogs are accessed through search engine functionality, which enables customers to quickly locate products they need. Customers are also able to determine the status of open orders and obtain certain real-time standard reports online. The Account Center also provides tools which allow customers to restrict purchasing only to pre-approved products or allow an administrator at a customer location to give users within that organization access to the Account Center, but restrict the level of their activity and the features and options available to them. These e-procurement tools help customers control costs and potentially eliminate the need for enterprise-wide e-procurement systems. Under the e-B2B Partner Program, Software Spectrum partners with e-procurement providers, such as Ariba and Perfect Commerce to support customers' implementations of the various e-procurement platforms in an effort to streamline procurement processes and improve operational efficiencies.

Publications. Software Spectrum's customer magazine, In Touch, provides new product information and case studies from existing customers who are implementing the latest products and technologies from the leading software publishers worldwide and offers the latest news and commentary on industry trends and Company sponsored seminars and other technology-related events.

Software Spectrum prepares and distributes an annual publication, which includes in-depth analysis of various product offerings, called the Licensing and Software Management Guide. This publication provides comprehensive information on the many facets of software licensing. The Licensing and Software Management Guide provides the purchasing requirements and qualification restrictions of the numerous VLM publisher programs. Issues such as concurrent licensing and copying software on home or laptop computers are identified. Because of the potential savings a corporation can realize by utilizing alternative procurement methods, customers have expressed a significant amount of interest in this publication, and it has been made available online.

Software Spectrum's web site contains company news and information designed to educate customers about Software Spectrum's areas of expertise, its products (including third-party reviews) and services, the publishers represented by Software Spectrum and the latest trends in the industry. Software Spectrum also provides information through various Company publications. A portion of the marketing funds provided to Software Spectrum by publishers is used to offset Software Spectrum's cost of producing these publications. Software Spectrum publishes newsletters, service and product brochures and product catalogs and also provides other timely information coincident with major product releases.

Sales and Marketing

Software Spectrum sells and markets its products and services to existing and potential customers through its account executives, customer service representatives and its marketing and support staff, as well as its Internet site. Software Spectrum organizes account management teams to serve and support each of its customers' needs. Generally, each team consists of one account executive, supported by technical, marketing, customer service and sales support personnel at Software Spectrum's operations centers, as well as Web-based self-service capabilities.

Software Spectrum assigns to account executives specific accounts and/or a specific territory, which generally includes major metropolitan areas in one or more countries, states or provinces. Account executives market the overall services and advantages of using Software Spectrum as the customer's preferred software and services supplier, and they concentrate on generating new customer relationships, maintaining and improving existing customer relationships and increasing the volume of software and services provided to corporate customers. For national and global accounts, several account executives may work with the customer in different parts of North America, Europe and Asia/Pacific, coordinated by a designated national or global account manager. The number of accounts handled by each account executive depends on the relative size of the accounts and the level of service required by each customer within the assigned territory.

Account executives work directly with senior and mid-level procurement managers, IT managers and computer support managers of existing and potential customers to identify the specific needs of each customer and to facilitate the purchase of software products and services by the customer's organization. Account executives maintain close contact with customers in order to provide them with timely communications and assistance with any special or strategic requests. Account executives are responsible for providing customers with useful and relevant product information to assist the customer in its selection of software available for the desired application, providing customers with information and guidance on software procurement options including VLM agreements, implementation and deployment of software under VLM agreements and planning product presentations and seminars by representatives of Software Spectrum and publishers.

Software Spectrum's account executives leverage its sales support personnel with expertise in VLM to work with its customers to provide advice and consultation on VLM programs and to produce detailed customer account analysis and reporting. Software Spectrum also assigns a team of customer service representatives to each product account, generally with each customer having a dedicated team member as its primary contact. Customer service representatives, who are based primarily at Software Spectrum's operations centers, handle all aspects of the day-to-day customer account servicing, including common presale questions, customer order placement, order status inquiries, requests for demonstration products for evaluation and searches for hard-to-find products. They also help customers perform many of these functions directly by guiding them through the variety of options available on Software Spectrum's Web site. This structure enables customer service representatives to develop close relationships with individuals within the customer's organization and to better serve them by being familiar with their account.

To solicit software business from small to mid-sized organizations, Software Spectrum utilizes field-based telephone sales representatives located in major geographic markets, as well as a network of business partners who provide technical services to such customers. While product price and delivery terms are key factors in small to mid-sized organizations, Software Spectrum also provides a broad range of VLM agreement support and services to this category of customers. Initial contact and sales are made typically through field engagement, telephone inquiries, business partner referrals or Web-based self-service offerings.

Software Spectrum has established relationships with many of the leading electronic procurement companies including Ariba and Perfect Commerce. These e-procurement companies serve a broad base of businesses in many markets and allow Software Spectrum to expand its customer base by opening new customer relationships with little added expense.

Support Systems

Software Spectrum has developed certain proprietary support systems that facilitate the delivery of products and services to its customers and has invested in technology-based systems to support the special requirements necessary to service VLM agreements for its customers. Software Spectrum's

customized web-based customer service system is written in Microsoft ASP.NET, provides individualized contract management data, assists customers in complying with the terms of their VLM agreements and provides customers with necessary reporting mechanisms. Using individualized data in this system, in conjunction with Software Spectrum's contract management database, Software Spectrum's representatives can guide a customer through the various purchasing options and assist in administering VLM agreements. The system also provides Software Spectrum's customer service representatives with a customer profile, account status, order status and product pricing and availability details.

Products and Distribution

The software products offered by Software Spectrum include all major business programs for the desktop and server environment including strategic product categories for security storage and Web infrastructure. For the year ended December 31, 2003, the top 10 software titles sold by Software Spectrum represented approximately 50% of Software Spectrum's net software sales.

In North America, Software Spectrum has outsourced substantially all of the fulfillment of shrink-wrapped software for its customers to Ingram Micro, Inc., a leading technology distributor. Under this arrangement, Ingram Micro provides distribution services for product purchased directly from Ingram Micro as well as for odd and hard to find product purchased elsewhere by Software Spectrum. The agreement with Ingram Micro extends through March 2004.

Outside of North America, Software Spectrum uses the services of distributors or publishers to ship shrink-wrapped products directly to its customers, usually the same day Software Spectrum receives the order. As of December 31, 2003, Software Spectrum did not have a significant order backlog.

Customers

In 2003, Software Spectrum handled approximately 5,500 active customer accounts. Software Spectrum's customer base includes corporations, government agencies, educational institutions, non-profit organizations and other business entities. Sales contracts with large customers for the procurement of products generally cover a one to three year period subject to the customers' rights to terminate the contract upon notice. These contracts usually include provisions regarding price, availability, payment terms and return policies. Standard payment terms with Software Spectrum's customers are net 30 days from the date of invoice or net 10 days in the case of summary periodic billings to customers. In 2003, no single customer represented more than 5% of Software Spectrum's revenue, and Software Spectrum's customer base included approximately 325 of the calendar year 2003 Fortune 500 companies and approximately 275 of the Fortune Global 500® companies. Software Spectrum does not believe that the loss of any single customer would have a material adverse effect on its revenue.

Vendors

Software Spectrum's software sales are derived from products purchased from publishers and distributors. The decision whether to buy products directly from publishers or through distributors is determined on a vendor-by-vendor basis based on publisher requirements, cost, availability, return privileges and demand for a particular product. For 2003, approximately 86% of Software Spectrum's product sales, based on revenue, represented products purchased from its ten largest publishers. For the year ended December 31, 2003, products from Microsoft and IBM/Lotus accounted for approximately 60% and 10% of net software revenue, respectively.

Software Spectrum has contractual relationships with all its major vendors covering price, payment terms and return privileges. These contracts are non-exclusive and are generally terminable by either

party without cause upon 30 to 60 days notice. Software Spectrum's contracts with its major vendors are generally for one or two-year terms, and the majority contain no provision for automatic renewal.

Publisher contracts generally permit Software Spectrum to submit adjustment reports for licensing and maintenance transactions within a certain time period after the transaction is reported. Such contracts do not typically require Software Spectrum to ensure end-user compliance with its publishers' licensing and copyright or patent right protection provisions. Certain of Software Spectrum's contracts with vendors provide for early payment discounts. Under the terms of its vendor contracts, Software Spectrum is not generally required to meet any minimum purchase or sales requirements, except to the extent that Software Spectrum's level of purchases or sales may affect the amount or availability of financial incentives, advertising allowances and marketing funds. The reduction in amount, discontinuance of, or Software Spectrum's inability to meet requirements established by vendors for achieving financial incentives, advertising allowances and marketing funds could have an adverse effect on Software Spectrum's business and financial results, and may have an adverse effect on Level 3's consolidated financial results.

Competition

The software market is intensely competitive. Software Spectrum faces competition from a wide variety of sources, including software and hardware resellers, manufacturers and large systems integrators. Current competitors from the reseller category include ASAP Software and Softwarehouse International. Software Spectrum believes that its global presence and capabilities, VLM expertise, services and systems that

support Software Spectrum's business, including Internet services, and knowledgeable, industry-experienced personnel serve to distinguish it from its competitors.

Competitors also include manufacturers and large systems integrators. These companies compete in the large and mid-size organization markets with marketing efforts. Such competitors include Dell Computer Corporation and Hewlett Packard Corporation, hardware manufacturers that also sell software, and systems integrators such as Compucom Systems, Inc. Many of these companies do have a global presence. Software Spectrum believes its VLM expertise and services, software-focused solutions, custom computing systems specifically designed to support Software Spectrum's business and knowledgeable industry-experienced personnel are differentiating factors in this group of competitors.

The manner in which software products are distributed and sold is continually changing and new methods of distribution may emerge or expand. Software publishers may intensify their efforts to sell their products directly to end-users, including current and potential customers of Software Spectrum, without utilizing services such as those provided by Software Spectrum. In the past, direct sales from software publishers to end-users have not been significant, although end-users have traditionally been able to purchase upgrades directly from publishers. From time to time, some publishers have instituted programs for the direct sale of large order quantities of software to major corporate accounts, and Software Spectrum anticipates that these types of transactions will continue to be used by various publishers in the future. Software Spectrum could be adversely affected if major software publishers successfully implement or expand programs for the direct sale of software through volume purchase agreements or other arrangements intended to exclude the resale channel. Software Spectrum believes that the total range of services it provides to its customers cannot be easily substituted by publishers, particularly because publishers do not offer the scope of services or product offerings required by most of Software Spectrum's customers. However, there can be no assurance that publishers will not increase their efforts to sell substantial quantities of software directly to end-users without engaging Software Spectrum to provide value-added services. In addition, the use of VLM agreements by organizations as a method to purchase software has become widely accepted. Should publishers permit others to sell VLM agreements, or should additional competitors develop the capabilities required to service and support large licensing programs, Software Spectrum's competitive advantage could be negatively impacted. If the resale channel's participation in VLM agreements is reduced or eliminated, or if other

methods of distribution of software become common, Software Spectrum's business and financial results could be materially adversely affected. Software Spectrum currently delivers a limited amount of software through electronic software distribution and intends to continue to participate in this method of software distribution as demand for this service by large organizations emerges and as communications technology improvements permit electronic software distribution to be made securely and efficiently. Software Spectrum's continuing investment in e-procurement reflects Software Spectrum's commitment to meeting the changing needs of its customers.

(i) Structure

Level 3 currently offers, through its subsidiary (i)Structure, LLC, computer operations outsourcing to customers located primarily in the United States.

(i)Structure is an information technology, or IT, infrastructure outsourcing company that provides managed computer infrastructure services across OS/390, iSeries™ and NT/UNIX® platforms in its data centers located in Omaha, Nebraska and Tempe, Arizona. The company enables businesses to outsource costly IT operations and benefit from secure, cost-effective, managed services that scale to meet changing needs.

Services

The computer outsourcing services offered by the Company include networking and computing services necessary for older mainframe-based systems and newer client/server-based systems. The Company provides its outsourcing services to clients that want to focus their resources on core businesses, rather than expend capital and incur overhead costs to operate their own computing environments. (i)Structure believes that it is able to utilize its expertise and experience, as well as operating efficiencies, to provide its outsourcing customers with levels of service equal to or better than those achievable by the customers themselves, while at the same time reducing the customers' cost for such services. This service is particularly useful for those customers moving from older computing platforms to more modern client/server platforms.

(i)Structure offers reengineering services that allow companies to convert older legacy software systems to modern networked computing systems, with a focus on reengineering software to enable older software application and data repositories to be accessed by web browsers over the Internet or over private or limited access Internet Protocol networks. (i)Structure also provides customers with a combination of workbench tools and methodologies that provide a complete strategy for converting mainframe-based application systems to client/server architecture.

(i)Structure management continues to review its existing lines of business to determine how those lines of business assist with its focus on delivery of information services and meeting its financial objectives. To the extent that certain lines of business are not considered to be compatible with the delivery of communications and information services or with obtaining financial objectives, (i)Structure may exit those lines of business.

Sales and Marketing

(i)Structure's outsourcing sales are relationship oriented. (i)Structure's selling and relationship management organization includes six Sales Directors and eight Account Managers. In addition, (i)Structure senior management teams are directly involved in new and existing customer relationships. Sales activities are focused on new sales in geographic territories, major accounts, sales to existing customers and channel sales. To support outsourcing sales, (i)Structure partners with companies that provide integration and application services. The marketing activities of the company include: collateral, web marketing, industry conferences and direct marketing programs.

Competition

The information technology infrastructure outsourcing market is highly competitive. There are few barriers to entry for new entrants with access to capital. Companies compete on reliability of their data centers, knowledge and competency of technical staff, quality of service and price. Large competitors have many resources available to them including longer operating history, name recognition, greater financial resources, large installed customer base and established industry relationships. These competitors may also be able to provide services outside of the data center, which can be used in pricing negotiations. (i)Structure prices competitively, but larger companies may be able to more effectively compete on price to obtain the potential customer's business.

At present, (i)Structure's competitors in the information technology infrastructure outsourcing market include:

- larger established computer outsourcing companies such as ACS, IBM Global Services, EDS, and Computer Sciences Corporation (CSC);
- midsize companies or divisions of larger companies such as Axiom, Infocrossing, Lockheed and SMS; and
- enterprises that maintain their computer processing environments in-house.

The Company's Other Businesses

The Company was incorporated as Peter Kiewit Sons', Inc. in Delaware in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. In subsequent years, the Company invested a portion of the cash flow generated by its construction activities in a variety of other businesses. The Company entered the coal mining business in 1943, the telecommunications business (consisting of MFS and, more recently, an investment in C-TEC Corporation and its successors RCN Corporation, Commonwealth Telephone Enterprises, Inc. and Cable Michigan, Inc.) in 1988, the information services business in 1990 and the alternative energy business, through an investment in MidAmerican Energy Holdings Company, in 1991. Level 3 also has made investments in several development-stage ventures.

In 1995, the Company distributed to the holders of Class D Stock all of its shares of MFS. In the seven years from 1988 to 1995, the Company invested approximately \$500 million in MFS; at the time of the distribution to stockholders in 1995, the Company's holdings in MFS had a market value of approximately \$1.75 billion. In December 1996, MFS was purchased by WorldCom in a transaction valued at \$14.3 billion. In December 1997, the Company's stockholders ratified the decision of the Board to effect the split-off separating the Construction Group. As a result of the split-off, which was completed on March 31, 1998, the Company no longer owns any interest in the Construction Group. In conjunction with the split-off, the Company changed its name to "Level 3 Communications, Inc.," and the Construction Group changed its name to "Peter Kiewit Sons', Inc."

In January 1998, the Company completed the sale to MidAmerican of its energy investments, consisting primarily of a 24% equity interest in MidAmerican. The Company received proceeds of approximately \$1.16 billion from this sale, and as a result recognized an after-tax gain of approximately \$324 million in 1998. In November 1998, Avalon Cable of Michigan, Inc. acquired all the outstanding stock of Cable Michigan. Level 3 received approximately \$129 million in cash for its interest in Cable Michigan and recognized a pre-tax gain of approximately \$90 million.

The Company's other businesses include its investment in the RCN Corporation ("RCN"), Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone"), coal mining, and certain other assets.

Commonwealth Telephone. Commonwealth Telephone is a Pennsylvania public utility providing local telephone service to a 19-county, 5,191 square mile service territory in Pennsylvania.

Commonwealth Telephone also provides network access and long distance services to IXCs. Commonwealth Telephone's business customer base is diverse in size as well as industry, with very little concentration. A subsidiary, Commonwealth Communications Inc. provides

telecommunications engineering and technical services to large corporate clients, hospitals and universities in the northeastern United States. Another subsidiary, Commonwealth Long Distance operates principally in Pennsylvania, providing switched services and resale of several types of services, using the networks of several long distance providers on a wholesale basis.

During 2002, the Company sold all of its shares of common stock of Commonwealth Telephone in two underwritten public offerings. The Company retained, however, approximately 1.0 million shares of Class B Common Stock of Commonwealth Telephone, which was converted into approximately 1.1 million shares of common stock during the third quarter 2003. In January 2004, the Company sold its remaining shares of common stock of Commonwealth Telephone in a private sale to an institutional investor. The Company received proceeds of approximately \$41 million from this sale.

RCN. RCN's primary business is delivering bundled communications services to residential customers over its broadband network, which is predominantly owned by RCN, including through joint ventures and majority owned subsidiaries. RCN is currently operating in Boston, including 18 surrounding communities, New York City, Philadelphia suburbs, Washington D.C., and certain suburbs, Chicago, San Francisco, and certain suburbs and certain communities in Los Angeles. RCN also serves the Lehigh Valley in Pennsylvania. As of December 31, 2003, the Company owned through indirect subsidiaries approximately 22% of the outstanding common stock of RCN.

Coal Mining

The Company is engaged in coal mining through its subsidiary, KCP, Inc. ("KCP"). KCP has a 50% interest in two mines, which are operated by a subsidiary of Peter Kiewit Sons', Inc. ("PKS"). Decker Coal Company ("Decker") is a joint venture with Western Minerals, Inc., a subsidiary of The RTZ Corporation PLC. Black Butte Coal Company ("Black Butte") is a joint venture with Bitter Creek Coal Company, a subsidiary of Anadarko Petroleum Corporation. The Decker mine is located in southeastern Montana and the Black Butte mine is in southwestern Wyoming. The coal mines use the surface mining method.

The coal produced from the KCP mines is sold primarily to electric utilities, which burn coal in order to produce steam to generate electricity. Approximately 96% of sales in 2003 were made under long-term contracts, and the remainder are made on the spot market. Approximately 59%, 62%, and 60% of KCP's revenue in 2003, 2002, and 2001, respectively, were derived from long-term contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). KCP also has other sales commitments, including those with Sierra Pacific, Idaho Power, Kennecott Utah Copper, Solvay Minerals, Pacific Power & Light and Minnesota Power, that provide for the delivery of approximately 14.5 million tons through 2009. The level of cash flows generated in recent periods by the Company's coal operations will not continue after the year 2000 because the delivery requirements under the Company's current long-term contracts decline significantly. Under a mine management agreement, KCP pays a subsidiary of PKS an annual fee equal to 30% of KCP's adjusted operating income. The fee for 2003 was \$5 million.

The coal industry is highly competitive. KCP competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than KCP, but also with alternative methods of generating electricity and alternative energy sources. In 2002, the most recent year for which information is available, KCP's production represented approximately 1% of total U.S. coal production. Demand for KCP's coal is affected by economic, political and regulatory factors. For example, recent "clean air" laws may stimulate demand for low sulfur coal. KCP's western coal reserves

generally have a low sulfur content (less than one percent) and are currently useful principally as fuel for coal-fired, steam-electric generating units.

KCP's sales of its western coal, like sales by other western coal producers, typically provide for delivery to customers at the mine. A significant portion of the customer's delivered cost of coal is attributable to transportation costs. Most of the coal sold from KCP's western mines is currently shipped by rail to utilities outside Montana and Wyoming. The Decker and Black Butte mines are each served by a single railroad. Many of their western coal competitors are served by two railroads and such competitors' customers often benefit from lower transportation costs because of competition between railroads for coal hauling business. Other western coal producers, particularly those in the Powder River Basin of Wyoming, have lower stripping ratios (that is, the amount of overburden that must be removed in proportion to the amount of minable coal) than the Black Butte and Decker mines, often resulting in lower comparative costs of production. As a result, KCP's production costs per ton of coal at the Black Butte and Decker mines can be as much as four and five times greater than production costs of certain competitors. KCP's production cost disadvantage has contributed to its agreement to amend its long-term contract with Commonwealth Edison Company to provide for delivery of coal from alternate source mines rather than from Black Butte. Because of these cost disadvantages, there is no assurance that KCP will be able to enter into additional long-term coal purchase contracts for Black Butte and Decker production. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

The Company is required to comply with various federal, state and local laws and regulations concerning protection of the environment. KCP's share of land reclamation expenses for the year ended December 31, 2003 was approximately \$4.5 million, excluding the prior period adjustment related to FASB 143 implementation. KCP's share of accrued estimated reclamation costs was \$88 million at December 31, 2003. The Company did not make significant capital expenditures for environmental compliance with respect to the coal business in 2003. The Company believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its

competitors in the mining industry are similarly affected by such laws. However, failure to comply with environmental protection and land restoration laws, or actual reclamation costs in excess of the Company's accruals, could have an adverse effect on the Company's business, results of operations, and financial condition.

Glossary of Terms

access	Telecommunications services that permit long distance carriers to use local exchange facilities to originate and/or terminate long distance service.
access charges	The fees paid by long distance carriers to LECs for originating and terminating long distance calls on the LECs' local networks.
backbone	A high-speed network that interconnects smaller, independent networks. It is the through-portion of a transmission network, as opposed to spurs which branch off the through-portions.
CAP	Competitive Access Provider. A company that provides its customers with an alternative to the local exchange company for local transport of private line and special access telecommunications services.
capacity	The information carrying ability of a telecommunications facility.
Carrier	A provider of communications transmission services by fiber, wire or radio.
Central Office	Telephone company facility where subscribers' lines are joined to switching equipment for connecting other subscribers to each other, locally and long distance.
CLEC	Competitive Local Exchange Carrier. A company that competes with LECs in the local services market.
co-carrier	A relationship between a CLEC and an ILEC that affords each company the same access to and right on the other's network and provides access and services on an equal basis.
common carrier	A government-defined group of private companies offering telecommunications services or facilities to the general public on a non-discriminatory basis.
conduit	A pipe, usually made of metal, ceramic or plastic, that protects buried cables.
DS-3	A data communications circuit capable of transmitting data at 45 Mbps.
dark fiber	Fiber optic strands that are not connected to transmission equipment.
dedicated lines	Telecommunications lines reserved for use by particular customers.
dialing parity	The ability of a competing local or toll service provider to provide telecommunications services in such a manner that customers have the ability to route automatically, without the use of any access code, their telecommunications to the service provider of the customers' designation.

equal access	The basis upon which customers of interexchange carriers are able to obtain access to their Primary Interexchange Carriers' (PIC) long distance telephone network by dialing "1", thus eliminating the need to dial additional digits and an authorization code to obtain such access.
facilities based carriers	Carriers that own and operate their own network and equipment.
fiber optics	A technology in which light is used to transport information from one point to another.

	Fiber optic cables are thin filaments of glass through which light beams are transmitted over long distances carrying enormous amounts of data. Modulating light on thin strands of glass produces major benefits including high bandwidth, relatively low cost, low power consumption, small space needs and total insensitivity to electromagnetic interference.
Gbps	Gigabits per second. A transmission rate. One gigabit equals 1.024 billion bits of information.
ILEC	Incumbent Local Exchange Carrier. A company historically providing local telephone service. Often refers to one of the Regional Bell Operating Companies (RBOCs). Often referred to as "LEC" (Local Exchange Carrier).
Interconnection	Interconnection of facilities between or among the networks of carriers, including potential physical colocation of one carrier's equipment in the other carrier's premises to facilitate such interconnection.
InterLATA	Telecommunications services originating in a LATA and terminating outside of that LATA.
Internet	A global collection of interconnected computer networks which use a specific communications protocol.
IntraLATA	Telecommunications services originating and terminating in the same LATA.
ISDN	Integrated Services Digital Network. An information transfer standard for transmitting digital voice and data over telephone lines at speeds up to 128 Kbps.
ISPs	Internet Service Providers. Companies formed to provide access to the Internet to consumers and business customers via local networks.
IXC	Interexchange Carrier. A telecommunications company that provides telecommunications services between local exchanges on an interstate or intrastate basis.
Kbps	Kilobits per second. A transmission rate. One kilobit equals 1,024 bits of information.

LATA	Local Access and Transport Area. A geographic area composed of contiguous local exchanges, usually but not always within a single state. There are approximately 200 LATAs in the United States.
leased line	An amount of telecommunications capacity dedicated to a particular customer along predetermined routes.
LEC	Local Exchange Carrier. A telecommunications company that provides telecommunications services in a geographic area. LECs include both ILECs and CLECs.
local exchange	A geographic area determined by the appropriate state regulatory authority in which calls generally are transmitted without toll charges to the calling or called party.
local loop	A circuit that connects an end user to the LEC central office within a LATA.
long distance carriers	Long distance carriers provide services between local exchanges on an interstate or intrastate basis. A long distance carrier may offer services over its own or another carrier's facilities.
Mbps	Megabits per second. A transmission rate. One megabit equals 1.024 million bits of information.
MPLS	MultiProtocol Label Switching. A standards-approved technology for speeding up network traffic flow and making it easier to manage. MPLS involves setting up a specific path for a given sequence of packets, identified by a label put in each packet,

	thus saving the time needed for a router or switch to look up the address to the next node to forward the packet to.
multiplexing	An electronic or optical process that combines a large number of lower speed transmission lines into one high speed line by splitting the total available bandwidth into narrower bands (frequency division), or by allotting a common channel to several different transmitting devices, one at a time in sequence (time division).
NAP	Network Access Point. A location at which ISPs exchange traffic with each other.
OC-3	A data communications circuit capable of transmitting data at 155 Mbps.
OC-12	A data communications circuit capable of transmitting data at 622 Mbps.
OC-48	A data communications circuit capable of transmitting data at approximately 2.45 Gbps.

peering	The commercial practice under which ISPs exchange traffic with each other. Although ISPs are free to make a private commercial arrangement, there are generally two types of peering. With a settlement free peering arrangement the ISPs do not need to pay each other for the exchange of traffic. With paid peering, the larger ISP receives payment from the smaller ISP to carry the traffic of that smaller ISP. Peering occurs at both public and private exchange points.
POP	Point of Presence. Telecommunications facility where a communications provider locates network equipment used to connect customers to its network backbone.
private line	A dedicated telecommunications connection between end user locations.
PSTN	Public Switched Telephone Network. That portion of a local exchange company's network available to all users generally on a shared basis (i.e., not dedicated to a particular user). Traffic along the public switched network is generally switched at the local exchange company's central offices.
RBOCs	Regional Bell Operating Companies. Originally, the seven local telephone companies (formerly part of AT&T) established as a result of the AT&T Divestiture. Currently consists of four local telephone companies as a result of the mergers of Bell Atlantic with NYNEX and SBC with Pacific Telesis and Ameritech.
reciprocal compensation	The compensation of a CLEC for termination of a local call by the ILEC on the CLEC's network, which is the same as the compensation that the CLEC pays the ILEC for termination of local calls on the ILEC's network.
resale	Resale by a provider of telecommunications services (such as a LEC) of such services to other providers or carriers on a wholesale or a retail basis.
router	Equipment placed between networks that relays data to those networks based upon a destination address contained in the data packets being routed.
SONET	Synchronous Optical Network. An electronics and network architecture for variable bandwidth products which enables transmission of voice, data and video (multimedia) at very high speeds. SONET ring architecture provides for virtually instantaneous restoration of service in the event of a fiber cut or equipment failure by automatically rerouting traffic in the opposite direction around the ring.

special access services	The lease of private, dedicated telecommunications lines or "circuits" along the network of a local exchange company or a CAP, which lines or circuits run to or from
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	the long distance carrier POPs. Examples of special access services are telecommunications lines running between POPs of a single long distance carrier, from one long distance carrier POP to the POP of another long distance carrier or from an end user to a long distance carrier POP.
switch	A device that selects the paths or circuits to be used for transmission of information and establishes a connection. Switching is the process of interconnecting circuits to form a transmission path between users and it also captures information for billing purposes.
Tbps	Terabits per second. A transmission rate. One terabit equals 1.024 trillion bits of information.
T-1	A data communications circuit capable of transmitting data at 1.544 Mbps.
unbundled	Services, programs, software and training sold separately from the hardware.
unbundled access	Access to unbundled elements of a telecommunications services provider's network including network facilities, equipment, features, functions and capabilities, at any technically feasible point within such network.
web site	A server connected to the Internet from which Internet users can obtain information.
wireless	A communications system that operates without wires. Cellular service is an example.
world wide web or web	A collection of computer systems supporting a communications protocol that permits multimedia presentation of information over the Internet.
xDSL	A term referring to a variety of new Digital Subscriber Line technologies. Some of these new varieties are asymmetric with different data rates in the downstream and upstream directions. Others are symmetric. Downstream speeds range from 384 Kbps (or "SDSL") to 1.5 to 8 Mbps ("ADSL").

Directors and Executive Officers

Set forth below is information as of March 10, 2004, about each director and each executive officer of the Company. The executive officers of the Company have been determined in accordance with the rules of the SEC.

Name	Age	Position
Walter Scott, Jr.(1)	72	Chairman of the Board
James Q. Crowe(1)	54	Chief Executive Officer and Director
Kevin J. O'Hara	43	President and Chief Operating Officer
Charles C. Miller, III	51	Vice Chairman of the Board and Executive Vice President
Sunit S. Patel	42	Group Vice President and Chief Financial Officer
Thomas C. Stortz	52	Executive Vice President, Chief Legal Officer and Secretary
Sureel A. Choksi	31	Executive Vice President of Level 3 Communications, LLC
Keith R. Coogan	51	Chief Executive Officer of Software Spectrum
Mogens C. Bay(3)(4)	55	Director
Richard R. Jaros(2)(3)	52	Director
Robert E. Julian(2)	64	Director
David C. McCourt	47	Director
Arun Netravali(3)	57	Director
John T. Reed(2)(4)	60	Director
Colin V.K. Williams	64	Director
Michael B. Yanney(1)(3)(4)	70	Director

- (1) Member of Executive Committee
(2) Member of Audit Committee

- (3) Member of Compensation Committee
- (4) Member of Nominating and Governance Committee

Other Management

Set forth below is information as of March 10, 2004, about the following members of senior management of Level 3 Communications, LLC, except as otherwise noted.

Name	Age	Position
Linda J. Adams	47	Group Vice President
Donald H. Gips	44	Group Vice President
John Neil Hobbs	44	Group Vice President
Joseph M. Howell, III	57	Group Vice President
Michael D. Jones	46	Chief Executive Officer of (i) Structure
Brady Rafuse	40	Group Vice President
Scott Schaefer	45	Group Vice President
Frank Mambuca	40	Group Vice President
Charles Meyers	38	Group Vice President
John F. Waters, Jr.	38	Executive Vice President, Chief Technology Officer

Walter Scott, Jr. has been the Chairman of the Board of the Company since September 1979, and a director of the Company since April 1964. Mr. Scott has been Chairman Emeritus of Peter Kiewit

Sons', Inc. ("PKS") since the split-off. Mr. Scott is also a director of PKS, Berkshire Hathaway Inc., Burlington Resources Inc., MidAmerican, ConAgra Foods, Inc., Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN") and Valmont Industries, Inc. Mr. Scott is also the Chairman of the Executive Committee of the Board of Directors.

James Q. Crowe has been the Chief Executive Officer of the Company since August 1997, and a director of the Company since June 1993. Mr. Crowe was also President of the Company until February 2000. Mr. Crowe was President and Chief Executive Officer of MFS Communications Company, Inc. ("MFS") from June 1993 to June 1997. Mr. Crowe also served as Chairman of the Board of WorldCom from January 1997 until July 1997, and as Chairman of the Board of MFS from 1992 through 1996. Mr. Crowe is presently a director of Commonwealth Telephone and RCN.

Kevin J. O'Hara has been President of the Company since July 2000 and Chief Operating Officer of the Company since March 1998. Mr. O'Hara was also Executive Vice President of the Company from August 1997 until July 2000. Prior to that, Mr. O'Hara served as President and Chief Executive Officer of MFS Global Network Services, Inc. from 1995 to 1997, and as Senior Vice President of MFS and President of MFS Development, Inc. from October 1992 to August 1995. From 1990 to 1992, he was a Vice President of MFS Telecom, Inc. ("MFS Telecom").

Charles C. Miller, III has been Vice Chairman of the Board (and a director) and Executive Vice President of the Company since February 15, 2001. Prior to that, Mr. Miller was President of Bellsouth International, a subsidiary of Bellsouth Corporation from 1995 until December 2000. Prior to that, Mr. Miller held various senior level officer and management position at BellSouth from 1987.

Sunit S. Patel has been Chief Financial Officer since May 2003 and a Group Vice President of the Company since March 13, 2003. Prior to that, Mr. Patel was Chief Financial Officer of Looking Glass Networks, Inc., a provider of metropolitan fiber optic networks, from April 2000 until March 2003. Mr. Patel was Treasurer of WorldCom Inc. and MCIWorldcom Inc., each long distance telephone services providers from 1997 to March 2000. From 1994 to 1997, Mr. Patel was Treasurer of MFS Communications Company Inc., a competitive local exchange carrier.

Thomas C. Stortz has been Executive Vice President, Chief Legal Officer and Secretary since February 2004. Prior to that, Mr. Stortz was Group Vice President, General Counsel and Secretary of the Company from February 2000 to February 2004. Prior to that, Mr. Stortz served as Senior Vice President, General Counsel and Secretary of the Company from September 1998 to February 1, 2000. Prior to that, he served as Vice President and General Counsel of Peter Kiewit Sons', Inc. and Kiewit Construction Group, Inc. from April 1991 to September 1998. He has served as a director of Peter Kiewit Sons', Inc., RCN, C-TEC, Kiewit Diversified Group Inc. and CCL Industries, Inc.

Sureel A. Choksi has been Executive Vice President Softswitch Services since January 2004. Prior to that, Mr. Choksi was Group Vice President Transport and Infrastructure from May 2003 until January 2004. Mr. Choksi was a Group Vice President and Chief Financial Officer of the Company from July 2000 to May 2003. Prior to that, Mr. Choksi was Group Vice President Corporate Development and Treasurer of the Company from February 2000 until August 2000. Prior to that, Mr. Choksi served as Vice President and Treasurer of the Company from

January 1999 to February 1, 2000. Prior to that, Mr. Choksi was a Director of Finance at the Company from 1997 to 1998, an Associate at TeleSoft Management, LLC in 1997 and an Analyst at Gleacher & Company from 1995 to 1997.

Keith R. Coogan has been Chief Executive Officer of Software Spectrum since September 2002 and was named President in May 1998. Mr. Coogan has been Chief Operating Officer of Software Spectrum since April 1996. Mr. Coogan served as Executive Vice President of Software Spectrum from April 1996 to May 1998 and had been a Vice President of Software Spectrum since October 1990. From May 1989 until joining Software Spectrum, Mr. Coogan served as Vice President of Finance for

Leather Center Holdings, Inc., a privately held manufacturer and retailer of leather furniture. Mr. Coogan is a Certified Public Accountant.

Mogens C. Bay has been a director of the Company since November 2000. Since January 1997, Mr. Bay has been the Chairman and Chief Executive Officer of Valmont Industries, Inc., a company engaged in the infrastructure and irrigation businesses. Prior to that, Mr. Bay was President and Chief Executive Officer of Valmont Industries from August 1993 to December 1996 as well as a director of Valmont since October 1993. Mr. Bay is also a director of PKS and ConAgra Foods, Inc.

Richard R. Jaros has been a director of the Company since June 1993 and served as President of the Company from 1996 to 1997. Mr. Jaros served as Executive Vice President of the Company from 1993 to 1996 and Chief Financial Officer of the Company from 1995 to 1996. He also served as President and Chief Operating Officer of CalEnergy from 1992 to 1993, and is presently a director of MidAmerican, Commonwealth Telephone and RCN.

Robert E. Julian has been a director of the Company since March 1998. From 1992 to 1995 Mr. Julian served as Executive Vice President and Chief Financial Officer of the Company. Mr. Julian is the Chairman of the Audit Committee of the Board of Directors.

David C. McCourt has been a director of the Company since March 1998. Mr. McCourt has also served as Chairman of Commonwealth Telephone and RCN since October 1997. In addition, Mr. McCourt has been the Chief Executive Officer of RCN since 1997 and Chief Executive Officer of Commonwealth Telephone from October 1997 until November 1998.

Arun Netravali has been a director of the Company since April 2003. Prior to that, Mr. Netravali was Chief Scientist for Lucent Technologies, working with academic and investment communities to identify and implement important new networking technologies from January 2002 to April 2003. Prior to that position, Mr. Netravali was President of Bell Labs as well as Lucent's Chief Technology Officer and Chief Network Architect from June 1999 to January 2002. Bell Labs serves as the research and development organization for Lucent Technologies.

John T. Reed has been a director of the Company since March 2003. Mr. Reed has been Chairman of HMG Properties, the real estate investment banking joint venture of McCarthy Group, Inc. since 2000. Prior to that, he was Chairman of McCarthy & Co., the investment banking affiliate of McCarthy Group. Mr. Reed is also a director of McCarthy Group. Prior to joining McCarthy Group in 1997, Mr. Reed spent 32 years with Arthur Andersen, LLP. Mr. Reed is the Chairman of the Nominating and Governance Committee of the Board of Directors.

Colin V.K. Williams has been a director of the Company since August 2000. From July 1998 until December 31, 2000, Mr. Williams was Executive Vice President of the Company and President of Level 3 International, Inc. Prior to joining the company, Mr. Williams was Chairman of WorldCom International, Inc., where he was responsible for the international communications business and the development and operation of WorldCom's fiber networks overseas. In 1993 Mr. Williams initiated and built the international operations of MFS. Prior to joining MFS, Mr. Williams was Corporate Director, Business Development at British Telecom from 1988 until 1992. Mr. Williams is a director of Focal Communications Corporation and KeyTech Limited.

Michael B. Yanney has been a director of the Company since March 1998. He has served as Chairman of the Board, President and Chief Executive Officer of America First Companies L.L.C. for more than the last five years. Mr. Yanney is also a director of Burlington Northern Santa Fe Corporation and RCN. Mr. Yanney is the Chairman of the Compensation Committee of the Board of Directors.

Linda J. Adams has been Group Vice President Human Resources since February 2000. Prior to that, Ms. Adams was Vice President, Human Resources of the Company from November 1998 to

February 2000. Prior to that, Ms. Adams was initially Vice President of Human Resources Rent-A-Center, a subsidiary of Thorn Americas, Inc., and then Senior Vice President of Human Resources for Thorn Americas, Inc. from August 1995 until August 1998. Prior to that, Ms. Adams was Vice President of Worldwide Compensation & Benefits for PepsiCo, Inc. from August 1994 to August 1995.

Donald H. Gips has been Group Vice President Corporate Strategy since January 2001. Prior to that, Mr. Gips was Group Vice President, Sales and Marketing of the Company from February 2000. Prior to that, Mr. Gips served as Senior Vice President, Corporate Development from November 1998 to February 2000. Prior to that, Mr. Gips served in the White House as Chief Domestic Policy Advisor to Vice President Gore from April 1997 to April 1998. Before working at the White House, Mr. Gips was at the Federal Communications Commission as the International Bureau Chief and Director of Strategic Policy from January 1994 to April 1997. Prior to his government service, Mr. Gips was a management consultant at McKinsey and Company.

John Neil Hobbs has been Group Vice President Global Sales since September 2000. Prior to that, Mr. Hobbs was President, Global Accounts for Concert, a joint venture between AT&T and British Telecom from July 1999 until September 2000. Prior to that, Mr. Hobbs was Director Transition and Implementation for the formation of Concert representing British Telecom from June 1998 until July 1999. From April 1997 until June 1998, Mr. Hobbs was British Telecom's General Manager for Global Sales & Service and from April 1994 until April 1997, Mr. Hobbs was British Telecom's General Manager for Corporate Clients.

Joseph M. Howell, III has been Group Vice President Corporate Marketing since February 2000. Prior to that, Mr. Howell served as Senior Vice President, Corporate Marketing from October 1997 to February 1, 2000. Prior to that, Mr. Howell was a Senior Vice President of MFS/WorldCom from 1993 to 1997.

Michael D. Jones has served Chief Executive Officer of (i)Structure, LLC since August 2000. Prior to that, Mr. Jones served as Group Vice President and Chief Information Officer of the Company from February 2000 to August 2000 and as Senior Vice President and Chief Information Officer of the Company from December 1998 to February 1, 2000. Prior to that, Mr. Jones was Vice President and Chief Information Officer of Corporate Express, Inc. from May 1994 to May 1998.

Charles Meyers has been Group Vice President of Marketing since December 2003. Prior to that, Mr. Meyers was Group Vice President IP and Data Services from Data Services from June 2003 to December 2003 and Senior Vice President Global Softswitch Services from August 2001 to June 2003. Prior to that, Mr. Meyers was a partner with Kinetic Ventures, an Atlanta-based venture capital firm from March 2000 to May 2001 and a Vice President at Internet Security Systems, a software company in Atlanta from January 1998 to February 2000.

Frank Mambuca has been Group Vice President, Global Operations since April 2003 and acting Group Vice President of Global Processes and Systems since March 2004. Prior to that, Mr. Mambuca was Senior Vice President Global Field Services from January 2001 until April 2003. Mr. Mambuca was also Vice President of North American Field Services from March 1999 until December 2000 and Vice President of Eastern Field Operations from March 1998 until March 1999.

Brady Rafuse has been Group Vice President and President of the Company's European operations since August 2001 and Senior Vice President of European Sales and Marketing since December 2000. Prior to that, Mr. Rafuse served as Head of Commercial Operations for Concert, a joint venture between AT&T and British Telecom, from September 1999 to December 2000, and in a variety of positions with British Telecom from 1987 until December 2000. His last position was as General Manager, Global Energy Sector which he held from August 1998 to September 1999 and prior to that he was Deputy General Manager, Banking Sector from April 1997 to August 1998.

Scott Schaefer has been Group Vice President IP and Data Services since November 2003. Prior to that, Mr. Schaefer was Group Vice President responsible for metropolitan access from June 2003 to November 2003. From August 2002 until May 2003, Mr. Schaefer was an Executive Affiliate at Ryan Hankin Kent, providing strategic consulting services to large and small enterprises in the telecommunications industry. Prior to that, Mr. Schaefer was President and Chief Executive Officer of QuantumShift, a non-facilities based communications service provider to medium to large enterprises from February 2000 to May 2002. Mr. Schaefer was also Vice President of BellSouth Corporation, responsible for corporate strategy, network planning, marketing, human resources and operational support for its subsidiary, BellSouth International from November 1999 to February 2000.

John F. Waters, Jr. has been Executive Vice President, Chief Technology Officer since January 2004. Prior to that, Mr. Waters was Group Vice President and Chief Technology Officer of the Company from February 2000 to January 2004. Prior to that, Mr. Waters was Vice President, Engineering of the Company from November 1997 until February 1, 2000. Prior to that, Mr. Waters was an executive staff member of MCI Communications from 1994 to November 1997.

The Board is divided into three classes, designated Class I, Class II and Class III, each class consisting, as nearly as may be possible, of one-third of the total number of directors constituting the Board. As of December 31, 2003, the Class I Directors consist of Walter Scott, Jr., James Q. Crowe, Charles C. Miller, III and Colin V.K. Williams; the Class II Directors consist of Mogens C. Bay, Richard R. Jaros, Robert E. Julian and David C. McCourt; and the Class III Directors consist of Arun Netravali, John T. Reed and Michael B. Yanney. The term of the Class I Directors will terminate on the date of the 2004 annual meeting of stockholders; the term of the Class II Directors will terminate on the date of the 2005 annual meeting of stockholders; and the term of the Class III Directors will terminate on the date of the 2006 annual meeting of stockholders. At each annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting will be elected for three-year terms. The Company's officers are elected annually to serve until each successor is elected and qualified or until his death, resignation or removal. Two directors that are members of Class I, Charles C. Miller, III, currently Vice Chairman of the Board and Executive Vice President of the Company and Colin V.K. Williams, have informed the Company that each of them intends not to seek reelection to the Board after the

expiration of their current term of office at the 2004 Annual Meeting of Stockholders.

Level 3 believes that the members of the Audit committee are independent within the meaning of the listing standards of The Nasdaq Stock Market. The Board has determined that Mr. Robert E. Julian, Chairman of the Audit Committee, qualifies as a "financial expert" as defined by the Securities and Exchange Commission. The Board considered Mr. Julian's credentials and financial background and found that he was qualified to serve as the "financial expert."

Code of Ethics

Level 3 has adopted a code of ethics that complies with the standards mandated by the Sarbanes-Oxley Act of 2002. The complete code of ethics is available on the Company's website at www.level3.com. At any time that the code of ethics is not available on the Company's website, the Company will provide a copy upon written request made to Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Blvd., Broomfield, Colorado 80021. Any information that is included in the Level 3 website is not part of this report. If Level 3 amends the code of ethics, or grants any waiver from a provision of the code of ethics that applies to the Company's executive officers or directors, Level 3 will publicly disclose such amendment or waiver as required by applicable law, including by posting such amendment or waiver on its website at www.level3.com or by filing a Current Report on Form 8-K.

SEC Filings

The Company's annual reports on Form 10-K, along with all other reports and amendments filed with or furnished to the Securities and Exchange Commission are publicly available free of charge on the investor relations section of the Company's website as soon as reasonably practicable after the Company files such materials with, or furnishes them to, the Securities and Exchange Commission. The information on the Company's website is not part of this or any other report the Company files with, or furnishes to, the Securities and Exchange Commission.

Section 16(a)—Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors and greater-than 10% stockholders to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to Level 3 during 2003, Level 3 believes that all Section 16(a) filing requirements applicable to our executive officers, directors and greater-than-10% stockholders were fulfilled during 2003 in a timely manner. No Forms 5 were required to be filed with respect to fiscal year 2003.

Employees

As of December 31, 2003, Level 3 had approximately 3,275 employees in the communications portion of its business and information services had approximately 1,375 employees, for a total of approximately 4,650 employees. The Company believes that its success depends in large part on its ability to attract and retain substantial numbers of qualified employees.

Forward Looking Statements

The Company, or its representatives, from time to time may make or may have made certain forward-looking statements, whether orally or in writing, including without limitation statements made or to be made in this Annual Report on Form 10-K, the Company's Quarterly Reports on Form 10-Q, information contained in other filings with the Securities and Exchange Commission, press releases and other public documents or statements. In addition, representatives of the Company, from time to time, participate in speeches and calls with market analysts, conferences with investors or potential investors in the Company's securities and other meetings and conferences. Some of the information presented at such speeches, calls, meetings and conferences may include forward-looking statements. The Company uses words like "expects," "anticipates" or "believes" to identify forward-looking statements.

The Company wishes to ensure that all forward-looking statements are accompanied by meaningful cautionary statements, so as to ensure to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, all forward-looking statements are qualified in their entirety by reference to, and are accompanied by, the following discussion of certain important factors that could cause actual results to differ materially from those projected in such forward-looking statements. The Company cautions the reader that this list of important factors may not be exhaustive. The Company operates in rapidly changing businesses, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Further, the Company undertakes no obligation to update forward-looking statements after the date they are made to conform the statements to actual results or changes in the Company's expectations.

Communications Group

Continuing softness in the economy is having a disproportionate effect on the telecommunications industry

The downturn in general economic conditions, particularly in the telecommunications services industry, has forced a number of the Company's competitors and customers to file for protection from creditors under bankruptcy laws and to take other extraordinary actions to reconfigure their capital structure. These companies had significant debt servicing requirements and were unable to generate sufficient cash from operations to both service their debt and conduct their businesses. Level 3 has changed its customer base in order to focus on global users of bandwidth capacity, which tend to be more financially viable than certain of the Company's Internet start-up customers, and Level 3 has implemented policies and procedures designed to enable it to make determinations regarding the financial condition of potential and existing customers. However, there can be no assurance regarding the financial viability of Level 3's customers or that these policies and procedures will be effective. If general economic conditions in the United States remain at current levels for an extended period of time or worsen, Level 3 could be materially adversely affected.

Level 3's communications revenue is concentrated in a limited number of customers

A significant portion of Level 3's communications revenue is concentrated among a limited number of customers. If the Company lost one or more of these major customers, or if one or more major customers significantly decreased orders for the Company's services, Level 3's communications business would be materially and adversely affected. Revenue from the Company's two largest communications customers, Time Warner, Inc. and its affiliates and Verizon Communications, Inc. and its affiliates, represented approximately 24% and 10% of the Company's communications revenue for 2003, respectively. Level 3's future communications operating results will depend on the success of these customers and other customers and its success in selling services to them.

If Level 3 were to lose a significant portion of its communications revenue from either of these two customers, Level 3 would not be able to replace this revenue in the short term and its operating losses would increase, which increase may be significant.

Failure to complete development, testing and introduction of new services, including VoIP services, could affect our ability to compete in the industry

Level 3 continuously develops, tests and introduces new services that are delivered over Level 3's network. These new services are intended to allow Level 3 to address new segments of the communications marketplace and to compete for additional customers. In certain instances, the introduction of new services requires the successful development of new technology. To the extent that upgrades of existing technology are required for the introduction of new services, the success of these upgrades may be dependent on the conclusion of contract negotiations with vendors and vendors meeting their obligations in a timely manner. In addition, new service offerings may not be widely accepted by customers. If Level 3 is not able to successfully complete the development and introduction of new services, including VoIP services, in a timely manner, the Company's business could be materially adversely affected.

Level 3 needs to increase the volume of traffic on its network or its network will not generate profits

The Company must substantially increase the volume of Internet, data, voice and video transmission on Level 3's network in order to realize the anticipated cash flow, operating efficiencies and cost benefits of the Level 3 network. If Level 3 does not develop new large-volume customers and maintain its relationship with current customers, Level 3 may not be able to substantially increase traffic on the Level 3 network, which would adversely affect the Company's profitability.

During its limited operating history, Level 3 has generated substantial losses, which the Company expects to continue

The development of Level 3's communications business required, and may continue to require, significant expenditures. These expenditures could result in substantial negative cash flow from operating activities and substantial net losses for the near future. For 2003, Level 3 incurred a loss from continuing operations of approximately \$721 million. The Company expects to continue to experience losses through 2004, and may not be able to achieve or sustain operating profitability in the future. Continued operating losses could limit the Company's ability to obtain the cash needed to expand its network, make interest and principal payments on its debt or fund other business needs.

The prices that Level 3 charges for its services have been decreasing, and the Company expects that they will continue to decrease over time and the Company may be unable to compensate for this lost revenue

Level 3 expects to continue to experience decreasing prices for its services as the Company and its competitors increase transmission capacity on existing and new networks, as a result of its current agreements with customers, through technological advances or otherwise, and as volume-based pricing becomes more prevalent. Accordingly, the Company's historical revenue is not indicative of future revenue based on

comparable traffic volumes. As the prices for its services decrease for whatever reason, if Level 3 is unable to offer additional services from which it can derive additional revenue or otherwise reduce its operating expenses, the Company's operating results will decline and its business and financial results will suffer.

Level 3 will need to continue to expand and adapt its network in order to remain competitive, which may require significant additional funding

Future expansion and adaptations of the Level 3 network's electronic and software components will be necessary in order to respond to:

- a growing number of customers;
- increased demands by customers to transmit larger amounts of data;
- changes in customers' service requirements;
- technological advances by competitors; and
- governmental regulations.

Future expansion or adaptation of the Company's network will require substantial additional financial, operational and managerial resources, which may not be available at the time. If the Company is unable to expand or adapt its network to respond to these developments on a timely basis and at a commercially reasonable cost, its business will be materially adversely affected.

Level 3's need to obtain additional capacity for its network from other providers increases its costs

The Company leases telecommunications capacity and obtains rights to use dark fiber from both long distance and local telecommunications carriers in order to extend the scope of Level 3's network. Any failure by companies leasing capacity to Level 3 to provide timely service to Level 3 would adversely affect Level 3's ability to serve its customers or increase the costs of doing so. Some of the Company's agreements with other providers require the payment of amounts for services whether or not those services are used. The Company enters into interconnection agreements with many domestic and foreign local telephone companies' but the Company is not always able to do so on favorable terms.

Costs of obtaining local service from other carriers comprise a significant proportion of the operating expenses of long distance carriers. Similarly, a large proportion of the costs of providing international service consists of payments to other carriers. Changes in regulation, particularly the regulation of local and international telecommunication carriers, could indirectly, but significantly, affect the Company's competitive position. These changes could increase or decrease the costs of providing Level 3's services.

The Company's growth may depend upon its successful integration of recently acquired businesses

The integration of acquired businesses involves a number of risks, including, but not limited to:

- demands on management related to the significant increase in size after the acquisition;
- the diversion of management's attention from the management of daily operations to the integration of operations;
- difficulties in the assimilation and retention of employees;
- difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations; and
- difficulties in the integration of departments, systems, including accounting systems, technologies, books and records and procedures, as well as in maintaining uniform standards, controls, including internal accounting controls, procedures and policies.

If Level 3 cannot successfully integrate acquired businesses or operations, Level 3 may experience material negative consequences to its business, financial condition or results of operations. Successful integration of these acquired businesses or operations will depend on the Company's ability to manage these operations, realize opportunities for revenue growth presented by strengthened service offerings and expanded geographic market coverage and, to some degree, to eliminate redundant and excess costs. Because of difficulties in combining geographically distant operations, Level 3 may not be able to achieve the benefits that the Company hopes to achieve as a result of the acquisition.

In addition, investors should not rely on the historical financial and operating performance of Genuity, Inc. as a indication of the future performance of Level 3 as a result of the Genuity transaction.

Level 3's business requires the continued development of effective business support systems to implement customer orders and to provide and bill for services

Level 3's business depends on its ability to continue to develop effective business support systems and in particular the development of these systems for use by third party distributors. This is a complicated undertaking requiring significant resources and expertise and support from third party vendors. Business support systems are needed for:

- implementing customer orders for services;
- provisioning, installing and delivering these services; and
- monthly billing for these services.

Because Level 3's business provides for continued rapid growth in the number and volume of services offered, there is a need to continue to develop these business support systems on a schedule sufficient to meet proposed service rollout dates. In addition, Level 3 requires these business support systems to expand and adapt to its rapid growth and alternate distribution channel strategy. The failure to continue to develop effective business support systems could materially adversely affect the Company's ability to implement its business plans.

The Company may be unable to hire and retain sufficient qualified personnel; the loss of any of its key executive officers could adversely affect the Company

Level 3 believes that its future success will depend in large part on its ability to attract and retain highly skilled, knowledgeable, sophisticated and qualified managerial, professional and technical personnel. The Company has experienced significant competition in attracting and retaining personnel who possess the skills that it is seeking. As a result of this significant competition, Level 3 may experience a shortage of qualified personnel. Level 3's businesses are managed by a small number of key executive officers, particularly James Q. Crowe, Chief Executive Officer, Charles C. Miller, III, Vice Chairman of the Board, and Kevin J. O'Hara, Chief Operating Officer. The loss of any of these key executive officers could have a material adverse effect on the Company.

Level 3 must obtain and maintain permits and rights-of-way to operate Level 3's network

If Level 3 is unable, on acceptable terms and on a timely basis, to obtain and maintain the franchises, permits and rights needed to expand and operate Level 3's network, its business could be materially adversely affected. In addition, the cancellation or nonrenewal of the franchises, permits or rights that are obtained could materially adversely affect the Company. Level 3 is a defendant in several lawsuits that the plaintiffs have sought to have certified as class actions that, among other things, challenge its use of rights of way. It is likely that additional suits challenging use of its rights of way will occur and that those plaintiffs also will seek class certification. The outcome of this litigation may increase Level 3's costs and adversely affect its profitability.

Termination of relationships with key suppliers could cause delay and costs

Level 3 is dependent on third-party suppliers for fiber, computers, software, optronics, transmission electronics and related components that are integrated into Level 3's network. If any of these relationships is terminated or a supplier fails to provide reliable services or equipment and the Company is unable to reach suitable alternative arrangements quickly, Level 3 may experience significant additional costs. If that happens, Level 3 could be materially adversely affected.

The communications and information services industries are highly competitive with participants that have greater resources and a greater number of existing customers

The communications and information services industries are highly competitive. Many of the Company's existing and potential competitors have financial, personnel, marketing and other resources significantly greater than Level 3. Many of these competitors have the added competitive advantage of a larger existing customer base. In addition, significant new competitors could arise as a result of:

- increased consolidation and strategic alliances in the industry;
- allowing foreign carriers to compete in the U.S. market;
- further technological advances; and
- further deregulation and other regulatory initiatives.

If the Company is unable to compete successfully, its business could be materially adversely affected.

The communications industry is subject to rapid and significant changes in technology. In addition, the introduction of new products or technologies, as well as the further development of existing products and technologies may reduce the cost or increase the supply of certain services similar to those that Level 3 provides. As a result, Level 3's most significant competitors in the future may be new entrants to the communications and information services industries. These new entrants may not

be burdened by an installed base of outdated equipment. Future success depends, in part, on the ability to anticipate and adapt in a timely manner to technological changes. Technological changes and the resulting competition could have a material adverse effect on Level 3.

Increased industry capacity and other factors could lead to lower prices for the Company's services

Additional network capacity available from the Company's competitors may cause significant decreases in the prices for services. Prices may also decline due to capacity increases resulting from technological advances and strategic alliances, such as long distance capacity purchasing alliances among regional Bell operating companies. Increased competition has already led to a decline in rates charged for various telecommunications services.

Level 3 is subject to significant regulation that could change in an adverse manner

Communications services are subject to significant regulation at the federal, state, local and international levels. These regulations affect Level 3 and its existing and potential competitors. Delays in receiving required regulatory approvals, completing interconnection agreements with incumbent local exchange carriers or the enactment of new and adverse regulations or regulatory requirements may have a material adverse effect on Level 3. In addition, future legislative, judicial, and regulatory agency actions could have a material adverse effect on the Company.

Recent federal legislation provides for a significant deregulation of the U.S. telecommunications industry, including the local exchange, long distance and cable television industries. This legislation remains subject to judicial review and additional FCC rulemaking. As a result, Level 3 can not predict the legislation's effect on its future operations. Many regulatory actions are under way or are being contemplated by federal and state authorities regarding important items. These actions could have a material adverse effect on Level 3's business.

Canadian law currently does not permit Level 3 to offer services in Canada

Ownership of facilities that originate or terminate traffic in Canada is currently limited to Canadian carriers. This restriction hinders the Company's entry into the Canadian market unless appropriate arrangements can be made to address it.

Potential regulation of Internet service providers in the United States could adversely affect Level 3's operations

The FCC has to date treated Internet service providers as enhanced service providers. Enhanced service providers are currently exempt from federal and state regulations governing common carriers, including the obligation to pay access charges and contribute to the universal service fund. The FCC is currently examining the status of Internet service providers and the services they provide. If the FCC were to determine that Internet service providers, or the services they provide, are subject to FCC regulation, including the payment of access charges and contribution to the universal service funds, it could have a material adverse effect on Level 3's business and the profitability of its services.

The Company may lose customers if it experiences system failures that significantly disrupt the availability and quality of the services that it provides

Level 3's operations depend on its ability to avoid and mitigate any interruptions in service or reduced capacity for customers. Interruptions in service or performance problems, for whatever reason, could undermine confidence in Level 3's services and cause the Company to lose customers or make it more difficult to attract new ones. In addition, because many of the Company's services are critical to the businesses of many of its customers, any significant interruption in service could result in lost profits or other loss to customers. Although the Company attempts to disclaim liability in its service

agreements, a court might not enforce a limitation on liability, which could expose the Company to financial loss. In addition, Level 3 often provides its customers with guaranteed service level commitments. If Level 3 is unable to meet these guaranteed service level commitments as a result of service interruptions, the Company may be obligated to provide credits, generally in the form of free service for a short period of time, to its customers, which could negatively effect its operating results.

The failure of any equipment or facility on Level 3's network, including the network operations control center and network data storage locations, could result in the interruption of customer service until necessary repairs are effected or replacement equipment is installed. Network failures, delays and errors could also result from natural disasters, terrorist acts, power losses, security breaches and computer viruses. These failures, faults or errors could cause delays, service interruptions, expose the Company to customer liability or require expensive modifications that could have a material adverse effect on Level 3's business.

Intellectual property and proprietary rights of others could prevent Level 3 from using necessary technology to provide Internet protocol voice services

While Level 3 does not know of any technologies that are patented by others that it believes are necessary for Level 3 to provide its services, necessary technology may in fact be patented by other parties either now or in the future. If necessary technology were held under patent by another person, Level 3 would have to negotiate a license for the use of that technology. The Company may not be able to negotiate such a license at a price that is acceptable. The existence of such patents, or the Company's inability to negotiate a license for any such technology on acceptable terms, could force Level 3 to cease using the technology and offering products and services incorporating the technology.

Level 3 may be unable to successfully identify, manage and assimilate future acquisitions, investments and strategic alliances, which could adversely affect the Company's results of operations

Level 3 continually evaluates potential investments and strategic opportunities to expand Level 3's network, enhance connectivity and add traffic to the network. In the future, the Company may seek additional investments, strategic alliances or similar arrangements, which may expose the Company to risks such as:

- the difficulty of identifying appropriate investments, strategic allies or opportunities;
- the possibility that senior management may be required to spend considerable time negotiating agreements and monitoring these arrangements;
- the possibility that definitive agreements will not be finalized;
- potential regulatory issues applicable to telecommunications business;
- the loss or reduction in value of the capital investment;
- the inability of management to capitalize on the opportunities presented by these arrangements; and
- the possibility of insolvency of a strategic ally.

There can be no assurance that the Company would successfully overcome these risks or any other problems encountered with these investments, strategic alliances or similar arrangements.

Information Services

Software Spectrum relies on financial incentives, volume discounts and marketing funds from software publishers

As part of Software Spectrum's supply agreements with certain publishers and distributors, Software Spectrum receives substantial incentives in the form of rebates, volume purchase discounts, cooperative advertising funds and market development funds. Under the licensing model increasingly used by Microsoft, which became effective in October 2001, Software Spectrum no longer receives these forms of financial incentives on new enterprise-wide licensing agreements, but instead Software Spectrum is paid fees for services performed under those agreements. Other publishers have based their financial incentives on specific market segments and products. If the Software Spectrum business model does not continue to align with the objectives established for these incentives or if software publishers further change, reduce or discontinue these incentives, discounts or advertising allowances, Software Spectrum's business and Level 3's consolidated financial results could be materially adversely affected.

Software Spectrum is very dependent on a small number of vendors

A large percentage of Software Spectrum's sales are represented by popular business software products from a small number of vendors. For the year ended December 31, 2003, approximately 70% of Software Spectrum's net software sales were derived from products published by Microsoft and IBM/Lotus. Most of Software Spectrum's contracts with vendors are terminable by either party, without cause, upon 30 to 60 days notice. The loss or significant change in Software Spectrum's relationship with these vendors could have a material adverse effect on Software Spectrum's business and Level 3's consolidated financial results. Although Software Spectrum believes the software products would be available

from other parties, the Company may have to obtain such products on terms that would likely adversely affect its financial results.

Software Spectrum's business is sensitive to general economic conditions and its success at expanding its business geographically

Software Spectrum's business is sensitive to the spending patterns of its customers, which in turn are subject to prevailing economic and business conditions. Due to current economic conditions, there has been a decrease in spending for information technology by both existing and potential customers over the several past years. If customers and potential customers continue to decrease their spending in this area, the Level 3 consolidated financial results would be adversely affected. Further, sales to large corporations have been important to Software Spectrum's results, and its future results are dependent on its continued success with such customers. Sales outside of the United States accounted for approximately 33% of Software Spectrum's revenue for the year ended December 31, 2003. Software Spectrum's future growth and success depend on continued growth and success in international markets. The success and profitability of Software Spectrum's international operations are subject to numerous risks and uncertainties, including local economic and labor conditions, unexpected changes in the regulatory environment, trade protection measures and tax laws, currency exchange risks, political instability and other risks of conducting business abroad.

Software Spectrum's business is subject to seasonal changes in demand and resulting sales activities

Software Spectrum's software distribution business is subject to seasonal influences. In particular, net sales and profits in the United States, Canada and Europe are typically lower in the first and third quarters due to lower levels of information technology purchases during those times. As a result, Software Spectrum's quarterly results may be materially affected during those quarters. Therefore, the operating results for any three month period are not necessarily indicative of the results that may be

achieved for any subsequent fiscal quarter or for a full fiscal year. In addition, periods of higher sales activities during certain quarters may require a greater use of working capital to fund the Software Spectrum business in the quarter that follows the higher levels of sales activities.

Software Spectrum operates in a highly competitive business environment and is subject to significant pricing competition

The desktop technology marketplace is intensely competitive. Software Spectrum faces competition from a wide variety of sources, including other software resellers, hardware manufacturers and resellers, large system integrators, software publishers, contact services providers, software suppliers, retail stores (including superstores), mail order, Internet and other discount business suppliers. Many of the Company's competitors, particularly software publishers, have substantially greater financial resources than Software Spectrum. Because of the intense competition within the software channel, companies that compete in this market, including Software Spectrum, are characterized by low gross and operating margins. Consequently, Software Spectrum's profitability is highly dependent upon effective cost and management controls.

The market for Software Spectrum's products and services is characterized by rapidly changing technology

The market for Software Spectrum's products and services is characterized by rapidly changing technology, evolving industry standards and frequent introductions of new products and services. Software Spectrum's future success will depend in part on its ability to enhance existing services, to continue to invest in rapidly changing technology and to offer new services on a timely basis. Additionally, the Company's business results can be adversely affected by disruptions in customer ordering patterns, the effect of new product releases and changes in licensing programs.

Software Spectrum's business is subject to significant changes in the methods of software distribution

In late 2001, Microsoft announced a change to its licensing programs, whereby new enterprise-wide licensing arrangements are priced, billed and collected directly by Microsoft. Software Spectrum continues to provide sales and support services related to these transactions and will earn a service fee directly from Microsoft for these activities. Enterprise-wide licensing agreements in effect prior to October 1, 2001, which generally have terms of three years from the date such agreements are signed, and Microsoft's other licensing programs were not affected by this change. The licensing program changes have resulted in significantly lower revenue for the Software Spectrum on the affected transactions. For the year ended December 31, 2003, approximately 25% of Software Spectrum's product sales were under Microsoft enterprise-wide licensing agreements. Software Spectrum's continued ability to adjust to and compete under this new model are important factors in its future success.

The manner in which software products are distributed and sold is continually changing, and new methods of distribution may continue to emerge or expand. Software publishers may intensify their efforts to sell their products directly to end-users, including current and potential customers of Software Spectrum. Other products and methodologies for distributing software to users may be introduced by publishers, present competitors or other third parties. If software suppliers' participation in these programs is reduced or eliminated, or if other methods of distribution of software, which exclude the software resale channel, become common, Software Spectrum's business and Level 3's consolidated financial results could be materially adversely affected.

Other Operations

Environmental liabilities from the Company's historical operations could be material

Level 3's operations and properties are subject to a wide variety of laws and regulations relating to environmental protection, human health and safety. These laws and regulations include those concerning the use and management of hazardous and non-hazardous substances and wastes. The Company has made and will continue to make significant expenditures relating to its environmental compliance obligations. The Company may not at all times be in compliance with all these requirements.

In connection with certain historical operations, Level 3 is a party to, or otherwise involved in, legal proceedings under state and federal law involving investigation and remediation activities at approximately 110 contaminated properties. Level 3 could be held liable, jointly and severally, and without regard to fault, for such investigation and remediation. The discovery of additional environmental liabilities related to historical operations or changes in existing environmental requirements could have a material adverse effect on the Company.

Potential liabilities and claims arising from coal operations could be significant

Level 3's coal operations are subject to extensive laws and regulations that impose stringent operational, maintenance, financial assurance, environmental compliance, reclamation, restoration and closure requirements. These requirements include those governing air and water emissions, waste disposal, worker health and safety, benefits for current and retired coal miners, and other general permitting and licensing requirements. Level 3 may not at all times be in compliance with all of these requirements. Liabilities or claims associated with this non-compliance could require the Company to incur material costs or suspend production. Mine reclamation costs that exceed reserves for these matters also could require the Company to incur material costs.

General

If Level 3 is unable to comply with the restrictions and covenants in its debt agreements, there would be a default under the terms of these agreements, and this could result in an acceleration of payment of funds that have been borrowed

If Level 3 were unable to comply with the restrictions and covenants in any of its debt agreements, there would be a default under the terms of those agreements. As a result, borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occur, there can be no assurance that Level 3 would be able to make necessary payments to the lenders or that it would be able to find alternative financing. Even if the Company were able to obtain alternative financing, there can be no assurance that it would be on terms that are acceptable.

The Company has substantial debt, which may hinder its growth and put it at a competitive disadvantage

Level 3's substantial debt may have important consequences, including the following:

- the ability to obtain additional financing for acquisitions, working capital, investments and capital or other expenditure could be impaired or financing may not be available on acceptable terms;
- a substantial portion of the Company's cash flow will be used to make principal and interest payments on outstanding debt, reducing the funds that would otherwise be available for operations and future business opportunities;
- a substantial decrease in cash flows from operating activities or an increase in expenses could make it difficult to meet debt service requirements and force modifications to operations;

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- Level 3 has more debt than certain of its competitors, which may place the Company at a competitive disadvantage; and
 - substantial debt may make Level 3 more vulnerable to a downturn in business or the economy generally.

Level 3 had substantial deficiencies of earnings to cover fixed charges of \$706 million, \$926 million, and \$4.378 billion for the years ended December 31, 2003, 2002 and 2001, respectively.

Level 3 may not be able to repay its existing debt; failure to do so or refinance the debt could prevent the Company from implementing its strategy and realizing anticipated profits

If Level 3 were unable to refinance its debt or to raise additional capital on acceptable terms, its ability to operate its business would be impaired. As of December 31, 2003, the Company had approximately \$5.4 billion of long-term debt, including current maturities, and approximately \$181 million of stockholders' equity. The Company's ability to make interest and principal payments on the Company's debt and borrow additional funds on favorable terms depends on the future performance of the business. If the Company does not have enough cash flow in the future to make interest or principal payments on its debt, the Company may be required to refinance all or a part of its debt or to raise additional capital. Level 3 cannot assure that it will be able to refinance its debt or raise additional capital on acceptable terms.

Restrictions and covenants in the Company's debt agreements limit its ability to conduct its business and could prevent the Company from obtaining needed funds in the future

Level 3's debt and financing arrangements contain a number of significant limitations that restrict the Company's ability to, among other things:

- borrow additional money or issue guarantees;
- pay dividends or other distributions to stockholders;
- make investments;
- create liens on assets;
- sell assets;
- enter into sale-leaseback transactions;
- enter into transactions with affiliates; and
- engage in mergers or consolidations.

Increased scrutiny of financial disclosure, particularly in the telecommunications industry in which Level 3 operates, could adversely affect investor confidence, and any restatement of earnings could increase litigation risks and limit the Company's ability to access the capital markets

Congress, the SEC, other regulatory authorities and the media are intensely scrutinizing a number of financial reporting issues and practices. Although all businesses face uncertainty with respect to how the U.S. financial disclosure regime may be impacted by this process, particular attention has been focused recently on the telecommunications industry and companies' interpretations of generally accepted accounting principles.

If the Company were required to restate its financial statements as a result of a determination that it had incorrectly applied generally accepted accounting principles, that restatement could adversely affect its ability to access the capital markets or the trading price of its securities. The recent scrutiny regarding financial reporting has also resulted in an increase in litigation in the telecommunications

industry. There can be no assurance that any such litigation against Level 3 would not materially adverse affect the Company's business or the trading price of Company's securities.

Terrorist attacks and other acts of violence or war may adversely affect the financial markets and Level 3's business

As a result of the September 11, 2001, terrorist attacks and subsequent events, there has been considerable uncertainty in world financial markets. The full effect on the financial markets of these events, as well as concerns about future terrorist attacks, is not yet known. They could, however, adversely affect Level 3's ability to obtain financing on terms acceptable to the Company, or at all.

There can be no assurance that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly affect Level 3's physical facilities or those of its customers. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. Any of these occurrences could materially adversely affect Level 3's business.

Level 3's international operations and investments expose the Company to risks that could materially adversely affect the business

Level 3 has operations and investments outside of the United States, as well as rights to undersea cable capacity extending to other countries, that expose the Company to risks inherent in international operations. These include:

- general economic, social and political conditions;
- the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems;
- tax rates in some foreign countries may exceed those in the U.S.;
- foreign currency exchange rates may fluctuate, which could adversely affect the Company's results of operations and the value of its international assets and investments;
- foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- difficulties and costs of compliance with foreign laws and regulations that impose restrictions on Level 3's investments and operations, with penalties for noncompliance, including loss of licenses and monetary fines;
- difficulties in obtaining licenses or interconnection arrangements on acceptable terms, if at all; and
- changes in U.S. laws and regulations relating to foreign trade and investment.

Anti-takeover provisions in Level 3's charter and by-laws could limit the share price and delay a change of management

Level 3's certificate of incorporation and by-laws contain provisions that could make it more difficult or even prevent a third party from acquiring the Company without the approval of the Company's incumbent board of directors. These provisions, among other things:

- divide the board of directors into three classes, with members of each class to be elected in staggered three-year terms;
- prohibit stockholder action by written consent in place of a meeting;

63

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- limit the right of stockholders to call special meetings of stockholders;
 - limit the right of stockholders to present proposals or nominate directors for election at annual meetings of stockholders; and
 - authorize the board of directors to issue preferred stock in one or more series without any action on the part of stockholders.

These provisions could limit the price that investors might be willing to pay in the future for shares of Level 3's common stock and significantly impede the ability of the holders of Level 3's common stock to change management. In addition, Level 3 has adopted a poison pill rights plan, which has anti-takeover effects. The rights plan, if triggered, will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the board of directors. Provisions and agreements that inhibit or discourage takeover attempts could reduce the market value of Level 3's common stock.

These risk factors could cause actual results to differ materially from the results anticipated in forward-looking statements

The reports that Level 3 files with the SEC and the Company's other communications may contain forward-looking statements that involve risks and uncertainties. Level 3 considers forward-looking statements to be those statements that describe intentions, beliefs, and current expectations with respect to future operating performance. The Company's actual results could differ materially from those anticipated in the Company's forward-looking statements as a result of certain factors.

64

ITEM 2. PROPERTIES

The Company's headquarters are located on 46 acres in the Northwest corner of the Interlocken Advanced Technology Environment within the City of Broomfield, Colorado, and within Broomfield County, Colorado. The campus facility, which is owned by the Company, encompasses over 800,000 square feet of office space. In Europe, the Company has approximately 211,000 square feet of office space in the United Kingdom, approximately 59,000 square feet of office space in Germany, and approximately 14,000 square feet of office space in France.

Properties relating to the Company's coal mining segment are described under "ITEM 1. BUSINESS—The Company's Other Businesses" above. In connection with certain existing and historical operations, the Company is subject to environmental risks.

The Company's Gateway facilities are designed to house local sales staff, operational staff, the Company's transmission and IP routing/switching facilities and technical space to accommodate colocation of equipment by high-volume Level 3 customers. The Company has approximately 5.0 million square feet of space for its Gateway and transmission facilities and has completed construction on approximately 3.3 million square feet of this space. This Gateway space is either owned by the Company or is held pursuant to long-term lease agreements.

The Company has entered into various agreements regarding its unused office and technical space in order to reduce its ongoing operating expenses regarding such space.

Software Spectrum currently leases approximately 184,000 square feet of space in Garland, Texas (a suburb in the Dallas/Forth Worth metroplex) which houses its operational headquarters. The Garland leases have aggregate current monthly payments of approximately \$110,000 and remaining terms of one to three years. Software Spectrum leases approximately 108,000 square feet of office space in Spokane, Washington with current aggregate monthly payments of approximately \$105,000. As of December 31, 2003, the Spokane leases had remaining terms of fifteen months. Software Spectrum leases approximately 73,000 square feet of space for an additional contact services center in North Richland Hills, Texas (a suburb in the Dallas/Fort Worth metroplex), which is currently unoccupied. The lease provides for monthly rental payments of approximately \$84,000 and has a remaining term of approximately four years.

Software Spectrum has a lease commitment in Norwood, Massachusetts. This commitment provides for monthly payments of approximately \$157,000 and has a remaining term of approximately 2.5 years.

With respect to its European-based operations, Software Spectrum currently leases space for its major operations center in Munich, Germany; Paris, France; and Dublin, Ireland. In addition, Software Spectrum has offices in The Netherlands, the United Kingdom, Italy, Sweden and Spain. Software Spectrum's Asia/Pacific headquarters is located in Sydney, Australia. Software Spectrum also has offices in Australia, Singapore and Hong Kong. Dublin, Ireland and its sales headquarters in The Hague, The Netherlands. In Asia/Pacific, Software Spectrum leases space for its Asia/Pacific headquarters in Sydney, Australia and maintains sales offices in six other markets.

(i) Structure also maintains its corporate headquarters in approximately 25,000 square feet of office space in the Broomfield, Colorado area, approximately 33,000 square foot office and computer center in Omaha, Nebraska, and an approximately 60,000 square foot computer center in Tempe, Arizona.

ITEM 3. LEGAL PROCEEDINGS

In May 2001, Level 3 Communications, Inc. and two of its subsidiaries were named as defendants in *Bauer, et. al. v. Level 3 Communications, LLC, et al.*, a purported multi-state class action, filed in the U.S. District Court for the Southern District of Illinois. In April 2002, the same plaintiffs filed a second nearly identical purported multi-state class action in state court in Madison County, Illinois. In

65

July 2001, the Company was named as a defendant in *Koyle, et. al. v. Level 3 Communications, Inc., et. al.*, a purported multi-state class action filed in the U.S. District Court for the District of Idaho. In September 2002, Level 3 Communications, LLC was named as a defendant in *Smith et al v. Sprint Communications Company, L.P.*, et al, a purported nationwide class action filed in the United States District Court for the Northern District of Illinois. These actions involve the Company's right to install its fiber optic cable network in easements and right-of-ways crossing the plaintiffs' land. In general, the Company obtained the rights to construct its network from railroads, utilities, and others, and is installing its network along the rights-of-way so granted. Plaintiffs in the purported class actions assert that they are the owners of lands over which the Company's fiber optic cable network passes, and that the railroads, utilities, and others who granted the Company the right to construct and maintain its network did not have the legal ability to do so. The complaint seeks damages on theories of trespass, unjust enrichment and slander of title and property, as well as punitive damages. The Company has also received, and may in the future receive, claims and demands related to rights-of-way issues similar to the issues in these cases that may be based on similar or different legal theories. To date, all attempts to have class action status granted on complaints filed against the Company or any of its subsidiaries involving claims and demands related to rights-of-way issues have been denied. On July 25, 2003, the Smith Court entered an Order preliminarily approving a settlement agreement which will resolve all claims against the Company arising out of the Company's location of fiber optic cable and related telecommunications facilities that the Company owns within railroad rights-of-way throughout the United States. In connection with the Court's Order preliminarily approving the settlement, the Court entered an Order enjoining the parties in all pending federal and state railroad rights-of-way class action litigation involving the Company from further pursuing those pending actions at this time.

Under the terms of the settlement agreement, landowners who own property adjacent to the railroad rights-of-way in which the Company placed its fiber optic cable and related facilities may submit claims and receive specified compensation. The Company is unable to quantify the ultimate amount of payments to be made pursuant to the settlement until if and when (1) the settlement receives final approval and all appeals have been exhausted; and (2) the claims process has been completed.

In September 2003, a petition for appeal was granted which seeks a reversal of the Smith Court's decision to preliminarily approve the settlement and certify a nationwide class for settlement purposes. The United States Court of Appeals for the Seventh Circuit held oral argument on the appeal in January 2004, and a decision is pending. It is still too early for the Company to reach a conclusion as to the ultimate outcome of

these actions. However, management believes that the Company and its subsidiaries have substantial defenses to the claims asserted in all of these actions (and any similar claims which may be named in the future), and intends to defend them vigorously if the settlement is not approved.

On November 19, 2002, Gary Haegle commenced a shareholder's derivative suit on behalf of the Company in the District Court of Colorado for the City and County of Broomfield entitled *Haegle v. Scott, et al.*, (Index No. 02-CV-0196). The action is brought against the Company as a nominal defendant and against the directors of the Company, a former director of the Company and Peter Kiewit Sons', Inc. The Complaint alleges that the director defendants, aided and abetted by PKS, breached their fiduciary duties to the Company in connection with several transactions between the Company and PKS including contracts under which PKS constructed the Company's fiber optic cable network and manages the Company's mine properties. The Complaint also alleges that in building the fiber optic cable network, the defendants caused the Company to violate the property rights of landowners, thereby subjecting the Company to substantial potential liability. In addition, the Complaint alleges that Company assets were transferred to its officers and directors in the form of personal loans, excessive salaries and the payment of personal expenses. The action seeks both equitable and legal relief, including restitution, compensatory and punitive damages of an unspecified

amount, imposition of a constructive trust, disgorgement and injunctive relief. The defendants filed a motion to dismiss, which was denied by the court in early October. Subsequently, the Board of Directors of the Company appointed a Special Litigation Committee comprised of an independent director with the exclusive power to conduct or cause to be conducted an impartial and independent investigation of all matters alleged by the Plaintiff and to determine whether the litigation should be maintained, terminated, or otherwise disposed, in accordance with its findings as to whether the litigation is in the best interests of the Company. In addition, the Company filed a motion to stay all proceedings in the case, including all discovery, for a period of six months to enable the Special Litigation Committee to complete its evaluation. This motion was granted by the Court. As a result, all proceedings in this case have been stayed until June 17, 2004. Although it is too early for the Company to reach a conclusion as to the ultimate outcome of these actions, management believes that there are substantial defenses to the claims asserted in this action, and intends to defend them vigorously.

The Company and its subsidiaries are parties to many other legal proceedings. Management believes that any resulting liabilities for these legal proceedings, beyond amounts reserved, will not materially affect the Company's financial condition, future results of operations, or future cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information. The Company's common stock is traded on the Nasdaq National Market under the symbol "LVL.T." As of March 10, 2004, there were approximately 7,640 holders of record of the Company's common stock, par value \$.01 per share. The table below sets forth, for the calendar quarters indicated, the high and low per share closing sale prices of the common stock as reported by the Nasdaq National Market.

Year Ended December 31, 2003	High	Low
First Quarter	\$ 5.33	\$ 4.61
Second Quarter	7.46	5.22
Third Quarter	6.15	4.45
Fourth Quarter	5.78	5.00
Year Ended December 31, 2002	High	Low
First Quarter	\$ 5.85	\$ 2.22
Second Quarter	5.49	2.95
Third Quarter	7.06	2.57
Fourth Quarter	6.10	4.04

Equity Compensation Plan Information. Level 3 has only one equity compensation plan—The 1995 Stock Plan (Amended and Restated as of July 24, 2002)—under which Level 3 may issue shares of Common Stock to employees, officers, directors and consultants. This plan has been approved by the Company's stockholders. The following table provides information about the shares of Level 3's common stock that may be issued upon exercise of awards under the 1995 Stock Plan as of December 31, 2003.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	42,100,272 [†]	\$ 11.59 ^{†‡}	43,663,723
Equity compensation plans not approved by stockholders	275,335	\$ 0.00	0

[†] Includes awards of Outperform Stock Options ("OSOs"), Convertible Outperform Stock Options ("C-OSOs") and Special Recognition Outperform Stock Options ("SR-OSOs"). For purposes of this table, these securities are considered to use a single share of Level 3 Common Stock from the total number of shares reserved for issuance under the 1995 Stock Plan.

[‡] Includes weighted-average exercise price of outstanding OSOs, C-OSOs and SR-OSOs at the date of grant. The exercise price of an OSO, C-OSO and SR-OSO is subject to change based upon the performance of the Level 3 Common Stock relative to the performance of the S&P 500 ® Index from the time of the grant of the award until the award has been exercised.

In connection with the Company's acquisition of Telverse Communications, Inc., the Company granted to a total of 32 employees of Telverse the right to receive an aggregate of 275,335 shares of Level 3 Common Stock. The shares of Level 3 Common Stock will be issued to these employees, without those employees required to pay any further consideration, upon the satisfaction of certain performance conditions. For a total of 11 employees ("Performance Based Employees"), these performance conditions relate to the employee continuing his or her employment with the Company or a subsidiary of the Company and the Company obtaining specified numbers of (3)ToneSM Business service subscribers over a specified period of time. For the remaining 21 employees ("Non-Performance Based Employees"), the performance conditions are limited to continued employment with the Company or a subsidiary of the Company. As the issuance of these rights were made as an inducement for these Telverse employees to become employees of the Company, stockholder approval of this arrangement was not required.

Vesting of these awards for the Performance Based Employees occurs in two parts. Vesting dates for the number of awards based on subscriber growth are October 21, 2003; January 21, 2004; April 21, 2004; July 21, 2004; October 21, 2004; January 21, 2005; April 21, 2005; and July 21, 2005. As of each vesting date, the number of awards that vest is based upon the number of installed, billed and cash collected subscribers to the (3)ToneSM Business service divided by 175,000. Vesting of the portion of the awards for Performance Based Employees that are not related to subscriber growth is 50% on January 21, 2004, and 50% on July 21, 2004. For Non-Performance Based Employees, their awards vest 50% on January 21, 2004, and 50% on July 21, 2004.

Dividend Policy. The Company's current dividend policy, in effect since April 1, 1998, is to retain future earnings for use in the Company's business. As a result, management does not anticipate paying any cash dividends on shares of Common Stock in the foreseeable future. In addition, the Company is effectively restricted under certain debt covenants from paying cash dividends on shares of its Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

The Selected Financial Data of Level 3 Communications, Inc. and its subsidiaries appears below.

	Fiscal Year Ended(1)				
	2003	2002	2001	2000	1999
(dollars in millions, except per share amounts)					
Results of Operations:					
Revenue	\$ 4,026	\$ 3,111	\$ 1,533	\$ 1,184	\$ 515
Net loss from continuing operations(2)	(721)	(860)	(4,373)	(1,407)	(482)
Net loss(3)	(711)	(858)	(4,978)	(1,455)	(487)
Per Common Share:					
Net loss from continuing operations(2)	(1.28)	(2.11)	(11.70)	(3.88)	(1.44)

Net loss(3)	(1.26)	(2.11)	(13.32)	(4.01)	(1.46)
Dividends(4)	—	—	—	—	—
Financial Position:					
Total assets	8,293	8,963	9,316	14,919	8,906
Current portion of long-term debt	125	4	7	7	6
Long-term debt, less current portion(5)	5,250	6,102	6,209	7,318	3,989
Stockholders' equity (deficit)(6)	181	(240)	(65)	4,549	3,405

- (1) The operating results of the Company's Midwest Fiber Optic Network business acquired from Genuity in 2003 and sold in 2003, the Company's Asian communications operations sold in 2002, as well as Software Spectrum's contact service business acquired in 2002 and sold in 2003 are included in discontinued operations for all periods presented for which Level 3 owned each business.

The Company purchased software resellers CorpSoft, Inc. and Software Spectrum, Inc. in March and June of 2002, respectively. The Company recorded approximately \$1.8 billion of revenue attributable to these two businesses in 2002.

The Company purchased substantially all of the assets and operations of Genuity, Inc. in February 2003. The Company also purchased Telveer Communications, Inc. in July 2003.

- (2) Level 3 incurred significant expenses in conjunction with the expansion of its communications and information services business beginning in 1998.

In 2000 and 1999, RCN Corporation issued stock in public offerings and for certain transactions. These transactions reduced the Company's ownership in RCN to 31% and 35% at December 31, 2000 and 1999, respectively, and resulted in pre-tax gains to the Company of \$95 million and \$117 million in 2000 and 1999, respectively.

In 2001, Level 3 recorded a \$3.2 billion impairment charge to reflect the reduction in the carrying amount of certain of its communications assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Also in 2001, Level 3 recognized a gain of \$1.1 billion as a result of the early extinguishment of long-term debt.

In 2002, the Company recognized approximately \$181 million of impairment and restructuring charges, a gain of approximately \$191 million from the sale of Commonwealth Telephone Enterprises, Inc. common stock, \$88 million of induced conversion expenses attributable to the exchange of the Company's convertible debt securities, \$120 million of Federal tax benefits due to legislation enacted in 2002 and a gain of \$255 million as a result of the early extinguishment of long-term debt.

In 2003, the Company recognized approximately \$45 million of impairment and restructuring charges, a gain of approximately \$70 million from the sale of "91 Express Lanes" toll road assets, \$200 million of induced conversion expenses attributable to the exchange of the Company's convertible debt securities, and recognized a gain of \$41 million as a result of the early extinguishment of long-term debt.

- (3) In 2001, the Company recorded an impairment charge of \$516 million related to its discontinued Asian operations sold in January 2002. Losses attributable to the Asian operations were \$89 million, \$48 million and \$5 million for fiscal 2001, 2000, and 1999, respectively.
- (4) The Company's current dividend policy, in effect since April 1998, is to retain future earnings for use in the Company's business. As a result, management does not anticipate paying any cash dividends on shares of common stock in the foreseeable future. In addition, the Company is effectively restricted under certain covenants from paying cash dividends on shares of its common stock.
- (5) In 2000, Level 3 received net proceeds of approximately \$3.2 billion from the offering of \$863 million in convertible subordinated notes, \$1.4 billion in three tranches of U.S. dollar denominated senior debt securities, \$780 million from two tranches of Euro denominated senior debt securities and \$233 million from mortgage financings.

In 2001, the Company negotiated an increase in the total amount available under its senior secured credit facility to \$1.775 billion and borrowed \$650 million under the facility. Also in 2001, a subsidiary of the Company and Level 3 repurchased, using cash and common stock, approximately \$1.9 billion face amount of the Company's long-term debt and recognized a gain of approximately \$1.1 billion as a result of the early extinguishment of debt.

In 2002, the Company received net proceeds of \$488 million from the issuance of \$500 million of 9% Junior Convertible Subordinated Notes due 2012. Also in 2002, the Company repurchased, using cash and common stock, approximately \$705 million face amount of its

long-term debt and recognized a gain of approximately \$255 million as a result of the early extinguishment of debt.

In 2003, the Company received net proceeds of \$848 million from the issuance of \$374 million of 2.875% Convertible Senior Notes due 2010 and the issuance of \$500 million of 10.75% Senior Notes due 2011. The Company completed a debt exchange whereby the Company issued \$295 million (face amount) of 9% Convertible Senior Discount Notes due 2013 and common stock in exchange for \$352 million (book value) of long-term debt. In addition, Level 3 using cash on hand, restricted cash and the proceeds from the issuance of the 10.75% Senior Notes due 2011, repaid in full, the \$1.125 billion purchase money indebtedness outstanding under the Senior Secured Credit Facility. Also in 2003, the Company repurchased, using common stock, approximately \$1.007 billion face amount of its long-term debt and recognized a gain of approximately \$41 million as a result of the early extinguishment of debt.

- (6) In 2000, the Company received approximately \$2.4 billion of net proceeds from the sale of 23 million shares of its common stock.

In 2001, the Company issued approximately 15.9 million shares of common stock, valued at approximately \$72 million, in exchange for long-term debt.

In 2002, the Company issued approximately 47 million shares of common stock, valued at approximately \$466 million, in exchange for long-term debt. Included in the value of common stock issued, are induced conversion premiums of \$88 million for convertible debt securities.

In 2003, the Company issued approximately 216 million shares of common stock, valued at approximately \$953 million, in exchange for long-term debt. Included in the value of common stock issued, are induced conversion premiums of \$200 million for convertible debt securities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to Level 3 Communications, Inc. and its subsidiaries ("Level 3" or the "Company"). When used in this document, the words "anticipate", "believe", "plans", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. See "Cautionary Factors That May Affect Future Results."

Level 3 Communications, Inc. is primarily engaged in the communications and information services businesses, with additional operations in coal mining. The Company is a facility based provider of a broad range of integrated communications services including voice, private line, wavelengths, colocation, Internet access, managed modem, data and dark fiber. Revenue is recognized on a monthly basis as these services are provided. For contracts involving private line, wavelengths and dark fiber services, Level 3 may receive up-front payments for services to be delivered for a period of up to 20 years. In these situations, Level 3 will defer the revenue and amortize it on a straight-line basis to earnings over the term of the contract.

Management of Level 3 believes that growth in recurring revenue is critical to the long-term success of the communications business. The Company must continue to increase revenue from its existing services in the Transport & Infrastructure, Softswitch and IP & Data business units, as well as develop new services using Level 3's IP-based network and technologies including those acquired in the Terverse transaction. These new services include Voice-over-IP, local transport services, and IP-VPNs.

Growth in Transport and Infrastructure revenue is largely dependent on increased demand for bandwidth services and available capital of companies requiring communications capacity for their own use or in providing capacity as a service provider to their customers. These expenditures may be in the form of up-front payments or monthly payments for private line, wavelength or dark fiber services. An increase in demand will likely be partially offset by declines in unit pricing. The Company continues to experience pricing pressures on its Transport and Infrastructure services. The emergence of several companies from bankruptcy protection and additional competition from other distressed carriers has resulted in a difficult and competitive operating environment. The Company does not expect this environment to change significantly until either the industry consolidates or available capacity is used by the marketplace.

For the Softswitch business unit, the Company and some of its customers are seeing an acceleration of the trend to higher speed broadband services as the narrow band market matures. This trend is expected to result in declines in managed modem and reciprocal compensation revenue in the future. These declines may be mitigated by growth in IP & Data services offered by the Company that address the market shift to higher speed broadband services. Level 3 believes that the low cost structure of its network will enable it to aggressively compete for new business in this market.

The Company is developing new voice services that in addition to its existing voice services target large and existing markets. The Company believes that the efficiencies of Level 3's IP and optical based network, including its Softswitch technology, will provide customers a lower cost alternative than the existing circuit-switched networks of its competitors. Several other competitors with IP technologies have recently announced that they will be entering this market as well. In order to expedite the penetration of this market, Level 3 has expanded its sales force to specifically target voice service providers, value-added resellers and other channels that reach both the consumer and enterprise markets for voice services. While the new voice services being launched by Level 3 target a large

addressable market, the Company must quickly develop both its capability to market and sell through various channels in the voice market and develop the internal systems and processes necessary to support the new products being launched. The market for voice services is large, however it is expected to continue to decline over time as a result of the new low cost IP and optical based technologies. In addition, the market for voice services is being targeted by many competitors, several of which are larger and have more financial resources than the Company.

As described above under the caption "—Regulation," the regulatory scheme for the provision of VoIP services has yet to be finalized by the regulatory authorities in the United States and Europe. To the extent that regulators require providers of VoIP services such as Level 3 to pay additional fees or charges for the delivery of VoIP services, the profitability of these services could be materially and adversely affected.

The conversion from narrow band dial-up services to higher speed broadband services is expected to increase demand for the Company's IP and Data services. Growth in this area is dependent on increased usage by both enterprises and consumers. An increase in the reliability of information transmitted over the Internet and declines in the cost to transmit data have resulted in increased utilization of e-commerce or web based services by businesses. The abundance of available capacity and the numerous companies competing in this market, have resulted in a very competitive pricing environment.

The Company believes that its strong financial position and suite of existing services and new service offerings, which target a larger addressable market for communications services, will enable it to grow regardless of whether the operating environment in the communication industry improves from current conditions.

Management focuses on Adjusted OIBDA, cash flows from operating activities and capital expenditures to assess the operating performance of the businesses. Management believes that Adjusted OIBDA, when viewed over time, reflects the operating trend and performance of its communications business. Adjusted OIBDA, or similar measures, also is a measure of performance used by Level 3's competitors and is used by management in evaluating relative performance. Management believes that cash flows from operating activities, also is a measure of operating performance, but in addition measures the generation of cash from or use of cash for working capital purposes which is important as the Company monitors and maintains its liquidity (particularly accounts receivable, accounts payable and deferred revenue). The Company is focusing its attention growing revenue through existing services and new service development efforts, continuing to show improvements in Adjusted OIBDA as a percentage of revenue, managing working capital and making certain its capital expenditures are made primarily for activities that directly generate revenue. The Company was able to repay in full amounts borrowed under the Senior Secured Credit Facility in 2003. As a result, the Company does not have any significant principal amounts due on its outstanding debt (excluding capitalized leases and mortgages) until 2008 and can focus its efforts and resources on growing communications revenue.

The Company's information services business is comprised of two operating units: (i) Structure, LLC and Software Spectrum, Inc. (i) Structure provides computer outsourcing services primarily to small and medium-sized businesses that want to concentrate their resources on their core business rather than expend capital and incur overhead costs to operate their own computing environments. Efforts to grow this business are largely dependent on (i) Structure's ability to effectively market itself to businesses while competing against other outsourcing providers with greater financial resources and name recognition. (i) Structure recognizes revenue in the period the service is provided.

Software Spectrum is a global reseller of business software, primarily to large and medium sized businesses. Software Spectrum recognizes revenue at the time the product is shipped or in accordance with the terms of the licensing contracts. Sales under certain licensing programs permit Software Spectrum to recognize only a service fee paid by the software publisher as revenue. Software Spectrum

has experienced an increase in sales under this form of licensing program and management expects further adoption of agency licensing programs in the future. The Company's ability to resell software is influenced by the general economic environment, specifically in North America and Western Europe, as well as the level of IT spending for business software by large and medium sized companies.

The software distribution and resale business is very competitive with profitability largely dependent upon rebates received from the software publishers. The amount of rebates received from the publisher is tied directly to the value of software sold for that publisher. These programs vary from publisher to publisher, but typically contain sales targets that are tiered so that Software Spectrum can earn higher rebates on incremental sales above certain sales targets. Alternatively, Software Spectrum may forfeit publisher rebates if certain minimum sales targets are not achieved. As such, it is not uncommon for software resellers, including Software Spectrum, to price software at or below their cost in order

to attain the next sales target and thus earn higher rebates from software publishers.

Microsoft is the primary provider of business software to the Company's Software Spectrum business. If Microsoft should successfully implement programs for the direct sale of software through volume purchase agreements or other arrangements intended to exclude the distribution or resale channel, Software Spectrum's results of operations would be materially and adversely affected.

In order to achieve a desired return on invested capital, Management of the information services business focuses on the Adjusted OIBDA metric and cash flow from operating activities to assess the overall operating performance of the information services business. Specifically, for the (i) Structure business, Adjusted OIBDA reflects the operating results of the business and, viewed in conjunction with net capital expenditures required to support existing and new customer contracts, provides management with visibility to the financial condition and operating performance of the business. For the Software Spectrum business, Management focuses on Adjusted OIBDA and cash flow from operating activities, including changes in working capital accounts, to assess the financial condition and operating performance of the business. Software Spectrum's working capital requirements are determined primarily by changes in its accounts receivable and accounts payable balances. Management is focusing its attention on minimizing working capital requirements by lowering its days sales outstanding through consistent collection procedures. Management expects working capital requirements for the Software Spectrum business to decline in the future as software publishers continue to adopt the agency licensing model described in the Critical Accounting Policies section below.

Level 3, through its two 50% owned joint venture surface mines in Montana and Wyoming, sells coal primarily through long-term contracts with public utilities. The long-term contracts for the delivery of coal establish the price, volume, and quality requirements of the coal to be delivered. Revenue under these and other contracts is recognized when coal is shipped to the customer.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and accompanying notes beginning on page F-1 of this annual report.

Critical Accounting Policies

The Company has identified the policies below as critical to its business operations and the understanding of its results of operations. The effect and any associated risks related to these policies on the Company's business operations is discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations where these policies affect the Company's reported and expected financial results.

Revenue

Revenue for communications services, including voice, private line, wavelengths, colocation, Internet access, managed modem, data services and dark fiber revenue from contracts entered into after June 30, 1999, is recognized monthly as the services are provided. Communications services are provided either on a usage basis, which can vary period to period, or on a contractually committed amount. Reciprocal compensation revenue is recognized only when an interconnection agreement is in place with another carrier, and the relevant regulatory authorities have approved the terms of the agreement. Periodically, the Company will receive payment for reciprocal compensation services before the regulatory authorities approve the agreement. These amounts are included in other current liabilities on the consolidated balance sheet until the Company receives the necessary regulatory approvals.

Revenue attributable to leases of dark fiber pursuant to indefeasible rights-of-use agreements ("IRUs") that qualify for sales-type lease accounting, and were entered into prior to June 30, 1999, was recognized at the time of delivery and acceptance of the fiber by the customer. Certain sale and long-term IRU agreements of dark fiber and capacity entered into after June 30, 1999, are required to be accounted for in the same manner as sales of real estate with property improvements or integral equipment. This accounting treatment results in the deferral of the cash that has been received and the recognition of revenue ratably over the term of the agreement (currently up to 20 years).

It is the Company's policy to recognize revenue relating to the termination of customer agreements and the settlement of customer disputes when certain conditions have been met. These conditions include: 1) the customer has accepted all or partial delivery of the service; 2) Level 3 has received consideration for the asset or service provided; and 3) Level 3 is not legally obligated to provide additional services to the customer or their successor under the original contract. Termination/settlement revenue is recognized in situations where a customer and Level 3 mutually agree to terminate all or a portion of the service provided, or the customer and/or its assets fail to emerge from bankruptcy and, therefore, Level 3 is not obligated to provide additional services to the customer or its successor. If the conditions described above are met, the Company will recognize termination/settlement revenue equal to the fair value of consideration received, less any amounts previously recognized.

Specifically, termination revenue is recognized when a customer disconnects service prior to the end of the contract period, for which Level 3 had previously received consideration and for which revenue recognition was deferred. In addition, termination revenue is recognized when customers make termination penalty payments to Level 3 to settle contractually committed purchase amounts that the customer no longer expects to meet. Settlement revenue is recognized when a customer and Level 3 renegotiate a contract under which Level 3 is no longer obligated to provide leased facilities or services for consideration previously received and for which revenue recognition has been deferred. Termination/settlement revenue is reported in the same manner as the original product or service provided, and is not indicative of future

revenue growth.

Software Spectrum is a reseller of business software. Accounting literature provides guidance to enable companies to determine whether revenues from the reselling of goods and services should be recorded on a "gross" or "net" basis. The Company believes that the facts and circumstances of the Software Spectrum business, particularly those involving pricing and credit risk, indicate that the majority of Software Spectrum's sales should be recorded on a "gross" basis. The latitude and ability of Software Spectrum to establish the selling price to the customer is one significant indication of "gross" revenue reporting. The assumption of credit risk is another important factor in determining "gross" versus "net" reporting. Software Spectrum has the responsibility to pay suppliers for all products ordered, regardless of when, or if, it collects from its customers. Software Spectrum is also solely responsible for determining the creditworthiness of its customers.

Microsoft Corporation, a significant supplier of software to Software Spectrum, changed certain licensing programs in 2001 whereby new enterprise-wide licensing arrangements will be priced, billed and collected directly by Microsoft. In 2003, several other software publishers began adopting this type of licensing program. Software Spectrum will continue to provide sales and support services related to these transactions and will earn a service fee directly from the software publishers for these activities. Under this licensing program, Software Spectrum only recognizes the service fee it receives from the software publisher as revenue and not the entire sales price of the software. The Company continues to sell products under various licensing programs but has recently experienced an increase in the level of sales under these new programs. If Microsoft and other software publishers are able to successfully implement and sell a significant amount of software under this program, or it is determined that the accounting for reselling of the software should be recorded on a "net" basis, the Company may experience a significant decline in information services revenue but will also experience a comparable decline in cost of revenue given the high cost of revenue associated with the software reseller business.

Revenue is recognized from software sales at the time of product shipment, or in accordance with terms of licensing contracts, when the price to the customer is fixed, and collectibility is reasonably assured. Revenue from maintenance contracts is recognized when invoiced, the license period has commenced, when the price to the customer is fixed, and collectibility is reasonably assured, as Software Spectrum has no future obligations associated with future performance under these maintenance contracts. Advance billings are recorded as deferred revenue until services are provided.

Accounting practice and guidance with respect to the accounting treatment of revenue continues to evolve. Any changes in the accounting treatment could affect the manner in which the Company accounts for revenue within its communications, information services and coal businesses.

Non-Cash Compensation

The Company applies the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Most companies do not follow the expense recognition provisions of SFAS No. 123; rather, they disclose the information only on a pro-forma basis. As a result, these pro-forma disclosures must be considered when comparing the Company's results of operations to those reported by other companies. Under SFAS No. 123, the fair value of an option or other stock-based compensation (as computed in accordance with accepted option valuation models) on the date of grant is amortized over the vesting periods of the options in accordance with FASB Interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans". Although the recognition of the value of the instruments results in compensation or professional expenses in an entity's financial statements, the expense differs from other compensation and professional expenses in that these charges, though permitted to be settled in cash, are generally settled through the issuance of common stock, which would have a dilutive effect upon earnings per share, if and when such options are exercised.

Long-Lived Assets

Property and equipment is stated at cost, reduced by provisions to recognize economic impairment in value when management determines that events have occurred that require an analysis of potential impairment. Costs associated directly with the uncompleted network and the development of business support systems, primarily employee related costs, and interest expense incurred during the construction period, are capitalized. The Company capitalized \$61 million, \$66 million and \$150 million of cost, primarily direct labor and related employee benefits, in 2003, 2002 and 2001, respectively, and \$58 million of interest expense in 2001. Intercity network segments, gateway facilities, local networks and operating equipment that have been placed in service are being depreciated over their estimated useful lives, primarily ranging from 3-25 years. The total cost of a business support system is amortized

over a useful life of three years. The useful lives of the Company's assets are estimates and actual in-service periods for specific assets could differ significantly from these estimates.

The Company evaluates the carrying value of long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows attributable to the assets are less than their carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections. The Company assessed its long-lived assets for impairment at December 31, 2003, and determined that an impairment charge was not required. Level 3 recorded impairment charges of \$182 million and \$3.2 billion in 2002 and 2001, respectively, to write down the carrying amount of its North American and European conduits, its colocation assets and its transoceanic cable systems to their estimated fair value as these telecommunications assets were identified as being excess, obsolete or carried at values that may not be recoverable due to an adverse change in the extent in which these assets were being utilized in the business, which was caused by the unfavorable business climate within the telecommunications industry.

Level 3 also assesses the carrying value of goodwill on an annual basis in accordance to SFAS No. 142 "Goodwill and Other Intangible Assets". The carrying value of each reporting unit, including goodwill assigned to that reporting unit, is compared to its fair value. If the fair value of the reporting unit does not exceed the carrying value of the reporting unit, including goodwill, an analysis is performed to determine if an impairment charge should be recorded. The Company did not record charges for goodwill impairment in 2003, 2002 or 2001.

Management's estimate of the future cash flows attributable to its long-lived assets and the fair value of its businesses involve significant uncertainty. Those estimates are based on management's assumptions of future results, growth trends and industry conditions. If those estimates are not met, the Company could have additional impairment charges in the future, and the amounts may be material.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are described in Note 1 to the consolidated financial statements. The following are the recently issued pronouncements that the Company believes have, a significant affect on the Company's results of operations and financial position.

In June 2001, the FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. The fair value of a liability for an asset retirement obligation is to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized and included as part of the carrying value of the long-lived asset and amortized over the useful life of the asset. SFAS No. 143 was effective for the Company beginning on January 1, 2003. The Company's coal mining business had previously accrued, as a component of cost of revenue, an estimate of future reclamation liability. The net effect of the adoption of SFAS No. 143 to the Company's coal mining business as of January 1, 2003 was a decrease in noncurrent liabilities of approximately \$5 million (which will be amortized to expense in future years) and was reflected as a cumulative-effect adjustment in the consolidated condensed statement of operations. The communications business has entered in to certain colocation leases whereby it is required upon termination of the lease, to remove the leasehold improvements and return the leased space to its original condition. The Company has also entered in to right-of-way agreements for its intercity and metropolitan networks that may require the removal of the conduit upon termination of the agreement. Upon adoption of this standard on January 1, 2003, the Company also recorded obligations and corresponding assets of approximately \$31 million for these lease and right of way agreements. Accretion of asset retirement obligation

expense of \$12 million was recorded during the year ended December 31, 2003; resulting in total asset retirement obligations, including reclamation costs for the coal business, of \$127 million at December 31, 2003.

The value of the Company's communications asset retirement obligations have been discounted to reflect the assumption that Level 3 will use the underlying assets over the entire lease term. If Level 3 should elect to abandon these assets before the end of the lease term, it may be required to remediate the leased property to its original condition at the time of abandonment and possibly at amounts higher than the obligation recorded on the consolidated balance sheet. In addition, the asset retirement obligations are calculated based on the several assumptions which could change over time. If actual results differ from the assumptions used, the amounts required to remediate the properties may differ significantly from the amounts reflected in the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 is effective for fiscal years beginning and certain transactions entered into after May 15, 2002. SFAS No. 145 requires gains and losses from the extinguishment of debt be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30. Previously, FASB Statement No. 4 generally required all gains and losses from debt extinguished prior to maturity to be classified as an extraordinary item in the statement of operations. APB Opinion No. 30 requires that to qualify as an extraordinary item, the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary activities of the Company, and would not reasonably be expected to recur in the foreseeable future. Any gain or loss on extinguishment of debt classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 shall be reclassified. Upon adoption of SFAS No. 145, due to the recurring nature of its debt repurchases and exchanges, the Company reclassified the related gains previously classified as extraordinary gains during the year ended December 31, 2002 and 2001 of \$255 million and \$1.075 billion, respectively, in the consolidated statement of operations to other non-operating income.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities (excluding an entity newly acquired in a business combination), often referred to as "restructuring costs", and nullifies prior accounting guidance with respect to such costs. SFAS No. 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Under previous guidance, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. Instead, exit and disposal costs will be recorded when they are incurred and can be measured at fair value, and related liabilities will be subsequently adjusted for changes in estimated cash flows. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002, with no retroactive restatement allowed. The Company announced in 2003, that it was consolidating the Genuity operations into those of the existing communications business, as well as combining certain facilities and operations of Software Spectrum. The Company incurred costs for workforce reductions and lease terminations as a result of these decisions of \$45 million in 2003.

In September 2002, the Emerging Issues Task Force ("EITF") addressed the accounting for convertible debt for equity exchanges in Issue 02-15: "Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84" ("EITF 02-15"). The EITF concluded in EITF 02-15 that these types of transactions should be accounted for as induced conversions in accordance with FASB No. 84, "Induced Conversions of Convertible Debt" ("SFAS No. 84"). SFAS No. 84 requires a non-cash charge to earnings for the implied value of an inducement to convert from convertible debt to common equity securities of the

issuer. The accounting is to be applied prospectively for those convertible debt for equity exchanges completed after September 11, 2002, the date of the EITF's consensus. The Company applied the provisions of SFAS No. 84 to all convertible debt for equity exchange transactions completed after June 30, 2002. The Company recognized induced conversion expenses of \$200 million and \$88 million in 2003 and 2002, respectively.

Results of Operations 2003 vs. 2002

The operating results attributable to the McLeod and Genuity transactions and Telseve acquisition are included in the consolidated results from their acquisition dates of January 24, 2002, February 4, 2003 and July 21, 2003, respectively. The results of operations of CorpSoft and Software Spectrum are included in the consolidated results from their acquisition dates of March 13, 2002 and June 18, 2002.

The operating results of the Company's Midwest Fiber Optic Network, ("MFON") business acquired from Genuity and sold in 2003, the Company's Asian communications operations sold in 2002, as well as Software Spectrum's contact service business sold in 2003 are included in discontinued operations for all periods presented for which Level 3 owned these businesses. Certain prior year amounts have been reclassified to conform to current year presentation.

Revenue for 2003 and 2002 is summarized as follows:

	2003	2002
	(dollars in millions)	(dollars in millions)
Communications	\$ 1,947	\$ 1,101
Information Services	1,999	1,896
Coal Mining	80	84
Other	—	30
	<u>\$ 4,026</u>	<u>\$ 3,111</u>

Communications revenue is classified into two categories, services revenue and reciprocal compensation. The Company further segregates services revenue into three strategic business units: 1) Transport & Infrastructure services (including private line, wavelength, transoceanic, dark fiber and colocation services), 2) Softswitch services (including managed modem and voice services), and 3) IP & Data services (including Internet Protocol, data, DSL aggregation and security services). Revenue attributable to these strategic business units are identified in the following table:

	2003	2002
	(dollars in millions)	(dollars in millions)
Services:		
Transport & Infrastructure	\$ 779	\$ 509
Softswitch	644	332

IP & Data	397	138
Total Services Revenue	1,820	979
Reciprocal Compensation	127	122
Total Communications Revenue	\$ 1,947	\$ 1,101

Transport & Infrastructure revenue in 2003 increased 53% from 2002. The increase is primarily attributable to additional settlement and termination revenue recognized in 2003. As described in Note 4 to the consolidated financial statements, in 2003 Level 3 and XO Communications amended an IRU agreement entered into in a prior year. The amended agreement resulted in Level 3 recognizing \$294 million of revenue that had previously been deferred, but did not result in any additional cash

payment to the Company. Included within Transport and Infrastructure revenue is a total of \$344 million of settlement and termination revenue in 2003 versus \$76 million in 2002. Level 3 expects to recognize termination and settlement revenue in the future as customers desire to renegotiate contracts or are required to terminate service. However, the Company is not able to estimate the affect on its financial results caused by these types of transactions until they occur. Additionally, the Company's private line revenue increased in 2003 primarily as a result of the Genuity transaction and wavelength revenue increased from sales to new and existing customers. These were partially offset by declines in amortized revenue, due to the XO settlement noted above, and revenue provided by joint build activities.

Level 3 significantly expanded its sales efforts towards the U.S. Federal government in 2003 and was successful in securing contracts in 2003. Cash received for a significant portion of this work will be deferred and amortized to revenue over the term of the contracts. In addition to the government opportunities, Level 3 has announced new private line and metropolitan wavelength services that leverage its existing network assets. The Company expects to continue to see pricing pressure in 2004 from distressed carriers that also offer Transport and Infrastructure services, specifically private line and wavelength services.

Softswitch revenue increased 94% in 2003 compared to 2002. An increase in managed modem dial-up revenue from customers obtained in the Genuity transaction accounted for a significant majority of the increase in revenue, while sales to new and existing customers accounted for the remaining incremental Softswitch services revenue. For the year ended December 31, 2003, the Company provided customers approximately 123 billion minutes of use compared to 55 billion minutes in 2002. This increase in usage was primarily attributable to an increase from customers obtained in the Genuity transaction.

Level 3's largest managed modem customer, America Online, is expected to reduce overall purchases of fixed service ports for its U.S. dial-up network and to reduce proportionately the number of ports it purchases from Level 3 in the future. The Company believes that this reduction and other factors could result in a year-over-year decline in managed modem related revenue of \$100 to \$150 million in 2004. In addition to the port cancellation provisions, the contract with America Online contains pricing provisions whereby Level 3 is obligated to provide America Online a reduced price per port rate if Level 3 offers a third party better pricing for comparable services. The Company also expects managed modem related revenue to continue to decline in the future primarily due to an increase in the number of subscribers migrating to broadband services. These declines are expected to be more gradual, as compared to reductions expected with AOL, and generally in line with overall market declines. Level 3 expects to mitigate this decline by increasing traffic on its network and gaining market share in the managed modem business.

Level 3 developed and announced several new voice services in the latter half of 2003. These services will leverage Level 3's existing IP network and technologies including those acquired in the Telverse transaction. The Company expects to see an increase in voice revenue in 2004 as a result of these new services; however, due to the development of new sales distribution channels and process and systems development work necessary to scale these new products, the Company does not expect to see a meaningful increase in voice revenue until the latter part of 2004.

IP & Data revenue increased 188% in 2003 primarily as a result of the Genuity transaction as well as growth in sales to new and existing customers. Level 3 continues to see increased IP and Data usage, however the continued competitive environment for these types of services has resulted in reduced pricing that partially offset the incremental usage in 2003. Increases in DSL aggregation, Internet access and security services all contributed to the increase in IP and Data revenue.

Reciprocal compensation increased slightly in 2003 and is primarily attributable to an increase in billable minutes partially offset by a decline in reciprocal compensation rates. Certain interconnection

Communications Commission ("FCC") has stated that the parties involved must follow FCC rules with respect to reciprocal compensation for traffic destined for ISPs. These rules may limit the amount of, and growth in, annual billable minutes, and may also require the use of FCC rates with respect to ISP-bound traffic. The amount of billable minutes allowed by the FCC have historically been below those billed by the Company, and the rates and compensation structure adopted by the FCC may result in reduced per-minute-of-use compensation. To the extent that the Company is unable to sign new interconnection agreements or signs new agreements containing lower rates, or there is a significant decline in the Company's managed modem dial-up business, or FCC or state regulations change such that carriers are not required to compensate other carriers for terminating this type of call, reciprocal compensation revenue may decline significantly over time. In addition, if the Company is subject to the FCC guidelines with respect to billable minutes, Level 3 expects reciprocal compensation revenue will decline in the second half of 2004 as limits on annual billable minutes are reached.

Level 3 receives reciprocal compensation from a limited number of carriers and is currently negotiating a new interconnection agreement with one of its primary reciprocal compensation customers. During these negotiations, Level 3 continues to bill the customer at the previously contracted amount, but is recognizing revenue at the FCC mandated rates. If the terms of the final contract result in an interconnection rate higher than the FCC rate, Level 3 will recognize the incremental reciprocal compensation revenue at that time. Level 3 is also negotiating interconnection agreements with several other carriers. As a result, reciprocal compensation revenue may fluctuate from period to period as these negotiations are completed.

Information services revenue increased from 2002 to 2003 and is attributable to a full year of results in 2003 from the acquisitions of CorpSoft in March of 2002 and Software Spectrum in June of 2002 (CorpSoft was merged into Software Spectrum on December 31, 2002), and increased spending on business software as part of increased information technology spending broadly in the United States that the Company and the IT industry began to experience in the fourth quarter of 2003. Partially offsetting the increase was an increase in the proportion of sales under Microsoft and other software publishers' new licensing programs that result in only a service fee being recognized as revenue. The software reseller industry is highly seasonal, with sales activity and profits typically being higher in the second and fourth quarters of the Company's fiscal year. Revenue from the Software Spectrum business increased from \$1.800 billion in 2002 to \$1.920 billion in 2003. Software Spectrum has experienced an increase in sales under Microsoft's 6.0 licensing program and similar programs offered by other software publishers in 2003. Under these programs, new enterprise-wide licensing arrangements will be priced, billed and collected directly by the software publishers. Software Spectrum will continue to provide sales and support services related to these transactions and will earn a service fee directly from publishers for these activities. The Company will recognize the service fee it receives as revenue and not the entire value of the software under this program. Software Spectrum recorded approximately \$35 million and \$14 million of revenue attributable to these types of contracts in 2003 and 2002 (acquisition date to December 31, 2002), respectively. The selling price of the software sold under these agreements was \$634 million and \$237 million for the corresponding periods.

If Microsoft and the other publishers are successful in implementing these licensing programs, it will result in a significant decline in the amount of information services revenue recognized by the Company. The decline in revenue is not expected to have a meaningful affect on operating income (loss), as the Company should experience a corresponding decline in cost of revenue.

Revenue attributable to (i) Structure's business declined from \$96 million in 2002 to \$79 million, primarily as a result of the decision to wind down the systems integration business. In the second quarter of 2003, the Company notified its systems integration customers and employees that it would honor its existing contracts. However, once these contracts expire, the Company will no longer be

providing systems integration services. The existing contracts expired primarily in the second and third quarters of 2003. Revenue attributable to the outsourcing business declined from \$80 million in 2002 to \$77 million in 2003 and is attributable to the renewal of customer contracts at lower prices, which is a trend that is being experienced throughout this industry.

Coal mining revenue declined 5% in 2003 versus 2002. Certain contracts do not require the customer to take delivery of its contracted tonnage if the customer pays the Company the profit it would have earned on the mined coal. In 2003, Level 3 recognized approximately \$4 million of fees and revenue from these provisions, as compared to less than \$1 million in 2002. In 2003, the difference between the fees received and the contract price resulted in a \$7 million decline in coal revenue. This decline was partially offset by increased sales under new long-term contracts. Coal provided to customers is generally sold under long-term contracts. Sales under these long-term contracts represent over 90% of related revenue in 2003 and 2002, respectively.

Other revenue in 2002 was attributable to California Private Transportation Company, L.P. ("CPTC") the owner-operator of the "91 Express Lanes" toll road in southern California, which was sold in January 2003.

Cost of Revenue for the communications business in 2003 was \$370 million versus \$209 million in 2002. Increased network costs attributable primarily to the Genuity transaction are responsible for this increase. Overall, the cost of revenue for the communications business, as a percentage of communications revenue, remained at 19% for 2002 and 2003. Excluding the effects of \$346 million and \$76 million of termination and settlement revenue in 2003 and 2002, respectively, which typically does not have a corresponding cost of revenue, the cost of revenue as a percentage of revenue, would have increased from 21% during 2002 to 23% during 2003. This increase is attributable to the additional network costs incurred with the acquisition of Genuity assets and operations in the first quarter of 2003. The Company expects cost of revenue to decline slightly from 2003 levels in 2004, as it realizes a full year benefit from the migration of the business acquired from Genuity to

the Level 3 Network.

The cost of revenue for the information services business increased 5% to \$1.836 billion. The cost of revenue for the information services businesses, as a percentage of its revenue, was 92% for 2003 and consistent with that of 2002. Software Spectrum is very reliant on rebates received from software publishers to improve its operating results. In 2003 and 2002, Software Spectrum earned approximately \$42 million and \$49 million, respectively, in rebates which reduced cost of revenue.

The cost of revenue, as a percentage of revenue, was flat for both the outsourcing and software reselling businesses of the information services segment. The cost of revenue for the coal mining business, as a percentage of revenue, was 73% for 2003 and 68% for the 2002. The lower rate in 2002 is attributable to the release of \$4 million in accruals due to favorable resolution of certain royalty issues. In 2003, new lower margin coal sales and increased labor costs at one of the Company's mines were partially offset by contract termination revenue.

Depreciation and Amortization expense increased by 3% in 2003 to \$827 million. The increase is primarily attributable to the tangible and intangible assets acquired in the Genuity transaction in 2003 and the Software Spectrum and Corpsoft acquisitions in 2002, partially offset by shorter lived communications assets placed in service in prior years becoming fully depreciated. Due to decreased capital expenditure levels and communications assets with three and five-year estimated useful lives becoming fully depreciated, Level 3 expects depreciation to decline in 2004.

Selling, General and Administrative expenses increased 12% to \$1.046 billion in 2003. This increase is a result of the additional employees and other expenses associated with the Genuity transaction. The Company's global workforce initially increased by approximately 1,400 employees as a result of this transaction. The additional employees resulted in higher compensation, travel, training

and facilities expenses. The Company also experienced an increase in insurance and professional expenses in 2003 as well as selling, general and administrative expenses attributable to the Software Spectrum businesses acquired in 2002. These increases were partially offset by declines in bad debt expense, CPTC's operating expenses, non-cash compensation and property tax expenses. During 2003, the Company received final property valuations and assessments from several jurisdictions for property taxes accrued in 2002 and 2003. These assessments were lower than the Company had previously estimated and, therefore, it reduced the property tax accrual by approximately \$8 million during 2003 for 2002 property taxes.

Level 3 recorded bad debt expense of \$7 million in 2003, which was consistent with that of 2002. In 2003, the Company was able to collect approximately \$4 million of receivables that had been written off in prior periods, which was recorded as a reduction of bad debt expense. The Company's allowance for bad debts has decreased over the last few years. This is a result of eliminating the receivables and related allowance for amounts that were deemed uncollectible, and improvements in the overall creditworthiness of the Company's customer base.

Included in operating expenses for 2003 and 2002, were \$86 million and \$181 million, respectively, of non-cash compensation and professional expenses recognized under SFAS No. 123 related to grants of stock options, warrants and other stock-based compensation programs. The decrease in non-cash compensation expense is attributable to a decline in the value of grants distributed to eligible employees. Level 3 is currently evaluating its non-cash compensation programs and any changes to these programs, may have an affect on the amount of non-cash compensation recorded in the consolidated statement of operations.

The Company expects selling, general and administrative expenses to decline slightly in 2004 versus 2003, as the Company realizes the cost savings derived from the Genuity transaction.

Restructuring and Impairment Charges were \$45 million in 2003 and \$181 million in 2002. During the first quarter of 2003, Level 3 announced workforce reductions that ultimately will affect approximately 1,200 employees in the communications business by the end of the first quarter of 2004. During 2003, primarily as part of the integration of the business acquired from Genuity, the communications business terminated approximately 1,100 employees and recorded restructuring expenses of \$26 million.

In 2003, the information services business recognized \$19 million of restructuring charges related to the ongoing integration and restructuring of Software Spectrum, as well as the closure of (i)Structure's system integration operations in Ireland. These actions resulted in the termination of approximately 580 employees in 2003. The restructuring charges include \$6 million for lease termination costs for facilities the Company has ceased using.

In 2002, the Company's communications business recorded impairment charges of \$101 million related to a colocation facility in Boston, as well as certain corporate facilities in Colorado and excess communications inventory, which are classified as held for sale in other non-current assets. As a result of the completion of additional colocation space in Boston by other providers, the soft demand for office space in the metropolitan Denver area and the continued overabundance of communications equipment in the secondary markets, the Company believed that these assets were obsolete and that the estimated future undiscounted cash flows attributable to these assets were insufficient to recover their carrying value. The new carrying values of these assets were based on offers received from third parties for the real estate properties or actual sales of similar communication assets.

In December 2002, Level 3 entered in to a sale leaseback transaction for one of its New York colocation facilities and sold the colocation facility near Boston. The Company recognized a loss on these transactions of approximately \$81 million, which is included in restructuring and impairment charges on the consolidated statements of operations.

The Company recorded a benefit of \$13 million for the year ending December 31, 2002, due to the termination of leases for less than had originally been estimated in 2001 and included the benefit as a reduction in restructuring and impairment charges in the consolidated statements of operations in 2002.

The Company expects to incur additional costs for workforce reductions for both the communications and information services businesses in 2004; however, the Company does not expect these costs to be significant.

Level 3 conducted a comprehensive review of its communications assets, specifically assets deployed in and along its intercity network, metropolitan networks, in its gateway facilities and its colocation facilities and obligations as of December 31, 2003. The Company determined based upon its projections, that the estimated future undiscounted cash flows attributable to the communications assets exceeded the carrying value of those assets, and therefore, an adjustment to the carrying value of those assets was not necessary. However, future impairment adjustments could be necessary if the Company's actual results and expectations about the communications business should change.

Adjusted OIBDA is defined by the Company, as operating income/(loss) from the consolidated statements of operations, less depreciation and amortization expense, less non-cash compensation expense included within selling, general and administration expense on the consolidated statements of operations, and less the non-cash portion of restructuring and impairment charges. Adjusted OIBDA is not a measurement under accounting principles generally accepted in the United States and may not be used by other companies. Management believes that Adjusted OIBDA is an important part of the Company's internal reporting and is an indicator of profitability and operating performance used by the chief operating decision maker or decision making group, especially in a capital-intensive industry such as telecommunications. 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. Note 17 of the consolidated financial statements provides a reconciliation of Adjusted OIBDA for each of the Company's operating segments.

Adjusted OIBDA for the communications business was \$735 million and \$281 million for 2003 and 2002, respectively. The increase in 2003 is primarily attributable to the \$346 million of termination and settlement revenue recognized by the Company in 2003 versus \$76 million in 2002. The level of termination and settlement revenue recognized in 2003 is not expected to continue in 2004. Also contributing to the increase in 2003 were lower network and selling, general and administrative expenses, and earnings attributable to the Genuity transaction. Adjusted OIBDA for the information services business declined from \$40 million in 2002, to \$10 million for 2003 and is primarily attributable to \$19 million of cash restructuring charges recorded in 2003. In addition, the timing of the acquisition of Software Spectrum late in the second quarter of 2002 resulted in higher Adjusted OIBDA levels. A significant portion of the revenue and gross profit for the software business occurs late in the quarter. As a result, the Company was able to record sales and profits while incurring a disproportionately low amount of operating expenses in the second quarter of 2002. In 2003, profits earned by Software Spectrum on the additional sales were more than offset by the additional operating expenses incurred during the period. Adjusted OIBDA for the mining business declined to \$17 million in 2003, from \$20 million in 2002. The decrease is due to lower revenues, increases in labor costs at one of the Company's mines in 2003 and the reversal of a royalty accrual in 2002. Adjusted OIBDA for the Company's other businesses decreased from a positive \$10 million in 2002, to a negative \$5 million in 2003. The decline is attributable to the absence of earnings from the 91 Express Lanes toll road, which was sold in January 2003 and increases in legal and other professional fees.

The Company expects Adjusted OIBDA to decline in 2004 primarily as a result of lower termination revenue from the communications business partially offset by an increase in Adjusted OIBDA from the information services business due to lower restructuring and impairment charges.

Interest Income was \$18 million for 2003 compared to \$29 million in 2002. The decrease is primarily attributable to a reduction in the weighted average interest rate earned on cash balances. The Company's average return on its cash and cash equivalents decreased from 1.6% in 2002 to 1.0% in 2003. Pending utilization of cash and cash equivalents, the Company invests the funds primarily in government and government agency securities and money market funds. The investment strategy generally provides lower yields on the funds than on alternative investments, but reduces the risk to principal in the short term prior to these funds being used in the Company's business.

Interest Expense, net increased by \$7 million from 2002 to \$567 million in 2003. Interest expense increased in 2003 primarily as a result of a 50 basis point rate increase on borrowings under the amended Senior Secured Credit Facility that was effective in late 2002, the issuance of the 2.875% Convertible Senior Notes due 2010 in the second quarter of 2003, the issuance of the 9% Convertible Senior Discount Notes due 2013 and 10.75% Senior Notes due 2011 in the fourth quarter of 2003 and the \$24 million charge for unamortized deferred debt issuance costs attributable to the termination of the Senior Secured Credit Facility that was charged to interest expense in the third quarter of 2003. The increase

in interest expense was partially offset by reduced interest expense due to the repayment of the Senior Secured Credit Facility in October 2003 and the debt for equity transactions that occurred throughout 2003.

Level 3 expects interest expense to decline in 2004 as a result of the termination of the Senior Secured Credit Facility and the debt for equity transactions completed through the end of 2003.

Gain on Extinguishment of Debt for 2003 was \$41 million and \$255 million for 2002. In 2002, the Company had classified gains on the extinguishment of debt as an extraordinary item in the statement of operations. Pursuant to SFAS No. 145, which became effective January 1, 2003, Level 3 reclassified these gains to gains on extinguishment of debt on the consolidated statements of operations for all periods presented.

In the fourth quarter of 2003, the Company exchanged \$61 million aggregate principal amount of its 9.125% Senior Notes due 2008, \$53 million aggregate principal amount of its 11% Senior Notes due 2008, \$26 million aggregate principal amount of its 11.25% Senior Notes due 2010, and \$212 million face value (\$210 million carrying value) of its 10.5% Senior Discount Notes due 2008. The Company issued approximately 20 million shares of its common stock worth approximately \$105 million in exchange for these senior notes. The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$37 million for these transactions.

In the third quarter 2003, the Company exchanged \$18 million aggregate principal amount of its 11% Senior Notes due 2008, \$23 million of its 9.125% Senior Notes due 2008 and \$2 million aggregate principal amount of its 11.25% Senior Notes due 2010. The Company issued approximately 7 million shares of its common stock with a market value of approximately \$41 million. The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$2 million for these transactions.

In the second quarter of 2003, the Company exchanged \$100 million aggregate principal amount of its 9.125% Senior Notes due 2008. The Company issued approximately 13 million shares of its common stock with a market value of approximately \$96 million. The net gain on the early extinguishment of the debt, including transaction costs and unamortized debt issuance costs, was \$2 million.

For the year ended December 31, 2002, the Company exchanged \$12 million of its senior notes and \$175 million face value (\$141 million carrying value) of its senior discount notes. The Company issued approximately 15 million shares of its common stock worth approximately \$70 million in

exchange for these notes. The transactions were accounted for as extinguishments of debt. The net gain on the early extinguishments of the debt, including transaction costs and unamortized debt issuance costs, was \$82 million.

In the first and second quarters of 2002, the Company exchanged \$171 million aggregate principal amount of its convertible debt in exchange for the issuance of approximately 12 million shares of its common stock with a market value of approximately \$52 million. The transactions were accounted for as extinguishments of debt, in accordance with APB No. 26. The net gain on the early extinguishments of the debt, including transactions costs and unamortized debt issuance costs, was \$114 million.

In February 2002, the Company purchased \$89 million aggregate principal amount of debt for cash of \$31 million. The net gain on the extinguishments of the debt, including transaction costs, realized foreign currency gains and unamortized debt issuance costs, was approximately \$59 million.

Other, net decreased to a loss of \$107 million in 2003 from a gain of \$108 million in 2002. In 2003, the Company realized a gain of \$70 million from the sale of "91 Express Lanes" toll road, \$200 million of induced conversion expense resulting from the Company's conversion of convertible debt securities and \$3 million of equity earnings from the Company's investment in Commonwealth Telephone. In 2002, the Company realized a gain of \$191 million on the sale of approximately 9.6 million shares of Commonwealth Telephone common stock, \$88 million of induced conversion expenses resulting from the Company's conversion of convertible debt securities, realized losses of \$14 million resulting from the sale of foreign denominated currency and \$14 million of equity earnings attributable to Commonwealth Telephone.

Income Tax Benefit for 2002 was \$121 million compared to \$50 million for 2003. In 2003, the Internal Revenue Service completed the audit of the Company's 1996 and 1997 Federal tax returns. The resolution of these Federal tax audits and other state tax issues primarily related to its coal mining operations resulted in the Company reducing its deferred tax liabilities and recording an income tax benefit of approximately \$50 million in 2003.

Federal legislation enacted in the first quarter of 2002 enabled the Company to carryback its 2001 Federal income net operating losses to 1996. In accordance with SFAS No. 109 "Accounting for Income Taxes", the Company recorded the benefit in the period in which the legislation was enacted. The Company, as it is unable to determine when the tax benefits attributable to the remaining net operating losses will be realizable, has recorded a valuation allowance against the deferred tax assets.

Income from Discontinued Operations was \$5 million for 2003. During 2003 the Company sold its MFON business and recorded as

discontinued operations, operating income of \$12 million (from acquisition in February 2003 through its sale in December 2003). Level 3 did not recognize a gain or loss on this transaction, as it occurred within the one year "allocation period" provided under SFAS No. 141.

The Company also exited Software Spectrum's contact services business and recorded a loss from discontinued operations of \$7 million, including a loss of \$9 million on the sale of the business. As a result of its decision to exit the contact services business in 2003, the Company has reflected \$2 million of operating income attributable to the contact service business in 2002, within discontinued operations.

Cumulative Effect of Change in Accounting Principle of \$5 million resulted from the adoption of SFAS No. 143 as of January 1, 2003. The \$5 million reflects the net change in accrued reclamation liability attributable to the Company's coal operations.

Results of Operations 2002 vs. 2001

Revenue for 2002 and 2001 is summarized as follows:

	2002	2001
	(dollars in millions)	(dollars in millions)
Communications	\$ 1,101	\$ 1,298
Information Services	1,896	123
Coal Mining	84	87
Other	30	25
	<u>\$ 3,111</u>	<u>\$ 1,533</u>

Communications Revenue:

	2002	2001
	(dollars in millions)	(dollars in millions)
Services:		
Transport & Infrastructure	\$ 509	\$ 557
Softswitch	332	210
IP & Data	138	109
	<u>979</u>	<u>876</u>
Total Services Revenue	979	876
Reciprocal Compensation	122	134
Upfront Dark Fiber	—	288
	<u>\$ 1,101</u>	<u>\$ 1,298</u>
Total Communications Revenue	\$ 1,101	\$ 1,298

Transport and infrastructure revenue declined 9% in 2002 from 2001 levels. The decline was primarily due to reductions in joint build revenue and transoceanic revenue. Level 3 earned \$14 million and \$35 million of revenue in 2002 and 2001, respectively, for joint build management services provided to other communications companies. Joint build revenue declined as a result of Level 3 substantially completing the construction of its terrestrial fiber optic network in 2001. Level 3 also recognized \$68 million of revenue from the partial sale of its transatlantic submarine system to Viatel in 2001. Partially offsetting these declines was an increase in settlement and termination revenue. For some customers, Level 3 is able to negotiate and collect termination penalties. Level 3 recognized \$76 million and \$57 million of services revenue in 2002 and 2001, respectively, for fees or penalties associated with early termination of services. The Company also recognized approximately \$20 million of revenue in 2002 primarily attributable to contract settlements and metropolitan network conduit sales in which title was transferred.

Softswitch service revenue improved significantly in 2002 primarily due to increased demand for managed modem services. The Company's softswitch technology enables it to have a lower cost structure than most of its competitors and therefore is able to be very competitive in this particular market. Overall, Level 3 provided 55 billion minutes of use in 2002 versus 35 billion in 2001. The increase in minutes and revenue was primarily attributable to services provided to existing ISP customers. Slight declines in voice revenue partially offset the improved managed modem revenue figures.

IP and Data revenue increased 27% in 2002 compared to 2001. The increase is due to higher usage levels by new and existing customers.

The decrease in reciprocal compensation revenue in 2002 is attributable to the Company receiving regulatory approval from several states regarding its agreements with SBC Communications Inc. and BellSouth during the first half of 2001. These agreements established a rate structure for transmission

and switching services provided by one carrier to complete or carry traffic originating on another carrier's network. It is the Company's policy not to recognize revenue from these agreements until the relevant regulatory authorities approve the agreements. The Company reached an agreement with a major carrier in the fourth quarter of 2002 which resulted in the recognition of approximately \$12 million of reciprocal compensation revenue for services provided in prior periods.

The decrease in dark fiber revenue reflects the completion of the intercity network in 2001. The Company did not recognize dark fiber revenue under sales-type lease accounting in 2002 as the last remaining segments sold prior to June 30, 1999 were delivered to and accepted by customers in the fourth quarter of 2001.

Information services revenue, which is comprised of the businesses of (i) Structure, and Software Spectrum increased from \$123 million in 2001 to \$1,896 million for 2002. This increase is primarily attributable to the inclusion of \$1,800 million of revenue in 2002 reflecting activity subsequent to the acquisitions of CorpSoft and Software Spectrum, which occurred late in the first and second quarters of 2002, respectively. The software reseller industry is highly seasonal, with revenue and profits typically being higher in the second and fourth quarters of the Company's fiscal year. However, due to Microsoft's special upgrade promotions that accelerated sales into the third quarter of 2002, that likely would have occurred during the fourth quarter, the Company did not see the pronounced effects of the usual seasonality during the fourth quarter of 2002. (i) Structure's revenue declined in 2002 primarily as a result of lower systems integration revenue. Revenue attributable to the systems integration business of \$16 million was below 2001 levels of \$38 million, due to certain contracts expiring and (i) Structure continuing to focus on its outsourcing business.

Coal mining revenue was \$84 million for 2002 compared to \$87 million for 2001. The decline in revenue is attributable to scheduled reductions in contracted tonnage for a number of customers in 2002 partially offset by an increase in spot coal sales.

Other revenue for the 2002 period was comparable to 2001 and is primarily attributable to CPTC .

Cost of Revenue for 2002 for the communications business was \$209 million, representing a 65% decrease over 2001 cost of revenue of \$593 million. This decrease is a result of the lack of costs in 2002 associated with pre-June 30, 1999 dark fiber sales, recognized as up front revenue, and the migration of customer traffic from a leased network to the Company's own network. Overall, the cost of revenue for the communications business, as a percentage of communications revenue, decreased significantly from 46% in 2001 to 19% in 2002. Overall, the cost of revenue for the information services businesses, as a percentage of its revenue, was 92% for 2002 up from 71% in 2001. The cost of revenue, as a percentage of revenue, of the information services' outsourcing and systems integration businesses in 2001 and 2002 were comparable at 71%. Cost of revenue, as a percentage of revenue was approximately 93% for Software Spectrum in 2002, which management believes is typical of the software reseller industry. The cost of revenue for the coal mining business, as a percentage of revenue, was 68% for 2002 and 2001, respectively. The release of \$4 million in certain royalty accruals for a matter which was favorably resolved in 2002 was partially offset by an increase in higher cost spot coal sales.

Depreciation and Amortization expenses for 2002 were \$801 million, a 29% decrease from depreciation and amortization expenses of \$1.122 billion recorded in 2001. This decrease is primarily attributable to the reduced basis of the Company's communications assets resulting from the \$3.2 billion impairment charge recorded in the fourth quarter of 2001 and a \$35 million charge recorded in the second quarter of 2001 for the write down of certain corporate facilities. The Company also amortized \$22 million of goodwill attributable to the 1998 acquisition of XCOM Technologies, Inc. in 2001. Goodwill attributable to this investment has not been amortized in 2002 as a result of the adoption of SFAS No. 142. In addition, certain assets with two and three-year depreciable lives became fully depreciated in late 2001 and during 2002. Partially offsetting these declines was \$25 million of

amortization expense attributable to the intangible assets acquired in the McLeod, CorpSoft and Software Spectrum transactions completed in 2002.

Selling, General and Administrative expenses decreased from \$1.297 billion in 2001 to \$934 million in 2002. This decrease reflects the Company's efforts to reduce and tightly control operating expenses. The Company has reduced its global communications workforce by approximately 2,700 employees since the beginning of 2001. Reductions in employee related costs, including compensation, facilities costs, recruiting and training, as well as lower professional, travel and bad debt expenses contributed to the decline in selling, general and

administrative costs. The Company was also able to settle certain matters for amounts less than previously recorded and release compensation and other accruals as the issues were resolved at amounts less than originally estimated. These items resulted in a decrease in operating expenses of \$28 million in 2002. These reductions were partially offset by \$97 million of selling, general and administrative expenses attributable to Software Spectrum. Included in operating expenses for 2002 and 2001, were \$181 million and \$314 million, respectively, of non-cash compensation expenses recognized under SFAS No. 123 related to grants of stock options, warrants and other stock-based compensation programs. The decline in non-cash compensation was a result of decreased headcount and a decline in the value of equity based compensation awards distributed to employee-owners and consultants.

Restructuring and Impairment Charges of \$181 million and \$3.35 billion were recorded in 2002 and 2001, respectively. In 2002, Level 3 recorded restructuring charges of \$8 million for costs associated with workforce reductions. In the second quarter of 2002, a \$3 million restructuring charge was recorded for costs associated with a workforce reduction of approximately 200 employees in the communications business in North America and Europe. In the third quarter the Company recorded a restructuring charge of \$5 million primarily for severance and employee related costs associated with the integration of CorpSoft and Software Spectrum. Approximately 100 employees, primarily in Boston, were affected by the workforce reduction. The Company was able to record a benefit of \$13 million for the year ending December 31, 2002, due to the successful termination of leases for less than had originally been estimated in 2001 and included it as a reduction in restructuring and impairment charges in the consolidated statements of operations in 2002.

The Company recorded impairment charges of \$101 million related to a colocation facility in Boston, as well as certain corporate facilities in Colorado and excess communications inventory, which are classified as held for sale in other non-current assets. As a result of the completion of additional colocation space in Boston by other providers, the soft demand for office space in the metropolitan Denver area and the continued overabundance of communications equipment in the secondary markets, the Company believed that these assets were obsolete and that the estimated future undiscounted cash flows attributable to these assets were insufficient to recover their current carrying value. The new carrying values of these assets are based on offers received from third parties for the real estate properties or actual sales of similar communications assets.

In December 2002, Level 3 entered in to a sale leaseback transaction for one of its New York colocation facilities and sold the colocation facility near Boston. The Company recognized a loss on these transactions of approximately \$81 million, which is included in restructuring and impairment charges on the consolidated statements of operations.

In addition to the New York sale leaseback transaction, the Company also entered into a sale leaseback transaction for a colocation facility in London in 2002. These two transactions will initially increase annual rent expense by approximately \$8 million; however, the Company will only be obligated to pay for its share of the maintenance costs which is expected to result in annual savings of approximately \$9 million.

In 2001, the Company announced that due to the duration and severity of the slowdown in the economy and the telecommunications industry, it would be necessary to reduce operating expenses as

well as reduce and reprioritize capital expenditures in an effort to be in a position to benefit when the economy recovers. As a result of these actions, the Company reduced its global work force, primarily in the communications business in the United States and Europe by approximately 2,700 employees. Restructuring charges of approximately \$10 million, \$40 million and \$58 million were recorded in the first, second and fourth quarters of 2001, respectively, of which \$66 million related to staff reduction and related costs and \$42 million to real estate lease termination costs.

In the fourth quarter of 2001, in light of the continued economic uncertainty, continued customer disconnections at higher rates than expected, increased difficulty in obtaining new revenue, and the overall slow down in the communications industry, the Company again reviewed the carrying value of its long-lived assets for possible impairment in accordance with SFAS No. 144. The Company determined based upon its projections, giving effect to the continuing economic slowdown and continued over-capacity in certain areas of the telecommunications industry, the estimated future undiscounted cash flows attributable to certain assets or assets groups would not exceed the current carrying value of the assets. The Company, therefore, recorded an impairment charge of \$3.2 billion in the fourth quarter of 2001 to reflect the difference between the estimated fair value of the assets on a discounted cash flow basis and their current carrying value as further described below.

The impairments primarily related to colocation assets, excess conduits in North America and European intercity and metropolitan networks, and certain transoceanic assets. Geographically, approximately 74% of the charges were attributable to North America, 17% were attributable to Europe and 9% attributable to transatlantic assets.

The financial problems of many of the "dot-coms", emerging carriers and competitors, a weakening economy, and changing customer focus, led to an over-capacity of colocation space in several U.S. and European markets. Level 3 attempted to sell or sublease its excess colocation space; however, market rates at the time for much of the space were below the carrying values of the assets or the rental rates originally projected by the Company. As a result, the 2001 impairment charge included approximately \$1.6 billion related to its colocation assets, which included owned facilities, leasehold improvements and related equipment.

Level 3 constructed its networks in North America and Europe in such a way that they could be continuously upgraded to the most current

technology without affecting its existing customers. Level 3 also installed additional conduits with the intention of selling them to other carriers. As of December 31, 2001, the Company had sold one conduit in its North American network and, due to the economic environment and decreasing capital expenditure budgets of potential buyers, did not expect additional sales in the foreseeable future. For this reason the impairment charge in the fourth quarter of 2001 included approximately \$1.2 billion for the conduits that were previously determined to be available for sale to third parties based on estimated cash flows from the disposition of the conduits.

The completion of several transoceanic cable systems in the second half of 2001 and the expected completion of additional systems in 2002, resulted in an over abundance of transoceanic capacity. This excess capacity, combined with limited demand, adversely affected the transoceanic capacity markets. At current pricing levels at December 31, 2001, the Company did not believe it would recover its investment in transoceanic capacity from the future cash flows of these assets. As a result, the impairment charge in the fourth quarter of 2001 included approximately \$320 million for its transatlantic submarine assets based on the discounted estimated cash flows in future periods.

The Company's 2001 impairment charges also included approximately \$126 million for spare equipment write-downs and abandoned lateral fiber builds.

Interest Income was \$29 million for 2002 compared to \$161 million in 2001. The decrease is primarily attributable to the decline in the average cash and marketable security portfolio balance and

a reduction in the weighted average interest rate earned on the portfolio. The Company's average return on its portfolio decreased from 4.6% in 2001 to 1.6% in 2002.

Interest Expense, net decreased from 2001 by \$86 million to \$560 million in 2002. Interest expense declined as a result of the debt repurchased during the second half of 2001 and during 2002, and lower interest rates on the Senior Secured Credit Facility and commercial mortgages during 2002. The declines were partially offset by the interest attributable to the additional borrowings under the Senior Secured Credit Facility in the first quarter of 2001, the issuance of the 9% Junior Convertible Subordinated Notes due 2012 in the third quarter of 2002, and a decline in the amount of capitalized interest. The Company substantially completed the construction of its network in 2001, therefore reducing the amount of interest capitalization. Capitalized interest was \$58 million for 2001 and zero in 2002.

Gain on Debt Extinguishment for 2002 was \$255 million. In the first and second quarters of 2002, the Company exchanged \$171 million aggregate principal amount of its convertible debt for approximately 12 million shares of its common stock with a market value of approximately \$52 million. The transactions were accounted for as extinguishments of debt, in accordance with APB No. 26 "Early Extinguishment of Debt." The net gain on the early extinguishments of the debt, including transactions costs and unamortized debt issuance costs, was \$114 million.

For the year ended December 31, 2002, the Company exchanged \$12 million of its senior notes and \$175 million face value (\$141 million carrying value) of its senior discount notes. The Company issued approximately 15 million shares of its common stock worth approximately \$70 million in exchange for these notes. The transactions were accounted for as extinguishments of debt. The net gain on the early extinguishment of the debt, including transaction costs and unamortized debt issuance costs, was \$82 million.

In February 2002, the Company purchased \$89 million aggregate principal amount of debt for cash of \$31 million. The net gain on the extinguishment of the debt, including transaction costs, realized foreign currency gains and unamortized debt issuance costs, was approximately \$59 million.

The gain on debt extinguishments was \$1.075 billion for 2001. In 2001, the Company conducted a "Modified Dutch Auction" tender offer for a portion of the Company's senior debt and convertible debt securities. Under the "Modified Dutch Auction" procedure, the Company purchased debt with a face value of approximately \$1.7 billion, plus accrued interest, for a total purchase price of approximately \$731 million in cash. The net gain on the purchase, including transaction costs, foreign currency gains and unamortized debt issuance costs, was approximately \$967 million.

The Company exchanged \$194 million of its convertible subordinated notes in 2001 for approximately 15.9 million shares of its common stock worth approximately \$72 million. The net gain on the extinguishment of the debt, including transaction costs and unamortized debt issuance costs, was \$117 million.

Offsetting these gains in 2001 were \$9 million of prepayment expenses CPTC incurred to refinance its development and construction debt.

Other, net increased to \$108 million in 2002 from \$18 million in 2001. In 2002, the Company realized a gain of \$191 million on the sale of the Commonwealth Telephone shares and equity earnings attributable to Commonwealth Telephone of \$14 million, partially offset by \$88 million of induced conversion expenses resulting from the Company's exchange of convertible debt securities and realized losses of \$14 million resulting from the sale of foreign denominated currency. In 2001, other, net included a \$37 million charge for an other than temporary decline in the value of investments, \$27 million of income recognized when Level 3 settled and was released from an obligation to provide services to an investee, a \$17 million gain on the sale of foreign denominated securities, \$19 million of

losses associated with the disposal of certain fixed assets and \$16 million of equity earnings attributable to Commonwealth Telephone.

Income Tax Benefit for 2002 was \$121 million compared to zero in 2001. This benefit was primarily a result of Federal legislation enacted in the first quarter of 2002 which enabled the Company to carryback its 2001 Federal income tax net operating losses to 1996. In accordance with SFAS No. 109 "Accounting for Income Taxes", the Company recorded the benefit in the period in which the legislation was enacted. The income tax benefit was zero in 2001 as a result of the Company exhausting the taxable income in the carryback period (as previously defined) in 2000.

Discontinued Operations included the results of operations and the estimated loss on the disposal of Level 3's Asian assets. On December 19, 2001, Level 3 announced that it had agreed to sell its Asian telecommunications business to Reach Ltd. for no cash consideration. The transaction closed on January 18, 2002. As of December 31, 2001, the net carrying value of Level 3's Asian assets was approximately \$465 million. In accordance with SFAS No. 144, Level 3 recorded an impairment loss, within discontinued operations, equal to the difference between the carrying value of the assets and their fair value. Based upon the terms of the sale agreement, the Company also paid \$49 million in certain remaining capital obligations it assumed for the two submarine systems to be sold to Reach, and transaction costs. The losses from the discontinued Asian operating activities in 2001 were \$89 million.

Discontinued operations in 2002 included the operations of Software Spectrum's contact service business. The Company completed the sale of the business in the second quarter of 2003.

Financial Condition — December 31, 2003

Cash provided by operating activities improved from a \$431 million use of cash for 2002 to \$24 million source of cash in 2003. Changes in components of working capital including accounts payable and other current liabilities, primarily in the information services business and improvements in the operating results of the communications business were responsible for the improvement. The improved results were partially offset by an increase in accounts receivable of \$61 million in 2003 for the communications business. The Company's contractual terms and conditions permit Level 3 to bill the customer at the beginning of the service period. The vast majority of customer contracts acquired in the Genuity transaction require billings to be made at the end of the service period, or in arrears. As a result, the receivables for the communications business increased significantly at December 31, 2003 as compared to the receivable balance at December 31, 2002. Overall, cash flows from operating activities in 2003 were (\$3) million for the communications business (includes interest income and interest expense of \$376 million, net), \$21 million for the information services business and \$6 million for remaining businesses.

Investing activities primarily include the Genuity transaction for \$109 million, including transaction costs, and gross capital expenditures, primarily communications equipment, of \$191 million and a decrease in restricted cash of \$9 million. The Company received \$46 million of proceeds from the sale of its share of the 91 Express Lanes toll road operations and \$58 million from the sale of property, plant and equipment and other investments in 2003.

Financing sources in 2003 consisted of \$361 million and \$487 million of proceeds from the issuance of 2.875% Convertible Senior Notes and the 10.75% Senior Notes, respectively. The Company used the proceeds from the 10.75% Senior Notes and cash on hand to repay long-term debt of \$772 million, primarily the Senior Secured Credit Facility and capital leases acquired in the Genuity transaction. In addition to the cash used to repay the Senior Secured Credit Facility, Level 3 also used \$400 million of restricted securities to fully repay purchase money indebtedness borrowed under the facility. In 2003, Level 3 converted \$500 million of 9% Junior Convertible Subordinated Notes to equity and repurchased approximately \$500 million of other long-term debt by issuing approximately \$950 million

of common stock and \$208 million of newly issued 9% Convertible Senior Discount Notes due 2013. The Company was also able to reduce its long-term debt by approximately \$139 million due to the sale of the "91 Express Lanes" in January 2003. In addition to cash proceeds, the buyer also assumed the obligations of the toll road at the time of closing.

The Company's discontinued contact services business provided approximately \$9 million of cash in 2003, including \$4 million of net proceeds from the sale of the business. In addition, MFON provided approximately \$12 million of cash from operating activities in 2003 and \$16 million of proceeds from the sale of MFON in December 2003.

Liquidity and Capital Resources

The Company provides a broad range of integrated communications services as a facilities-based provider (that is, a provider that owns or leases a substantial portion of the property, plant and equipment necessary to provide its services.) The Company has created, through a combination of construction, purchase and, to a lesser extent, leasing of facilities and other assets, an advanced, international, end-to-end,

facilities-based communications network. The Company has designed its network based on optical and Internet Protocol technologies in order to leverage the efficiencies of these technologies to provide lower cost communications services.

The further development of the communications business will continue to require significant expenditures, including new service development costs. These expenditures may result in negative cash flows from operating activities and operating losses for the Company in the near future. The Company's expenditures will be primarily attributable to operating expenses, capital expenditures and interest payments. The Company expects base capital expenditures (capital required to keep the network operating efficiently) to be approximately \$100 million in 2004. The majority of the Company's ongoing capital expenditures are expected to be success-based, which are tied to incremental revenue. The Company expects success-based capital expenditures to increase in 2004 as a result of new government contracts awarded in 2003. The Company expects to pay in cash in 2004, based on debt levels at December 31, 2003, \$422 million of interest expense.

Level 3 has approximately \$1.129 billion of cash on hand at December 31, 2003. Based on information available at this time, management of the Company believes that the Company's current liquidity and anticipated future cash flows from operations will be sufficient to fund its business.

The Company estimates that its current liquidity and cash flows provided by operating activities will be sufficient to operate the business and will not require additional sources of financing. Cash flows from operating activities will fluctuate in 2004 and will be a function of revenue growth from existing and new services, the Company's management of network, selling, general and administrative, and capital expenditures and expected improvements in the operating performance of Software Spectrum due to the restructuring efforts made in 2003. The Company's previous debt and equity offerings have given the Company the ability to develop its business. However, if additional investment opportunities should present themselves, the Company may be required to secure additional financing in the future. In order to pursue these possible opportunities and provide additional flexibility to fund its business the Company, in January 2001, filed a "universal" shelf registration statement for an additional \$3 billion of common stock, preferred stock, debt securities, warrants, stock purchase agreements and depository shares. In July 2002, the Company sold \$500 million of its 9% Junior Convertible Subordinated Notes due 2012 under this shelf registration statement. In 2003, the Company sold approximately \$374 million of its 2.875% Senior Convertible Notes under this shelf registration statement. The remaining availability under this registration statement and under a previously existing registration statement would allow Level 3 to offer an aggregate of up to \$2.3 billion of additional securities to fund its business, although there can be no assurance that the Company could raise such amounts on acceptable terms or at the time the funding is necessary.

In addition to raising capital through the debt and equity markets, the Company may sell or dispose of existing businesses, investments or other non-core assets to fund portions of the business plan. In 2003, the Company received approximately \$46 million of proceeds for its interest in the "91 Express Lanes", \$16 million from the sale of the MFON business acquired in the Genuity transaction and \$4 million from the sale of Software Spectrum's contact service business. The Company also announced in January 2004 that it had sold its remaining equity position in Commonwealth Telephone for approximately \$41 million. In addition, the Company has announced that it will seek to sell or sublease excess real estate and may enter into sale leaseback transactions for required communications facilities. In 2003, Level 3 was able to generate approximately \$35 million of cash from these types of transactions. With the sale of Commonwealth Telephone shares, MFON and certain real estate transactions in 2003, management believes that the Company has now sold the substantial majority of its valuable non-core assets.

The Company may not be successful in producing sufficient cash flow, raising sufficient debt or equity capital on terms that it will consider acceptable, or selling or leasing fiber optic capacity or access to its conduits. In addition, proceeds from dispositions of the Company's assets may not reflect the assets' intrinsic values. Further, expenses may exceed the Company's estimates and the financing needed may be higher than estimated. Failure to generate sufficient funds may require the Company to delay or abandon some of its future expansion or expenditures, which could have a material adverse effect on the implementation of the business plan and could result in additional impairment charges on communications assets.

In connection with the implementation of the Company's business, management continues to review the existing businesses to determine how those businesses will assist with the Company's focus on delivery of communications and information services and reaching financial objectives. To the extent that certain businesses are not considered to be compatible with the delivery of communication and information services or with obtaining these financial objectives, the Company may exit those businesses. It is possible that the decision to exit these businesses could result in the Company not recovering its investment in the businesses and, in those cases, a significant charge to earnings could result.

Level 3 is aware that the various issuances of its outstanding senior notes, senior discount notes and convertible subordinated notes may to trade at discounts to their respective face or accreted amounts. In order to continue to reduce future cash interest payments, as well as future amounts due at maturity, Level 3 or its affiliates may, from time to time, purchase these outstanding debt securities for cash or exchange shares of Level 3 common stock for these outstanding debt securities pursuant to the exemption provided by Section 3(a)(9) of the Securities Act of 1933, as amended, in open market or privately negotiated transactions. Level 3 will evaluate any such transactions in light of then existing market conditions and the possible dilutive effect to shareholders. The amounts involved in any such transactions, individually or in the aggregate, may be material.

Current economic conditions of the telecommunications and information services industry, combined with Level 3's financial position and

significant liquidity, have created potential opportunities for Level 3 to acquire companies or portions of companies at attractive prices. Level 3 continues to evaluate these opportunities and could make additional acquisitions in 2004.

Off-Balance Sheet Arrangements

Level 3 has not entered into off-balance sheet arrangements that have had, or are likely to have, a current or future material effect to its results of operations or its financial position.

93

The following tables summarize the contractual obligations and commercial commitments of the Company at December 31, 2003, as further described in the notes to the financial statements.

Payments Due by Period	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
Long-Term Debt, including current portion	\$ 5,102	\$ 2	\$ 117	\$ 2,377	\$ 2,606
Capitalized Leases	273	123	150	—	—
Asset Retirement Obligations	127	1	4	5	117
Operating Leases	810	84	157	151	418
Purchase Obligations	43	43	—	—	—
Other Commercial Commitments					
Letters of Credit	28	8	—	2	18

The Company's debt instruments contain certain covenants, which among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates. If the Company should fail to comply with these covenants, amounts due under the instruments may be accelerated at the note holder's discretion.

The value of the Company's communications asset retirement obligations have been discounted to reflect the assumption that Level 3 will use the underlying assets over the entire lease term. If Level 3 should elect to abandon these assets before the end of the lease term, it may be required to remediate the leased property to its original condition at the time of abandonment and possibly at amounts higher than the obligation recorded on the consolidated balance sheet. The asset retirement obligations for the coal business are based on the estimated total cost to restore the mined properties to meet compliance with laws governing surface mining. These estimated costs are calculated based on the expected future risk adjusted cash flows to remediate such properties discounted at a risk-free rate.

The asset retirement obligations are calculated based on the several assumptions which could change over time. If actual results differ from the assumptions used, the amounts required to remediate the properties may differ significantly from the amounts reflected in the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Level 3 is subject to market risks arising from changes in interest rates, equity prices and foreign exchange rates. As of December 31, 2003, the Company had borrowed \$119 million under a commercial mortgage. Amounts drawn on the debt instrument bear interest at the alternate base rate or LIBOR rate plus an applicable margin. As the alternate base rate and LIBOR rate fluctuate, so too will the interest expense on amounts borrowed under the mortgage. The interest rate based on the remaining variable rate instrument of \$119 million at December 31, 2003, was approximately 3.67%. A hypothetical increase in the variable portion of the weighted average rate by 1% (i.e. a weighted average rate of 4.67%) would increase annual interest expense of the Company by approximately \$1.2 million. At December 31, 2003, the Company had \$5.26 billion of fixed rate debt bearing a weighted average interest rate of 9.4%. A decline in interest rates in the future will not benefit the Company due to the terms and conditions of the loan agreements that require the Company to repurchase the debt at specified premiums. The Company has been able to reduce its exposure to interest rate risk by acquiring certain outstanding indebtedness in exchange for shares of common stock and cash.

Level 3 continued to hold positions in certain publicly traded entities, primarily Commonwealth Telephone and RCN as of December 31, 2003. The Company accounts for the investment in RCN using the equity method. The investment in Commonwealth Telephone is accounted for using the cost method and due to its status as available for sale, it is recorded at its fair value of \$42 million on the

94

consolidated balance sheet. The market value of the Company's holdings in RCN was approximately \$18 million at December 31, 2003, which is higher than its carrying value of zero. Level 3 announced that it had sold its remaining stake in Commonwealth Telephone in January 2004 for \$41 million. In February 2004, RCN indicated that it would likely file for Chapter 11 bankruptcy protection. As a result, the market value of the Company's investment in RCN declined to \$9 million as of March 5, 2004. The Company does not currently utilize financial instruments to minimize its exposure to price fluctuations in equity securities.

The Company's business plan includes operating a telecommunications network and information services business in Europe. As of December 31, 2003, the Company had invested significant amounts of capital in the region for its communications business. The Company issued €800 million (€425 million outstanding at December 31, 2003) in Senior Euro Notes in February 2000 as an economic hedge against its net investment in its European subsidiaries at the time. As of December 31, 2003, the Company held only enough foreign denominated currency to fund its immediate working capital obligations. The Company has not made significant use of financial instruments to minimize its exposure to foreign currency fluctuations. Foreign exchange rate fluctuations in 2003 did not have a material effect on Level 3's results of operations and financial position. The Company continues to analyze risk management strategies to reduce foreign currency exchange risk.

The change in interest rates is based on hypothetical movements and are not necessarily indicative of the actual results that may occur. Future earnings and losses will be affected by actual fluctuations in interest rates and foreign currency rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary financial information for Level 3 Communications, Inc. and Subsidiaries begin on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective June 14, 2002, Level 3 Communications, Inc. (the "Registrant") determined not to renew the engagement of its independent accountants, Arthur Andersen LLP ("Andersen") and appointed KPMG LLP ("KPMG") as its new independent accountants, effective immediately. This determination followed the Registrant's decision to seek proposals from independent accountants to audit its financial statements for the fiscal year ending December 31, 2002. The decision not to renew the engagement of Andersen and to retain KPMG was approved by the Audit Committee of the Registrant's Board of Directors.

Andersen's report dated January 29, 2002, (except with respect to matters discussed in Note 17 to the financial statements, as to which the date is March 13, 2002) on the Registrant's 2001 financial statements was issued on March 13, 2002, in conjunction with the filing of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

During Level 3's two most recent fiscal years ended December 31, 2001, and the subsequent interim period through June 14, 2002, there were no disagreements between the Registrant and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to Andersen's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with their reports. None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within the Registrant's two most recent fiscal years and the subsequent interim period through June 14, 2002. The audit reports of Andersen on the consolidated financial statements of the Registrant and subsidiaries as of and for the fiscal years ended December 31, 2001 and 2000 do not contain any adverse opinion or

disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

The Registrant provided Andersen with a copy of the foregoing disclosures. Andersen provided a letter, dated June 19, 2002, to the Registrant stating that it has found no basis for disagreement with such statements.

During the Registrant's two most recent fiscal years ended December 31, 2001, and the subsequent interim period through June 14, 2002, the Registrant did not consult with KPMG regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Disclosure controls and procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2003. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules there under, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and

forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal controls.* There was no change in Level 3's internal controls over financial reporting that have occurred during the fourth quarter 2003 that has materially affected or is reasonably likely to materially affect, Level 3's internal controls over financial reporting.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference to the Company's definitive proxy statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, however certain information is included in Item 1. Business above under the caption "Directors and Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated by reference to the Company's definitive proxy statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is incorporated by reference to the Company's definitive proxy statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated by reference to the Company's definitive proxy statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

KPMG LLP serves as the Company's independent auditors. The following table presents fees (excluding expenses) for professional audit services rendered by KPMG LLP for the audit of the Level 3 annual financial statements for the years ended December 31, 2003, and 2002 and fees billed for other services rendered by KPMG LLP during those periods.

	2003	2002
Audit Fees(1)	\$ 2,067,000	\$ 1,306,000
Audit-Related Fees(2)	\$ 151,000	\$ 59,000
Tax Fees(3)	\$ 58,000	\$ 75,000
All Other Fees	0	0
Total Fees	\$ 2,276,000	\$ 1,440,000

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- (1) Audit fees consisted principally of fees for the audit of financial statements, including statutory audits of foreign subsidiaries and fees relating to comfort letters and registration statements.
- (2) Audit related fees consisted principally of fees for audits of employee benefit plans, agreed-upon procedures reports and due diligence activities.
- (3) Tax fees consisted principally of fees for tax consultation and tax compliance activities.

The Audit Committee of the Board of Directors of Level 3 is responsible for appointing, setting compensation, and overseeing the work of the independent public accountants. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent public accountants in order to assure the public accountant's independence. The Audit Committee has adopted a pre-approval process with respect to the provision of audit and non-audit services to be performed by KPMG LLP. This pre-approval process requires the Audit Committee to review and approve all audit services and permitted non-audit services to be performed by KPMG LLP. Pre-approval fee levels for all services to be provided by KPMG LLP are established annually by the Audit Committee. Audit services are subject to specific pre-approval while audit-related services, tax services and all other services may be granted pre-approvals within specified categories. Any proposed services exceeding these levels require specific pre-approval by the Audit Committee. Additionally, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. A report, for informational purposes only, of any pre-approval decisions made by a single member of the Audit Committee is made to the full Audit Committee on at least a quarterly basis. One hundred percent of the services that required pre-approval by the Audit Committee received that approval.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial statements and financial statement schedules required to be filed for the registrant under Items 8 or 15 are set forth following the index page at page F-1. Exhibits filed as a part of this report are listed below. Exhibits incorporated by reference are indicated in parentheses.

- 3.1 Restated Certificate of Incorporation dated March 31, 1998 (Exhibit 1 to Registrant's Form 8-A filed on April 1, 1998).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 3, 1999).
- 3.3 Specimen Stock Certificate of Common Stock, par value \$.01 per share (Exhibit 3 to the Registrant's Form 8-A filed on March 31, 1998).
- 3.4 Amended and Restated By-laws as of May 23, 2001 (Exhibit 3 to Registrant's Current Report on Form 8-K filed on November 7, 2003).
- 3.5 Rights Agreement, dated as of May 29, 1998, between the Registrant and Wells Fargo Bank Minnesota, NA (f/k/a Norwest Bank Minnesota, N.A.), as Rights Agent, which includes the Form of Certificate of Designation, Preferences, and Rights of Series A. Junior Participating Preferred Stock of the Registrant, as Exhibit A, the Form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (Exhibit 1 to the Registrant's Form 8-A Amendment No. 1 filed on June 10, 1998).
- 3.6 Amendment No. 1 to Rights Agreement, dated July 5, 2002, between the Registrant and Wells Fargo Bank Minnesota, NA, as Rights Agent (Exhibit 1.5 to the Registrant's Current Report on Form 8-K filed on July 8, 2002).
- 3.7 Form of Certificate of Designations, Number, Voting Powers, Preferences and Rights of Series B Convertible Preferred Stock (Exhibit 1.3 to the Registrant's Current Report on Form 8-K filed on July 8, 2002).
- 4.1 Indenture, dated as of April 28, 1998, between the Registrant and IBJ Schroder Bank & Trust Company as Trustee relating to the Registrant's 9% Senior Notes due 2008 (Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 File No. 333-56399).
- 4.2 Indenture, dated as of December 2, 1998, between the Registrant and IBJ Schroder Bank & Trust Company as Trustee relating to the Registrant's 10¹/₂ % Senior Discount Notes due 2008 (Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 File No. 333-71687).
- 4.3.1 Form of Senior Indenture (incorporated by reference to Exhibit 4.1 to Amendment 1 to the Registrant's Registration Statement on Form S-3 (File No. 333-68887) filed with the Securities and Exchange Commission on February 3, 1999).
- 4.3.2 First Supplemental Indenture, dated as of September 20, 1999, between the Registrant and IBJ Whitehall Bank & Trust Company as Trustee relating to the Registrant's 6% Convertible Subordinated Notes due 2009 (Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 20, 1999).
- 4.3.3 Second Supplemental Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 6% Convertible Subordinated Notes due 2010 (Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated February 29, 2000).

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- 4.3.4 Third Supplemental Indenture, dated as of July 8, 2002, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 9% Junior Convertible Subordinated Notes due 2012 (Exhibit 1.2 to the Registrant's Current Report on Form 8-K filed on July 8, 2002).
- 4.4 Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 11% Senior Notes due 2008 (Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 File No. 333-37362).
- 4.5 Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 11 ¹ / 4 % Senior Notes due 2010 (Exhibit 4.2 to the Registrant's Registration Statement on Form S-4 File No. 333-37362).
- 4.6 Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 12% Senior Discount Notes due 2010 (Exhibit 4.3 to the Registrant's Registration Statement on Form S-4 File No. 333-37362).
- 4.7 Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 10 ³ / 4 % Senior Euro Notes due 2008 (Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 File No. 333-37364).
- 4.8 Indenture, dated as of February 29, 2000, between the Registrant and The Bank of New York as Trustee relating to the Registrant's 11 ¹ / 4 % Senior Euro Notes due 2010 (Exhibit 4.2 to the Registrant's Registration Statement on Form S-4 File No. 333-37364).
- 4.9 Amended and Restated Indenture dated as of July 8, 2003, by and between the Company and The Bank of New York, as successor to IBJ Whitehall Bank & Trust Company, as trustee (amends and restates the Senior Debt Indenture, a Form of which was filed as an Exhibit to the Company's Registration Statement on Form S-3-File No. 333-68887) (Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed July 8, 2004).
- 4.10 First Supplemental Indenture, dated as of July 8, 2003, by and between the Company and The Bank of New York, as successor to IBJ Whitehall Bank & Trust Company, as trustee (Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed July 8, 2004).
- 4.11 Indenture, dated as of October 1, 2003, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc. as Issuer and The Bank of New York as Trustee relating to the Level 3 Financing, Inc. 10.75% Senior Notes due 2011.
- 4.12 Indenture, dated as of October 24, 2003, by and between the Registrant and The Bank of New York as Trustee relating to the Registrant's 9% Convertible Senior Discount Notes due 2013.
- 10.1 Separation Agreement, dated December 8, 1997, by and among Peter Kiewit Sons', Inc., Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc. (Exhibit 10.1 to the Registrant's Form 10-K for 1997).
- 10.2 Amendment No. 1 to Separation Agreement, dated March 18, 1997, by and among Peter Kiewit Sons', Inc., Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc. (Exhibit 10.1 to the Registrant's Form 10-K for 1997).
- 10.3 Form of Aircraft Time-Share Agreement (Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.4.1 Asset Purchase Agreement by and among Level 3 Communications, Inc., Level 3 Communications, LLC, Genuity Inc., and the subsidiaries of Genuity Inc. listed on the signature page thereto, dated as of November 27, 2002 (Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2002).

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- 10.4.2 Amendment, Consent and Waiver to the Asset Purchase Agreement, dated as of December 30, 2002, effective as of November 27, 2002, by and among the Registrant, the Purchasers and the Sellers (Exhibit 10.1 to the Registrant's current report on Form 8-K dated January 3, 2003).
- 10.4.3 Second Amendment and Waiver to the Asset Purchase Agreement, dated as of January 24, 2003, by and among the Registrant, the Purchasers and the Sellers (Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 4, 2003).
- 10.4.4 Third Amendment and Waiver to the Asset Purchase Agreement, dated as of January 31, 2003, by and among the Registrant, the

Purchasers and the Sellers (Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated February 4, 2003).

- 10.4.5 Transition Services Agreement, dated as of February 4, 2003, by and among the Purchasers and the Sellers (Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated February 4, 2003).
- 10.5 Warrant Agreement, dated as of April 15, 2002, between the Registrant and Walter Scott, Jr. (Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for 2002).
- 21 List of subsidiaries of the Company.
- 23.1 Consent of KPMG LLP.
- 23.2 Information Regarding Consent of Arthur Andersen LLP.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed by the Registrant during the fourth quarter of 2003 include the following:

On November 7, 2003, the Company filed with the Securities and Exchange Commission a Current Report on Form 8-K regarding the amended and restated by-laws of the Company;

On October 24, 2003, the Company furnished to the Securities and Exchange Commission a Current Report on Form 8-K a press release relating to, among other things, third quarter 2003 financial results; and

On October 1, 2003, the Company furnished to the Securities and Exchange Commission a Current Report on Form 8-K a press release relating to the termination of a senior secured credit facility.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Independent Auditors' Report	F-2
Report of Independent Public Accountants	F-3
Financial Statements as of December 31, 2003 and 2002 and for each of the three years ended December 31, 2003:	
Consolidated Statements of Operations	F-4
Consolidated Balance Sheets	F-5
Consolidated Statements of Cash Flows	F-6
Consolidated Statements of Changes in Stockholders' Equity (Deficit)	F-8
Consolidated Statements of Comprehensive Loss	F-9
Notes to Consolidated Financial Statements	F-10

Schedules not indicated above have been omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements or in the notes thereto.

We have audited the consolidated balance sheets of Level 3 Communications, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, cash flows, changes in stockholders' equity (deficit) and comprehensive loss for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2001 consolidated financial statements of Level 3 Communications, Inc. as listed in the accompanying index, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on the consolidated financial statements in their report dated January 29, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2003 and 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Level 3 Communications, Inc. and subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, Level 3 Communications, Inc. and subsidiaries adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002, and Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003.

As discussed above, the 2001 consolidated financial statements of Level 3 Communications, Inc. and subsidiaries were audited by other auditors who have ceased operations. As described in notes 1 and 11, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002, and Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," which was adopted by the Company as of January 1, 2003. In our opinion, the disclosures for 2001 in notes 1 and 11 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of Level 3 Communications, Inc. and subsidiaries other than with respect to such disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

/s/ KPMG LLP

Denver, Colorado
March 1, 2004

F-2

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of
Directors of Level 3 Communications, Inc.:

We have audited the consolidated balance sheets of Level 3 Communications, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows, changes in stockholders' equity (deficit) and comprehensive income (loss) for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Level 3 Communications, Inc. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Denver, Colorado
January 29, 2002, except with respect to the matters
discussed in Note 17, as to which the date is March 13, 2002.

This report is a copy of a previously issued Arthur Andersen LLP report included in the Company's 2001 Annual Report on Form 10-K filed with the Securities and Exchange Commission and has not been reissued by Arthur Andersen LLP.

F-3

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For each of the three years ended December 31, 2003

	2003	2002	2001
	(dollars in millions, except per share data)		
Revenue:			
Communications	\$ 1,947	\$ 1,101	\$ 1,298
Information Services	1,999	1,896	123
Coal Mining	80	84	87
Other	—	30	25
Total revenue	4,026	3,111	1,533
Costs and Expenses (exclusive of depreciation and amortization shown separately below):			
Cost of revenue:			
Communications	370	209	593
Information Services	1,836	1,742	90
Coal Mining	58	57	59
Total cost of revenue	2,264	2,008	742
Depreciation and amortization	827	801	1,122
Selling, general and administrative	1,046	934	1,297
Restructuring and impairment charges	45	181	3,353
Total costs and expenses	4,182	3,924	6,514
Operating Loss	(156)	(813)	(4,981)
Other Income (Expense):			
Interest income	18	29	161
Interest expense, net	(567)	(560)	(646)
Gains on early extinguishment of debt	41	255	1,075
Other, net	(107)	108	18
Total other income (expense)	(615)	(168)	608
Loss from Continuing Operations Before Income Tax and Change in Accounting Principle	(771)	(981)	(4,373)
Income Tax Benefit	50	121	—

Loss from Continuing Operations	(721)	(860)	(4,373)
Income (Loss) from Discontinued Operations	5	2	(605)
Net Loss Before Change in Accounting Principle	(716)	(858)	(4,978)
Cumulative Effect of Change in Accounting Principle	5	—	—
Net Loss	\$ (711)	\$ (858)	\$ (4,978)
Earnings (Loss) Per Share of Level 3 Common Stock (Basic and Diluted):			
Loss from Continuing Operations	\$ (1.28)	\$ (2.11)	\$ (11.70)
Income (Loss) from Discontinued Operations	\$.01	\$ —	\$ (1.62)
Cumulative Effect of Change in Accounting Principle	\$.01	\$ —	\$ —
Net Loss	\$ (1.26)	\$ (2.11)	\$ (13.32)

See accompanying notes to consolidated financial statements.

F-4

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

	2003	2002
	(dollars in millions, except per share data)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,129	\$ 1,142
Marketable securities	42	—
Restricted cash	74	99
Receivables, less allowances for doubtful accounts of \$28 and \$29, respectively	561	527
Other	140	171
Total Current Assets	1,946	1,939
Net Property, Plant and Equipment	5,727	6,005
Restricted Cash	61	467
Goodwill and Intangibles, net	459	380
Other Assets, net	100	172
	\$ 8,293	\$ 8,963
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Accounts payable	\$ 651	\$ 691
Current portion of long-term debt	125	4
Accrued payroll and employee benefits	135	147
Accrued interest	100	92
Deferred revenue	189	199
Other	231	220

Total Current Liabilities	1,431	1,353
Long-Term Debt, less current portion	5,250	6,102
Deferred Revenue	954	1,264
Accrued Reclamation Costs	90	92
Other Liabilities	387	392
Commitments and Contingencies		
Stockholders' Equity (Deficit):		
Preferred stock, \$.01 par value, authorized 10,000,000 shares: no shares outstanding	—	—
Common stock:		
Common stock, \$.01 par value, authorized 1,500,000,000 shares: 677,828,634 outstanding in 2003 and 443,556,864 outstanding in 2002	7	4
Class R, \$.01 par value, authorized 8,500,000 shares: no shares outstanding	—	—
Additional paid-in capital	7,360	6,273
Accumulated other comprehensive loss	(90)	(132)
Accumulated deficit	(7,096)	(6,385)
Total Stockholders' Equity (Deficit)	181	(240)
	\$ 8,293	\$ 8,963

See accompanying notes to consolidated financial statements.

F-5

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three years ended December 31, 2003

	2003	2002	2001
	(dollars in millions)		
Cash Flows from Operating Activities:			
Net Loss	\$ (711)	\$ (858)	\$ (4,978)
(Income) loss from discontinued operations	(5)	(2)	605
Cumulative effect of change in accounting principle	(5)	—	—
Loss from continuing operations	(721)	(860)	(4,373)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) continuing operations:			
Equity earnings, net	(3)	(14)	(16)
Depreciation and amortization	827	801	1,122
Induced conversion expense on convertible debt	200	88	—
Gain on debt extinguishments, net	(41)	(255)	(1,075)
Dark fiber and submarine cable non-cash cost of revenue	—	4	160
Loss on impairments and asset sales	—	182	3,245
(Gain) loss on sale of property, plant and equipment, Commonwealth shares and other assets	(74)	(189)	3
Non-cash compensation expense attributable to stock awards	86	181	314
Deferred revenue	(267)	49	706
Deferred income taxes	(57)	16	8
Amortization of debt issuance costs	42	40	27

Accreted interest on discount debt	106	110	116
Accrued interest on long-term debt	25	9	(37)
Change in working capital items net of amounts acquired:			
Receivables	(26)	(26)	275
Other current assets	41	(77)	(4)
Payables	(55)	(340)	(666)
Other liabilities	(48)	(117)	115
Other	(11)	(33)	221
Net Cash Provided by (Used in) Continuing Operations	24	(431)	141
Cash Flows from Investing Activities:			
Proceeds from sales and maturities of marketable securities	—	200	3,670
Purchases of marketable securities	—	—	(1,162)
Decrease (increase) in restricted securities	9	(410)	56
Capital expenditures	(191)	(218)	(2,325)
Release of capital expenditure accruals	28	215	—
Purchase of assets held for sale, net	—	—	(110)
Investments and acquisitions	(2)	(16)	—
Genuity acquisition	(109)	—	—
McLeod acquisition	—	(51)	—
CorpSoft acquisition, net of cash acquired of \$34	—	(93)	—
Software Spectrum acquisition, net of cash acquired of \$40	—	(94)	—
Proceeds from sale of toll road operations	46	—	—
Proceeds from sale of Commonwealth shares	—	326	—
Proceeds from sale of property, plant and equipment, and other investments	58	130	67
Net Cash Provided by (Used in) Investing Activities	\$ (161)	\$ (11)	\$ 196

(continued)

See accompanying notes to consolidated financial statements.

F-6

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

For the three years ended December 31, 2003

	2003	2002	2001
	(dollars in millions)		
Cash Flows from Financing Activities:			
Long-term debt borrowings, net of issuance costs	\$ 848	\$ 490	\$ 761
Payments and repurchases of long-term debt, including current portion	(772)	(159)	(812)
Stock options exercised	3	1	2
Net Cash Provided by (Used in) Financing Activities	79	332	(49)
Net Cash Provided by (Used in) Discontinued Operations	37	(45)	(226)
Effect of Exchange Rates on Cash and Cash Equivalents	8	—	(20)
Net Change in Cash and Cash Equivalents	(13)	(155)	42
Cash and Cash Equivalents at Beginning of Year	1,142	1,297	1,255

Cash and Cash Equivalents at End of Year	\$	1,129	\$	1,142	\$	1,297
Supplemental Disclosure of Cash Flow Information:						
Cash interest paid	\$	394	\$	414	\$	598
Noncash Investing and Financing Activities:						
Common stock issued in exchange for long term debt	\$	953	\$	466	\$	72
Long-term debt principal retired by issuing common stock		1,007		582		194
Accrued interest paid with common stock		10		—		—
Common stock issued for Telseve acquisition		29		—		—
Long-term debt extinguished due to sale of toll road operations.		139		—		—
Settlement of debt obligation and current liabilities with restricted securities		410		—		—
Capital leases assumed in Genuity transaction		309		—		—
Decrease in deferred revenue related to Genuity transaction		76		—		—
Warrants issued (cancelled) in exchange for construction services		(2)		—		32

See accompanying notes to consolidated financial statements.

F-7

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For the three years ended December 31, 2003

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
			(dollars in millions)		
Balances at December 31, 2000	\$ 4	\$ 5,167	\$ (73)	\$ (549)	\$ 4,549
Common Stock:					
Issued to extinguish long-term debt	—	72	—	—	72
Warrants issued for capital assets	—	32	—	—	32
Stock options exercised	—	2	—	—	2
Stock plan grants	—	312	—	—	312
Shareworks plan	—	17	—	—	17
Net Loss	—	—	—	(4,978)	(4,978)
Other Comprehensive Loss	—	—	(71)	—	(71)
Balances at December 31, 2001	4	5,602	(144)	(5,527)	(65)
Common Stock:					
Issued to extinguish long-term debt	—	466	—	—	466
Stock options exercised	—	1	—	—	1
Stock plan grants	—	168	—	—	168
Shareworks plan	—	36	—	—	36
Net Loss	—	—	—	(858)	(858)
Other Comprehensive Income	—	—	12	—	12
Balances at December 31, 2002	4	6,273	(132)	(6,385)	(240)
Common Stock:					
Issued to extinguish long-term debt	3	950	—	—	953
Stock options exercised	—	3	—	—	3
Stock plan grants	—	57	—	—	57

Shareworks plan	—	36	—	—	36
401(k) plan	—	14	—	—	14
Warrants cancelled	—	(2)	—	—	(2)
Telverse acquisition	—	29			29
Net Loss	—	—	—	(711)	(711)
Other Comprehensive Income	—	—	42	—	42
Balances at December 31, 2003	\$ 7	\$ 7,360	\$ (90)	\$ (7,096)	\$ 181

See accompanying notes to consolidated financial statements.

F-8

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three years ended December 31, 2003

	2003	2002	2001
	(dollars in millions)		
Net Loss	\$ (711)	\$ (858)	\$ (4,978)
Other Comprehensive Income (Loss) Before Tax:			
Foreign currency translation adjustments	31	24	(21)
Unrealized holding gains (losses) on marketable equity securities and other arising during period	14	(21)	(4)
Reclassification adjustment for (gains) losses included in net loss	(3)	9	(46)
Other Comprehensive Income (Loss), Before Tax	42	12	(71)
Income Tax Benefit Related to Items of Other Comprehensive Income (Loss)	—	—	—
Other Comprehensive Income (Loss) Net of Taxes	42	12	(71)
Comprehensive Loss	\$ (669)	\$ (846)	\$ (5,049)

See accompanying notes to consolidated financial statements.

F-9

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Level 3 Communications, Inc. and subsidiaries (the "Company" or "Level 3") in which it has control, which are engaged in enterprises primarily related to communications, information services, and coal mining. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. Investments in other companies in which the Company exercises significant influence over operating and financial policies or has significant equity ownership are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated.

In 2003, Level 3 sold Software Spectrum Inc.'s contact service business and the Midwest Fiber Optic Network ("MFON") business acquired in the Genuity Inc. ("Genuity") transaction. In addition, the Company agreed to sell its Asian telecommunications business to Reach Ltd. ("Reach") in 2001. Therefore, the results of operations and cash flows for these businesses have been classified as discontinued operations in the consolidated financial statements (See Note 3).

Communications

The Company's communications business provides a broad range of integrated communications services primarily in the United States and Europe as a facilities-based provider (that is, a provider that owns or leases a substantial portion of the property, plant and equipment necessary to provide its services). The Company has created, through a combination of construction, purchase and leasing of facilities and other assets, an advanced international, end-to-end, facilities-based communications network. The Company has built and continues to upgrade the network based on optical and Internet Protocol technologies in order to leverage the efficiencies of these technologies to provide lower cost communications services.

Revenue for communications services, including private line, wavelengths, colocation, Internet access, managed modem, voice and dark fiber revenue from contracts entered into after June 30, 1999, is recognized monthly as the services are provided based on contractual amounts expected to be collected. Reciprocal compensation revenue is recognized only when an interconnection agreement is in place with another carrier, and the relevant regulatory authorities have approved the terms of the agreement. Revenue attributable to leases of dark fiber pursuant to indefeasible rights-of-use agreements ("IRUs") that qualify for sales-type lease accounting, and were entered into prior to June 30, 1999, are recognized at the time of delivery and acceptance of the fiber by the customer.

It is the Company's policy to recognize termination/settlement revenue when certain conditions have been met. These conditions include: 1) the customer has accepted all or partial delivery of the asset or service; 2) Level 3 has received consideration for the asset or service provided; and 3) Level 3 is not legally obligated to provide additional product or services to the customer or their successor under the original contract. Termination/settlement revenue is recognized in situations where a customer and Level 3 mutually agree to terminate all or a portion of the service provided, or the customer and/or its assets fail to emerge from bankruptcy and, therefore, Level 3 is not obligated to provide additional product or services to the customer or its successor. If the conditions described above are met, the Company will recognize termination/settlement revenue equal to the fair value of consideration received, less any amounts previously recognized.

F-10

Termination revenue is also recognized when a customer disconnects service prior to the end of the contract period, for which Level 3 had previously received consideration and for which revenue recognition was deferred. In addition, termination revenue is recognized when customers make termination penalty payments to Level 3 to settle contractually committed purchase amounts that the customer no longer expects to meet. Settlement revenue is recognized when a customer and Level 3 renegotiate a contract under which Level 3 is no longer obligated to provide leased facilities or services for consideration previously received and for which revenue recognition has been deferred. Termination/settlement revenue is reported in the same manner as the original product or service provided, and amounted to \$346 million, \$76 million, and \$57 million in 2003, 2002, and 2001, respectively (See Note 4).

Level 3 entered into joint build arrangements during the construction of its North American and European networks in which it was the sponsoring partner. These arrangements are generally characterized as fixed fee or cost sharing arrangements. For fixed-fee joint build arrangements in which Level 3 is the sponsor, the Company assumes the cost risk of completing the work for a fixed price agreed upon at the inception of the arrangement between the parties. Level 3 recognizes revenue equal to the value of the contract when construction is complete and payment is received from the joint build partner. For cost sharing arrangements each of the joint build parties shares the cost risk of completing the work. These contracts typically include provisions in which the sponsoring partner receives a management fee for construction services provided. Level 3 recognizes this management fee as revenue in the period when the contract is completed and payment is received from the joint build partner. In 2003, 2002, and 2001 the Company recognized \$1 million, \$14 million and \$35 million, respectively, of revenue from joint build arrangements, the majority of which resulted from management fees.

Level 3 was party to seven non-monetary exchange transactions in 2001 whereby it sold IRUs, other capacity, or other services to a company from which Level 3 received communications assets or services. In each case, the transaction provided Level 3 needed network capacity or redundancy on unprotected transmission routes. The fair value of these non-monetary transactions was determined using similar transactions for which cash consideration was received. Level 3 recognized no revenue from non-monetary exchange transactions prior to 2001.

In August 2002, the staff of the Securities and Exchange Commission (the "SEC") indicated that the SEC staff had concluded that all non-monetary exchange transactions for telecommunications capacity should be accounted for as an exchange of assets, irrespective of whether the transaction involved the lease of assets. The conclusion was based on the SEC staff's view that the right to use an asset (that is, a lease), is in fact an asset and not a service contract, irrespective of whether such asset is characterized as an asset on the balance sheet. This conclusion requires that non-monetary exchange transactions for telecommunications capacity involving the exchange of one or more operating leases be recognized based on the carrying value of the assets exchanged, rather than at fair value, resulting in no recognition of revenue for the transactions. Prior to the SEC's communication on this issue, Level 3's accounting for these transactions, which resulted in Level 3 recognizing revenue, had been consistent with industry guidance for these types of transactions. In addition, the revenue recognition approach for these transactions that the Company followed was an acceptable practice in not only the communications industry but other industries as well. The SEC indicated that it

expects affected companies to retroactively apply this guidance to historical non-monetary exchange capacity transactions that occurred in prior years and, if appropriate, restate their financial statements.

F-11

Level 3 was a party to three transactions that involved the use of operating leases for capacity. The revenue recognized in 2001 from these transactions was \$21 million. For the first six months of 2002, \$2 million was recognized from these transactions.

Taking into account the SEC's guidance, Level 3 does not believe that it is appropriate to restate its previously issued financial statements for this issue involving non-monetary transactions, as the amount of revenue recognized was not significant to Level 3's reported revenue, and Level 3 has previously disclosed the nature and amount of these transactions in its previous filings with the SEC and in a press release issued on February 13, 2002. However, Level 3 ceased recognizing communications revenue from the three transactions involving operating leases, estimated to be approximately \$1 million per quarter, in the third quarter of 2002.

The Company is obligated under dark fiber IRUs and other capacity agreements to maintain its network in efficient working order and in accordance with industry standards. Customers are obligated for the term of the agreement to pay for their allocable share of the costs for operating and maintaining the network. The Company recognizes this revenue monthly as services are provided.

Level 3's customer contracts require the Company to provide certain service level commitments. If Level 3 does not meet the required service levels, it may be obligated to provide credits, usually in the form of free service for a short period of time. The original services that resulted in the credits are not included in revenue and to date, have not been material.

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, but excludes depreciation and amortization and related impairment expenses. The cost of revenue associated with sales-type leases of dark fiber agreements entered into prior to June 30, 1999, was determined based on an allocation of the total estimated costs of the network to the dark fiber provided to the customers. The allocation takes into account the service capacity of the specific dark fiber provided to customers relative to the total expected capacity of the network. Changes to total estimated costs and network capacity are included in the allocation in the period in which they become known. Cost of revenue associated with the sale of transoceanic capacity that previously met the accounting requirements as sales-type leases, were also determined based on taking into account service capacity and costs incurred by Level 3 and its contractors to construct such assets.

Accounting practice and guidance with respect to the treatment of submarine dark fiber sales and terrestrial IRU agreements continue to evolve. Any changes in the accounting treatment could affect the way the Company accounts for revenue and expenses associated with these transactions in the future.

Competition

The communications industry is highly competitive and is currently operating in a difficult economic environment. Many of the Company's existing and potential competitors in the communications industry have financial, personnel, marketing and other resources significantly greater than those of the Company, as well as other competitive advantages including larger customer bases. Increased consolidation and strategic alliances in the industry resulting from the Telecommunications

F-12

Act of 1996, the opening of the U.S. market to foreign carriers, technological advances and further deregulation could give rise to significant new competitors to the Company.

Concentration of Credit Risk

The Company provides communications services to a wide range of customers, ranging from well capitalized national carriers to smaller, early stage companies. Beginning in 2001, Level 3 changed its customer focus to the top 300 global users of bandwidth capacity. These top 300 global users tend to be financially more viable than smaller, early stage companies. The Company has in place policies and procedures to review the financial condition of potential and existing customers and concludes that collectibility of revenue and other out-of-pocket expenses are probable prior to commencement of services. If the financial condition of an existing customer deteriorates to a point where payment for services is in doubt, the Company will not recognize revenue attributable to that customer until cash is received. Based on the change in its customer focus, the Company's customer base decreased from approximately 3,000 during the first quarter of 2001 to approximately 1,350 during the fourth quarter of 2002 and its exposure to credit risk within the communications business and the related effect on the financial statements was reduced during that period. In 2003, the Company acquired substantially all the assets of Genuity (See Note 2), including several thousand additional customers that did not meet the profile of the customers described above. As a result of the Genuity transaction, the total number of customers grew to approximately 3,300 during 2003. The significant growth in non-profile customers resulted in increased credit risk, although

the policies and procedures for reviewing the financial condition and recognizing revenues of these additional customers remained consistent with those described above. The Company is not immune from the effects of the downturn in the economy and specifically the communications industry; however, management believes the concentration of credit risk with respect to receivables is mitigated due to the dispersion of the Company's customer base among different industries and geographic areas and remedies provided by terms of contracts and statutes.

A significant portion of Level 3's communications service revenue is concentrated among a limited number of customers. Revenue attributable to Time Warner Inc. and subsidiaries amounted to \$446 million for the year ended December 31, 2003, representing approximately 11 percent of total revenue and is included within the Communications segment on the consolidated statement of operations. If Level 3 would lose one or more major customers, or if one or more major customers significantly decreased its orders of Level 3 services, the Company's communications business would be materially and adversely affected.

Level 3's largest managed modem customer, America Online, is expected to reduce overall purchases of fixed service ports for its U.S. dial-up network and to reduce proportionately the number of ports it purchases from Level 3 in the future. The Company believes that this reduction and other factors could result in a year-over-year decline in managed modem related revenue of \$100 to \$150 million in 2004.

Information Services

The Company's information services business is comprised of two operating units: (i) Structure, primarily a provider of computer outsourcing services, and Software Spectrum, Inc. ("Software Spectrum"), a distributor, marketer and reseller of business software. The outsourcing services provided by (i) Structure are managed computer infrastructure services, primarily networking and computing

F-13

services for mainframe, midrange and UNIX/Windows servers located within (i) Structure's data centers. (i) Structure enables its customers to avoid expending capital and incurring redundant overhead costs to operate their own computing environments resulting in a lower cost of computing and improved levels of service. A majority of the outsourcing contracts between (i) Structure and its customers provide for a fixed fee for a base level of computing services that are delivered each month throughout the three to five year term of the contracts. (i) Structure recognizes revenue in the month the service is provided, generally equal to the contract value amortized on a straight-line basis. Certain contracts allow for incremental or decremental services above or below the base level of services with the majority of these contracts determining charges based on actual hours utilized. The base monthly service fee that (i) Structure recognizes as revenue is increased or decreased in accordance with the terms of the contract. (i) Structure also provides customers with a combination of software tools and methodologies that provide a complete strategy for converting mainframe-based application systems to UNIX/Windows server architecture. The majority of (i) Structure's systems integration services are provided under time and materials contracts under which (i) Structure provides a certain level of consulting hours for a specified period of time. For these contracts, (i) Structure recognizes service revenue in the month the services are performed. For certain contracts, service fees are dependent on the successful completion of certain project milestones outlined in the customer contract. For these contracts, (i) Structure recognizes service revenue upon the successful completion of the contract milestone.

Software Spectrum is a reseller of business software. Accounting literature provides guidance to enable companies to determine whether revenues from the reselling of goods and services should be recorded on a "gross" or "net" basis. The Company believes that the facts and circumstances, particularly those involving pricing and credit risk indicate that the majority of Software Spectrum's sales should be recorded on a "gross" basis. The latitude and ability of Software Spectrum to establish the selling price to the customer is a clear indication of "gross" revenue reporting. The assumption of credit risk is another important factor in determining "gross" versus "net" reporting. Software Spectrum has the responsibility to pay suppliers for all products ordered, regardless of when, or if, it collects from its customers. Software Spectrum is also solely responsible for determining the creditworthiness of its customers.

Microsoft Corporation, a significant supplier of software to Software Spectrum, changed certain licensing programs in 2001 whereby new enterprise-wide licensing arrangements will be priced, billed and collected directly by Microsoft. In 2003, several other software publishers, for whom Software Spectrum resells products and services, began adopting this type of licensing program. Software Spectrum will continue to provide sales and support services related to these transactions and will earn a service fee directly from the software publishers for these activities. Under this licensing program, Software Spectrum only recognizes the service fee it receives from the software publisher as revenue and not the entire value of the software. The Company continues to sell products under various licensing programs but has recently experienced an increase in the level of sales under these new programs. If Microsoft and other software publishers are able to successfully implement and sell a significant amount of software under this program, or it is determined that the accounting for reselling of the software should be recorded on a "net" basis, the Company may experience a significant decline in information services revenue, but will also experience a comparable decline in cost of revenue.

Revenue is recognized from software sales at the time of product shipment, or in accordance with terms of licensing contracts, when the price to the customer is fixed, and collectibility is reasonably assured. Revenue from maintenance contracts is recognized when invoiced, the license period has

F-14

commenced, when the price to the customer is fixed, and collectibility is reasonably assured, as Software Spectrum has no future obligations associated with future performance under these maintenance contracts. Advance billings are recorded as deferred revenue until services are provided. Cost of revenue includes direct costs of the licensing activity and costs to purchase and distribute software. The costs directly attributable to advance billings are deferred and included in other current assets in the consolidated balance sheet. Rebate income received from software publishers is recognized as a reduction of cost of revenue in the period in which the rebate is earned based on a systematic allocation of the total rebate that is probable.

Competition

The information services industry is highly competitive. Many of the Company's competitors in the industry have financial, marketing and other resources significantly greater than those of the Company. In addition, the Company's software reselling business could be adversely affected if major software publishers successfully implement or expand programs for the direct sale of software through volume purchase agreements or other arrangements intended to exclude the distribution or resale channel.

Concentration of Credit Risk

The Company's customer base consists of several thousand accounts including corporations, government agencies, educational institutions, non-profit organizations and other business entities. For the year ended December 31, 2003, no single customer represented more than 10 percent of information services revenue. The customer base is represented by a large number of Fortune 500 and Fortune Global 500 companies and the Company does not believe that the loss of any single customer would have a material adverse effect on its revenues.

Coal Mining

Historically, coal sold by Level 3 or its subsidiaries has been sold primarily under long-term contracts with electric utilities, which burn coal in order to generate steam to produce electricity. A substantial portion of Level 3's coal revenue was earned from long-term contracts during 2003, 2002, and 2001. The remainder of Level 3's sales are made on the spot market where prices are substantially lower than those in the long-term contracts. Beginning in 2001, a higher proportion of Level 3's sales occurred on the spot market as long-term contracts began to expire. Costs of revenue related to coal sales include costs of mining and processing, estimated reclamation costs, royalties and production taxes.

The long-term contracts for the delivery of coal establish the price, volume, and quality requirements of the coal to be delivered. The contracts also contain provisions for periodic price adjustments through the use of indices for items such as materials, supplies and labor. Other portions of the price are adjusted for changes in production taxes, royalties and changes in cost due to new legislation or regulation. These contractual adjustments are recognized in revenue as the changes occur and become billable to the customers.

The terms and conditions of the long-term contracts generally require the customer to meet annual contractual commitments. Thus, the customer has the ability to defer or accelerate coal shipments during the year to meet its requirements. Revenue under these and other contracts is recognized when coal is actually shipped to the customer.

F-15

Competition

The coal industry is highly competitive. Level 3 competes with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than Level 3, and with alternative methods of generating electricity and alternative energy sources. Many of Level 3's competitors are served by two railroads and, due to the competition, often benefit from lower transportation costs than Level 3, which is served by a single railroad. Additionally, many competitors have more favorable geological conditions than Level 3, often resulting in lower comparative costs of production.

Level 3 is also required to comply with various federal, state and local laws concerning protection of the environment. Level 3 believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors are similarly affected by these laws.

Concentration of Credit Risk

Level 3's coal sales contracts are concentrated with several electric utility and industrial companies. In the event that these customers do not fulfill contractual responsibilities, Level 3 could pursue the available legal remedies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries, wages and related benefits (including charges primarily for stock based

compensation), property taxes, travel, insurance, rent, contract maintenance, advertising and other administrative expenses.

Advertising Costs

Level 3 expenses the cost of advertising as incurred. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. Advertising expense was \$26 million, \$20 million, and \$12 million for the years ended December 31, 2003, 2002, and 2001, respectively.

Stock-Based Employee Compensation

The Company has accounted for stock-based employee compensation using the fair value based method pursuant to SFAS No. 123 "Accounting for Stock-Based Compensation" since 1998. The Company recognizes expense using the accelerated vesting methodology of FASB Interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28") (See Note 14).

Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization for the Company's property, plant and equipment are computed on straight-line and accelerated (for certain coal assets) methods based on the following useful lives:

Facility and Leasehold Improvements	10-40 years
Network Infrastructure (including fiber)	7-25 years
Operating Equipment	3-7 years
Network Construction Equipment	5-7 years
Furniture, Fixtures and Office Equipment	2-7 years

Depletion on the mineral properties is provided on a units-of-extraction basis determined in relation to coal committed under sales contracts. The Company's coal mining business does not use its coal reserve estimates for purposes of depletion, but rather, depletes the properties over the estimated recoverable tons of coal that are required to be delivered under existing coal contracts.

Earnings Per Share

Basic earnings per share have been computed using the weighted average number of shares during each period. Diluted earnings per share is computed by including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding convertible subordinated notes, stock options, stock based compensation awards and other dilutive securities.

Restricted Cash

The Company classifies any cash or other securities that collateralize outstanding letters of credit, long-term debt, or certain operating obligations of the Company as restricted cash. The Company also classifies cash or other securities restricted to fund certain reclamation liabilities or purchase noncurrent assets as restricted cash. The classification of restricted cash on the consolidated balance sheet as current or noncurrent is dependent on the duration of the restriction and the purpose for which the restriction exists.

Goodwill and Intangible Assets

The Company segregates identifiable intangible assets acquired in an acquisition from goodwill. As of January 1, 2002, upon adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the remaining goodwill is no longer amortized, but is evaluated for impairment at least annually (beginning with the first anniversary of the acquisition date) based on the fair value of the reporting unit to which the goodwill relates.

Intangible assets primarily include customer contracts and customer relationships acquired in business combinations. These assets are amortized on a straight-line basis over the expected period of benefit which ranges from 30 months to 10 years.

Long-Lived Assets

The Company reviews the carrying amount of long-lived assets or groups of assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment includes a comparison of the estimated future undiscounted operating cash flows anticipated to be generated during the remaining life of the asset to the net carrying value of the asset.

Accounting for Asset Retirement Obligations

The Company follows the policy of providing an accrual for reclamation of mined properties in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), based on the estimated total cost of restoration of such properties to meet compliance with laws governing surface mining. These estimated costs are calculated based on the expected future risk adjusted cash flows to remediate such properties discounted at a risk-free rate. The Company also provides an accrual for obligations related to certain collocation leases and right-of-way agreements in accordance with SFAS No. 143, based on the estimated total cost of restoration of such properties to their original condition. These estimated obligations are calculated based on the expected future discounted cash flows using the Company's estimated weighted average cost of capital at the time the obligation is incurred and applying a probability factor for conditional restoration obligations. Changes in expected future cash flows are discounted at interest rates that were in effect at the time of the original estimate for downward revision to such cash flows, and at interest rates in effect at the time of the change for upward revisions in the expected future cash flows.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting and tax basis of the Company's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Net operating losses not utilized can be carried forward for 20 years to offset future taxable income. A valuation allowance has been recorded against deferred tax assets, as the Company is unable to conclude under relevant accounting standards that it is more likely than not that deferred tax assets will be realizable. Federal legislation enacted in 2002 permitted the Company to apply unutilized net operating losses incurred in 2001 against 1996 taxable income. As a result, the Company recognized a federal income tax benefit and received a refund of \$120 million in 2002.

Comprehensive Income (Loss)

Comprehensive income (loss) includes income (loss) and other non-owner related changes in equity not included in income (loss), such as unrealized gains and losses on marketable securities classified as available for sale, foreign currency translation adjustments related to foreign subsidiaries, and other adjustments.

Foreign Currencies

Generally, local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes. Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Revenue, expenses and cash flows are translated using average exchange rates prevailing during the

F-18

year. Gains or losses resulting from currency translation are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit) and in the statements of comprehensive loss.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most critical estimates include accounts receivable reserves, impairment charges, useful lives of fixed assets, accruals for estimated liabilities that are probable and estimatable, and asset retirement obligations. Actual results could differ from those estimates.

Derivatives

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 as amended by SFAS Nos. 137 and 138, is effective for fiscal years beginning January 1, 2001. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, the type of hedge, and the extent of hedge ineffectiveness. The Company currently does not use derivative instruments as defined by SFAS No. 133, so the adoption of SFAS No. 133 in 2001 did not have a material effect on the Company's results of operations or its financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS

No. 149"). SFAS No. 149 amends and clarifies the accounting and reporting for derivative instruments, including embedded derivatives, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company currently does not use derivative instruments as defined by SFAS No. 149 and therefore the adoption of this standard did not have any effect on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 142. SFAS No. 142 is effective for fiscal years beginning January 1, 2002. SFAS No. 142 requires companies to segregate identifiable intangible assets acquired in a business combination from goodwill. The remaining goodwill is no longer subject to amortization over its estimated useful life. However, the carrying amount of the goodwill must be assessed at least annually for impairment using a fair value based test. Goodwill attributable to equity method investments is no longer amortized but is still subject to impairment analysis using existing guidance for equity method investments. For the goodwill and intangible assets in place as of December 31, 2001, the adoption of SFAS No. 142 did not have a material impact on the Company's results of operations or its financial position.

In June 2001, the FASB approved SFAS No. 143. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated

F-19

asset retirement cost. The fair value of a liability for an asset retirement obligation is to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized and included as part of the carrying value of the long-lived asset and amortized over the useful life of the asset. SFAS No. 143 was effective for the Company beginning on January 1, 2003. The Company's coal mining business had previously accrued, as a component of cost of revenue, an estimate of future reclamation liability. The net effect of the adoption of SFAS No. 143 to the Company's coal mining business as of January 1, 2003 was a decrease in noncurrent liabilities of approximately \$5 million (which will be amortized to expense in future years) and was reflected as a cumulative-effect adjustment in the 2003 consolidated statement of operations. The communications business has entered in to certain colocation leases whereby it is required upon termination of the lease, to remove the leasehold improvements and return the leased space to its original condition. The Company has also entered in to right-of-way agreements for its intercity and metropolitan networks that may require the removal of the conduit upon termination of the agreement. Upon adoption of this standard on January 1, 2003, the Company also recorded obligations and corresponding assets of approximately \$31 million for these lease and right of way agreements. Accretion of asset retirement obligation expense of \$12 million was recorded during the year ended December 31, 2003; resulting in total asset retirement obligations, including reclamation costs for the coal business, of \$127 million at December 31, 2003. Accretion expense of \$8 million related to the communications business was recorded in selling, general and administrative expenses on the consolidated statement of operations for the year ended December 31, 2003. Accretion expense of \$4 million related to the Company's coal mining business was recorded in cost of revenue on the consolidated statement of operations for the year ended December 31, 2003. This was partially offset by \$1 million of gains recognized on settlement of obligations attributable to the use of internal resources rather than third parties to perform reclamation work. In addition, the coal mining business incurred \$3 million of additional reclamation liabilities and incurred costs for work performed on asset retirement obligations of \$2 million. The Company has noncurrent restricted cash of approximately \$45 million set aside to fund the reclamation liabilities. The following is pro-forma financial information of the Company assuming SFAS No. 143 had been in effect as of January 1, 2001:

	Pro-Forma Years Ended December 31,		
	2003	2002	2001
	(dollars in millions, except per share data)		
Asset Retirement Obligations, end of year	\$ 127	\$ 115	\$ 108
Pro-Forma SFAS 143 Expense	—	(8)	(6)
Pro-Forma Net Loss	(711)	(866)	(4,984)
Pro-Forma Loss Per Share	(1.26)	(2.13)	(13.34)

F-20

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 is effective for fiscal years beginning and certain transactions entered into after May 15, 2002. SFAS No. 145 requires gains and losses from the extinguishment of debt be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30. Previously, FASB Statement No. 4 generally required all gains and losses from debt extinguished prior to maturity to be classified as an extraordinary item in the statement of operations. APB Opinion No. 30 requires that to qualify as an extraordinary item, the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary activities of the Company, and would not reasonably be expected to recur in the foreseeable future. Any gain or loss on extinguishment of debt classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion

No. 30 shall be reclassified. Upon adoption of SFAS No. 145, due to the recurring nature of its debt repurchases and exchanges, the Company reclassified the related gains previously classified as extraordinary gains during the year ended December 31, 2002 and 2001 of \$255 million and \$1.075 billion, respectively, in the statement of operations to other non-operating income.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities (excluding an entity newly acquired in a business combination), often referred to as "restructuring costs", and nullifies prior accounting guidance with respect to such costs. SFAS No. 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Under previous guidance, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. Instead, exit and disposal costs will be recorded when they are incurred and can be measured at fair value, and related liabilities will be subsequently adjusted for changes in estimated cash flows. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002, with no retroactive restatement allowed. On January 1, 2003, the Company adopted SFAS No. 146 for all restructuring activities that occurred after that date. Under SFAS No. 146, the Company can no longer record estimated losses upon the decision to exit a business.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted the disclosure requirements of SFAS No. 148 in 2002.

In September 2002, the Emerging Issues Task Force ("EITF") addressed the accounting for convertible debt for equity exchanges in Issue 02-15: "Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84" ("EITF 02-15"). The EITF concluded in EITF 02-15 that these types of transactions should be accounted for as induced conversions in accordance with FASB No. 84, "Induced Conversions of Convertible Debt" ("SFAS No. 84"). SFAS No. 84 requires a non-cash charge to earnings for the

F-21

implied value of an inducement to convert from convertible debt to common equity securities of the issuer. The accounting is to be applied prospectively for those convertible debt for equity exchanges completed after September 11, 2002, the date of the EITF's consensus. The Company applied the provisions of SFAS No. 84 to all convertible debt for equity exchange transactions completed after June 30, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company has not entered in to arrangements or guarantees that meet the criteria of this interpretation and the adoption of this interpretation did not have a material effect on its consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities an interpretation of ARB No. 51" ("FIN 46"), which was subsequently amended in December 2003. FIN 46, as amended, addresses consolidation by business enterprises of variable interest entities. A variable interest entity is defined as an entity in which the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or as a group the holders of the equity investment at risk lack any one of the following three characteristics of a controlling financial interest: The direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of the entity if they occur and, lastly, the right to receive the expected residual returns of the entity if they occur. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 by the Company did not have a material effect on its financial results for the year ended December 31, 2003 and is not expected to have a material effect on its future results of operations or financial position as the Company does not have investments in variable interest entities as described in FIN 46.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into, or modified after, May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not entered into any material financial instruments meeting the liability recognition requirements of SFAS No. 150. Therefore, the Company's adoption of SFAS No. 150 did not have a material effect on the Company's consolidated financial statements.

In January 2003, the EITF addressed the accounting for subsequent investments in equity method investees after the suspension of equity

("EITF 02-18"). The EITF reached a consensus that if the additional investment, in whole or in part, represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses. EITF 02-18 should be applied to additional investments in equity-method investees made subsequent to February 5, 2003, and previously suspended cumulative losses existing at the time of that investment. The Company has not made any additional investments in investees where equity method loss recognition has been suspended and does not expect EITF 02-18 to have a material effect on its results of operations or financial position.

In May 2003, the EITF addressed how to determine whether an arrangement contains a lease that is within the scope of SFAS No. 13, "Accounting for Leases" ("SFAS No. 13") in Issue No. 01-8: "Determining Whether an Arrangement Contains a Lease" ("EITF 01-8"). The guidance in EITF 01-8 requires both parties to an arrangement to determine whether a service contract or similar arrangement is or includes a lease within the scope of SFAS No. 13. An arrangement is a lease or contains an embedded lease if it conveys the right to control the use of property, plant or equipment. If an arrangement is determined to be a lease pursuant to SFAS No. 13, revenues formerly reported from sales of products or services may need to be treated as rental or leasing income. EITF 01-8 should be applied to new or modified arrangements beginning after May 28, 2003. The adoption of EITF 01-8 by the Company did not have a material effect on its results of operations or financial position.

In December 2003, the SEC released Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"). SAB No. 104 consolidates guidance on revenue recognition previously contained in Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and related interpretations. However, SAB No. 104 requires companies to identify separate units of accounting based on EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21") before applying SAB No. 104 guidance. If the deliverables in a sales arrangement constitute separate units of accounting according to the separation criteria in EITF 00-21, the revenue-recognition policy must be determined for each identified unit. If the arrangement is a single unit of accounting under the separation criteria, the revenue-recognition policy must be determined for the entire arrangement. The guidance in SAB No. 104 did not have a material effect on its results of operations or financial position.

Reclassifications

Certain prior year amounts may have been reclassified to conform to the current year presentation.

(2) Acquisitions

Level 3 completed the acquisition of Telseve Communications, Inc. ("Telseve") on July 21, 2003 for approximately \$29 million in Level 3 common stock (approximately 4.2 million shares) and \$2 million in cash consideration. Telseve, a provider of IP-based voice and data services, has developed certain technologies that will enable Level 3 to expand its presence in the voice-over-IP market. Telseve's revenues and results of operations are included in the consolidated statements of operations from the date of acquisition. The financial results of Telseve prior to acquisition were immaterial to Level 3. Management's preliminary allocation of the purchase price resulted in the consideration, including transaction costs, plus assumed liabilities exceeding the fair value of the identifiable tangible assets acquired by approximately \$32 million, which was initially recorded as goodwill. The Company

completed its assessment of the assets and liabilities acquired in the Telseve transaction in the fourth quarter of 2003, which resulted in the allocation primarily to developed technology acquired with an insignificant amount allocated to customer contracts.

The approximately 4.2 million shares of common stock issued in the acquisition contain restrictions on transfer imposed by U.S. securities laws. The Company anticipates filing a registration statement relating to the possible sale of these securities by the former Telseve stockholders during the first half of 2004.

On February 4, 2003, Level 3 completed the acquisition of substantially all of the assets and operations of Genuity, a Tier 1 Internet Protocol (IP) communications company. The total cash consideration, including transaction costs, was approximately \$144 million including approximately \$60 million in cash consideration to the Genuity bankruptcy estate plus approximately \$77 million in cash to reimburse the estate for payments on assumed capital lease obligations related to network operating equipment. In addition, Level 3 assumed certain of Genuity's long term operating agreements. Level 3 entered into certain transactions with Genuity prior to the acquisition of the assets and operations of Genuity by Level 3, whereby it received cash for communications services to be provided in the future. As a result of the acquisition, Level 3 can no longer amortize this deferred revenue into earnings and accordingly, reduced the purchase price applied to the net assets acquired in the Genuity transaction by \$76 million, the amount of the unamortized deferred revenue balance on February 4, 2003. The preliminary fair value of

the assets acquired and liabilities assumed was subsequently adjusted during the year ended December 31, 2003 based upon actual settlements between the Genuity Bankruptcy Estate and Level 3 which reduced the purchase price paid by Level 3 by \$35 million, as well as increased liabilities by \$4 million. This resulted primarily in a decrease in the value assigned to property, plant and equipment and identifiable intangible assets. The results of operations attributable to the Genuity assets acquired and liabilities assumed are included in the 2003 consolidated financial statements from the date of acquisition.

The terms of the transaction provided for post-closing purchase price adjustments related to the amount of (a) annualized recurring revenue, (b) various prepaid items and deposits, (c) property taxes payable on purchased property, (d) severance payments to certain of Genuity's former employees and (e) an adjustment based on the aggregate dollar value of rejection claims in the Genuity Bankruptcy Estate. Level 3 and the Genuity Bankruptcy Estate agreed that these adjustments would result in a net refund to Level 3 of \$35 million, which was subject to the execution of a definitive settlement agreement and approval of the judge administering Genuity's bankruptcy. The Genuity Bankruptcy Estate paid the \$35 million refund to Level 3, in cash, during December 2003.

On January 24, 2002, Level 3 completed the acquisition of the wholesale dial-up access business of McLeodUSA Incorporated for approximately \$51 million in cash consideration and the assumption of certain operating liabilities related to that business. The acquisition included customer contracts, approximately 350 POPs (Points of Presence) and related facilities across the U.S., equipment, underlying circuits and certain employees. The acquisition enabled Level 3 to provide managed modem services in all 50 states with a coverage area that, at the time, included approximately 80 percent of the United States population, up from 37 states, and approximately 57 percent of the United States population. The allocation of the purchase price resulted in the cash consideration plus assumed liabilities exceeding the fair value of the identifiable tangible and intangible assets acquired by approximately \$34 million, which was recorded as goodwill. Subsequent to the acquisition, the Company

F-24

reevaluated excess equipment acquired in this acquisition and as a result decreased property, plant and equipment by \$7 million to reflect the current carrying value of the assets. As a result, goodwill was increased to \$41 million. In accordance with SFAS No. 142, the goodwill will be assessed annually for impairment based on the reporting unit to which it was assigned and will not be amortized. The results of operations attributable to the McLeod assets and liabilities are included in the consolidated financial statements from the date of acquisition.

On June 18, 2002, the Company completed the acquisition of Software Spectrum, Inc., a global provider, marketer and reseller of business software. Software Spectrum shareholders received \$37 in cash from Level 3 for each share of Software Spectrum common stock. The total cash consideration, including outstanding options and expected transaction costs, was approximately \$135 million. The transaction was valued at approximately \$95 million, adjusted for Software Spectrum's \$40 million cash position on the acquisition date. The \$135 million purchase price, including transaction costs, exceeded the fair value of the net tangible and intangible assets by approximately \$79 million based on a valuation of the assets acquired and an estimate of liabilities assumed. Subsequent to the initial valuation, the Company has made immaterial changes to the purchase price allocation.

On March 13, 2002, the Company acquired privately held CorpSoft, Inc., a global provider, marketer and reseller of business software. Level 3 agreed to pay approximately \$89 million in cash and retire approximately \$37 million in debt to acquire CorpSoft. The transaction was valued at approximately \$95 million, adjusted for CorpSoft's \$34 million cash position on the acquisition date. The \$129 million cash purchase price, including transaction costs, exceeded the fair value of the net tangible and intangible assets by approximately \$131 million based on a valuation of the assets acquired and an estimate of liabilities assumed. Subsequent to the initial valuation, the Company has made immaterial changes to the purchase price allocation.

The results of CorpSoft and Software Spectrum's operations are included in the consolidated statements from the dates of acquisition. Level 3 expects these acquisitions will enable its information services business to leverage CorpSoft and Software Spectrum's customer base, worldwide presence and relationships to expand its portfolio of services. The Company believes that companies will, over time seek to gain information technology operating efficiency by acquiring software functionality and data storage capability as commercial services purchased and then delivered over broadband networks such as the Level 3 network. As a result, Level 3 expects to utilize its network infrastructure to facilitate the deployment of software to CorpSoft and Software Spectrum's customers.

Effective on December 31, 2002, CorpSoft was merged with and into Software Spectrum, with Software Spectrum being the surviving company.

F-25

The following is unaudited pro-forma financial information of the Company assuming the acquisitions of CorpSoft, Software Spectrum, and Telfer as well as the McLeod and Genuity transactions had occurred at the beginning of the periods presented :

**Pro-Forma
Years ended December 31,**

	2003	2002	2001
	(dollars in millions, except per share data)		
Revenue	\$ 4,094	\$ 4,652	\$ 5,157
Loss from Continuing Operations	(724)	(2,689)	(8,059)
Income (Loss) from Discontinued Operations	6	10	(596)
Cumulative Effect of Change in Accounting Principle	5	—	—
Net Loss	(713)	(2,679)	(8,655)
Net Loss per Share	(1.26)	(6.58)	(23.15)

Included in the actual results and pro-forma financial information for the year ended December 31, 2003 are certain amounts which affect the comparability of the results, including \$294 million of revenue related to a contract settlement for which the revenue had been in the process of being recognized over the contract term, a \$70 million gain on the sale of the Company's interest in its toll road operations, \$200 million of induced conversion expense as a result of the issuance of shares of Level 3 common stock in exchange for a portion of the Company's convertible debt, \$45 million of restructuring charges, a \$41 million gain resulting from the early extinguishment of debt and \$50 million of income tax benefits.

The distressed financial condition of Genuity resulted in the deterioration of its recurring revenue base. Level 3 has recognized revenue significantly below historical results reported by Genuity as a result of customers disconnecting service. The Company has also rejected certain customer contracts that resulted in a decrease in revenue.

Included in the actual results and unaudited pro-forma financial information for the year ended December 31, 2002, are \$181 million impairment and restructuring charges, a gain of approximately \$191 million from the sale of Commonwealth Telephone Enterprises, Inc. common stock ("Commonwealth Telephone"), \$88 million of induced conversion expenses attributable to the repurchase of a portion of the Company's convertible debt securities, gains of \$255 million as a result of the early extinguishments of certain long-term debt, and \$120 million of Federal tax benefits due to legislation enacted in 2002. In addition, the pro-forma financial information includes \$1.4 billion of impairment and restructuring charges related to deployed assets, assets held for sale, goodwill and intangibles, workforce reductions and lease termination charges for abandoned facilities attributable to Genuity's pre-acquisition operations.

Included in the actual result and unaudited pro-forma financial information for the year ended December 31, 2001, are a \$3.2 billion impairment charge to reflect the reduction in the carrying value amount of certain of its communications assets, an impairment charge of \$516 million related to the discontinued Asian operations sold in January 2002, and gains of \$1.1 billion as a result of the early extinguishments of certain long-term debt. The 2001 pro-forma results also include \$2.7 billion of impairment and restructuring charges related to Genuity's operations.

F-26

The following are the estimated fair value of assets acquired and liabilities assumed in the McLeod, CorpSoft, Software Spectrum, Genuity and Telseve transactions as of their respective acquisition dates.

	McLeod	CorpSoft	Software Spectrum	Genuity	Telverse
	(dollars in millions)				
Assets:					
Cash and cash equivalents	\$ —	\$ 34	\$ 40	\$ —	\$ —
Accounts receivable	—	134	130	—	—
Other current assets	—	18	3	50	—
Property, plant and equipment, net	12	6	13	246	1
Identifiable intangibles	49	26	49	107	32
Goodwill	41	128	79	—	—
Other assets	—	11	1	22	—
Total Assets	102	357	315	425	33
Liabilities:					
Accounts payable	—	181	138	—	2
Accrued payroll	—	19	19	—	—
Other current liabilities	43	7	23	56	—
Current portion of long-term debt	8	—	—	121	—

Long-term debt	—	—	—	188	—
Deferred revenue—Genuity	—	—	—	6	—
Deferred revenue—Level 3	—	—	—	(76)	—
Other liabilities	—	21	—	21	—
	<u>51</u>	<u>228</u>	<u>180</u>	<u>316</u>	<u>2</u>
Total Liabilities	51	228	180	316	2
Purchase Price	\$ 51	\$ 129	\$ 135	\$ 109	\$ 31
	<u>\$ 51</u>	<u>\$ 129</u>	<u>\$ 135</u>	<u>\$ 109</u>	<u>\$ 31</u>

The fair market value of the assets and liabilities acquired in the Genuity transaction were determined based on a valuation completed in May 2003. Subsequently in 2003, Level 3 changed the purchase price allocation by increasing the preliminary fair value of the assets to be sold to CenturyTel, Inc. ("CenturyTel") (See Note 3) to \$16 million to reflect the actual proceeds received from CenturyTel. A corresponding decrease in property, plant and equipment and identifiable intangibles was recorded in conjunction with this adjustment.

In July 2003, the Company sold the former Genuity headquarters building for approximately \$20 million in cash. Level 3 did not recognize a gain or loss on this transaction as the fair value assigned in purchase accounting approximated the sale price. The Company continued leasing the facility through 2003.

During the second quarter of 2003, the Company exited the managed hosting portion of the business it acquired through the Genuity transaction. The Company's hosting customers and operations are being served by Computer Sciences Corporation ("CSC"). Due to the decision to exit the managed hosting portion of the business, which had been contemplated at the time of acquisition, the net operating results of the business have not been consolidated in the consolidated statement of operations. Level 3 did not realize any proceeds from the sale of the hosting business to CSC. Level 3

F-27

continues to review the operations acquired in the Genuity transaction to see how they will assist in providing communications and information services and may dispose of these operations in the future.

The following is the summarized results of operations of the managed hosting business for the period ended May 24, 2003 (since acquisition on February 4, 2003).

Revenue	\$ 14
Operating Loss	(1)

(3) Discontinued Operations

On December 31, 2003, Level 3 sold MFON to CenturyTel for approximately \$16 million. MFON is a regional communications system located in the midwestern United States and was acquired by Level 3 as part of the Genuity transaction in February 2003. Level 3 has adjusted the value of MFON assets from its original estimated value, pursuant to the one-year "allocation period" provisions of SFAS No. 141, to match the proceeds from this transaction. As a result, the Company did not recognize a gain or loss on the disposition of MFON.

The following is the summarized results of operations of the MFON business for the period ended December 31, 2003 (since acquisition on February 4, 2003).

Revenue	\$ 16
Costs and Expenses:	
Cost of revenue	2
Selling, general and administrative	2
	<u>4</u>
Total costs and expenses	4
	<u>12</u>
Income from Operations	12
Loss from Sale of Discontinued Operations	—
	<u>12</u>
Income from Discontinued Operations	\$ 12
	<u>\$ 12</u>

In June 2003, Software Spectrum announced that it was exiting the contact services business in order to concentrate on the software reseller

business. In conjunction with this decision, Software Spectrum sold substantially all of the contact services business to H.I.G. Capital for approximately \$4 million in cash. Software Spectrum recorded a loss within discontinued operations of approximately \$9 million on the sale.

F-28

The following is the summarized results of operations of the contact services business for the period through June 18, 2003 and the period from acquisition (June 18, 2002) through December 31, 2002.

	Year Ended December 31,	
	2003	2002
Revenue	\$ 38	\$ 37
Costs and Expenses:		
Cost of revenue	25	24
Depreciation and amortization	1	1
Selling, general and administrative	10	10
Total costs and expenses	36	35
Income from Operations	2	2
Loss from Sale of Discontinued Operations	(9)	—
Income (Loss) from Discontinued Operations	\$ (7)	\$ 2

In December 2001, Level 3 announced that it had agreed to sell its Asian telecommunications business to Reach for no cash consideration. The agreement covered subsidiaries that included the Asian network operations, assets, liabilities and future financial obligations. This included Level 3's share of the Northern Asian cable system, capacity on the Japan-US cable system, capital and operational expenses related to these two systems, gateways in Hong Kong and Tokyo, and existing customers on Level 3's Asian network.

The transaction closed on January 18, 2002. As of December 31, 2001, the net carrying value of Level 3's Asian assets was approximately \$465 million. In accordance with SFAS No. 144, in the fourth quarter of 2001, Level 3 recorded an impairment loss on these assets held for sale within discontinued operations, equal to the difference between the carrying value of the assets and their fair value. Based upon the terms of the agreement, the Company was required to pay approximately \$49 million for certain capital obligations for the two submarine systems to be sold to Reach, and estimated transaction costs.

F-29

Operating results in 2002 through the transaction date were not significant. The following is the summarized results of operations for the year ended December 31, 2001 for the discontinued Asian operations:

	(dollars in millions)
Revenue	\$ 13
Costs and Expenses:	
Cost of revenue	(17)
Depreciation and amortization	(27)
Selling, general and administrative	(58)
Total costs and expenses	(102)
Loss from Operations	\$ (89)
Loss on Impairment of Asian Assets	(516)
Loss from Discontinued Operations	\$ (605)

(4) Settlement Revenue

In February 2003, Level 3 and XO Communications ("XO") amended their 1998 cost sharing and IRU agreement. As part of the 1998 agreement, XO purchased 24 fibers and one empty conduit along Level 3's North American intercity network. The amended agreement, among other things, required XO to return six fibers and the empty conduit to Level 3. In return Level 3, 1) will reduce the annual operations and maintenance ("O&M") charges XO was required to pay under the original agreement, 2) provided XO an option, expiring July 2007, to acquire a 20 year IRU for a single conduit within or along Level 3's intercity network and 3) provided XO an option to purchase up to 25% of the fiber installed in the next conduit within or along each segment of the intercity network.

As individual segments were delivered to XO, Level 3 deferred and amortized the revenue attributable to the conduit over the term of the original agreement. As a result of the amended agreement, Level 3 has no further obligation with respect to the original conduit, and thus recognized \$294 million of communications revenue related to the remaining unamortized deferred revenue, less the fair values of the other separable elements of the amended agreement. The value of the other elements was determined based on the fair value of similar assets.

(5) Restructuring and Impairment Charges

In 2001, the Company announced that due to the duration and severity of the slowdown in the economy and the telecommunications industry, it would be necessary to reduce operating expenses as well as reduce and reprioritize capital expenditures in an effort to be in a position to benefit when the economy recovers. As a result of these actions, the Company reduced its global work force, primarily in the communications business in the United States and Europe by approximately 2,700 employees. Restructuring charges of \$108 million were recorded in 2001 of which \$66 million related to staff reduction and related costs and \$42 million to real estate lease termination costs. The Company was able to record benefits of \$13 million for the year ending December 31, 2002, due to the termination of leases for less than had originally been estimated and included the reduction of expense in Restructuring and Impairment Charges in the 2002 consolidated statement of operations.

F-30

In the second and third quarters of 2002, Level 3 in two separate actions recorded restructuring charges of \$3 million and \$5 million for costs associated with workforce reductions. The \$3 million restructuring charge in the second quarter was attributable to the costs associated with a workforce reduction of approximately 200 employees in the communications business in North America and Europe. In the third quarter of 2002, the Company recorded a restructuring charge of \$5 million primarily for severance and employee related costs associated with the integration of CorpSoft and Software Spectrum. Approximately 100 employees, primarily in Boston, were affected by the workforce reduction. As of December 31, 2002, the Company had paid \$5 million in costs associated with these workforce reductions.

In the first quarter of 2003, Level 3 announced workforce reductions that are ultimately expected to affect approximately 1,200 employees in the communications business. These actions were primarily a result of the integration of acquired operations from the Genuity transaction into Level 3's operations and the Company matching its European cost structure with expected revenues. As of December 31, 2003, the Company had notified approximately 1,100 employees that they would be affected by these actions. The Company recorded restructuring charges of approximately \$26 million related to these actions during the year ended December 31, 2003. As of December 31, 2003, the Company had paid \$22 million in costs associated with the 2003 workforce reductions. Level 3 expects to incur additional expenses of less than \$1 million for these actions in 2004.

The information services business recognized for the year ended December 31, 2003, approximately \$19 million of restructuring charges related to the ongoing integration and restructuring of Software Spectrum, as well as the closure of (i)Structure's systems integration operations in Europe. These actions are expected to affect approximately 600 employees and result in the closure of certain facilities. As of December 31, 2003, the Company had notified approximately 580 employees that they would be affected by these actions and had paid approximately \$13 million in costs associated with these workforce reductions. Included in the \$19 million of restructuring charges, were \$6 million of accrued lease termination costs for facilities it has ceased using. Software Spectrum currently expects to incur approximately \$1 million of additional expenses in 2004 for restructuring related activities.

A summary of the restructuring charges and related activity follows:

	Severance and Related		Facilities Related Amount (in millions)
	Number of Employees	Amount (in millions)	
2001 Charges	2,700	\$ 66	\$ 42
2001 Payments	(2,346)	(49)	(1)
Balance December 31, 2001	354	17	41
2002 Charges	300	8	—
2002 Reductions of 2001 Charges	—	—	(13)
2002 Payments	(599)	(22)	(18)
Balance December 31, 2002	55	3	10

2003 Charges	1,717	39	6
2003 Payments	(1,663)	(35)	(4)
	<u> </u>	<u> </u>	<u> </u>
Balance December 31, 2003	109	\$ 7	\$ 12
	<u> </u>	<u> </u>	<u> </u>

F-31

Lease termination obligations of \$12 million are expected to be paid over the terms of the impaired leases, which extend to 2015, if the Company is unable to negotiate a buyout of the leases.

Impairments

The Company recorded impairment charges of \$44 million and \$57 million in the second and fourth quarters of 2002 related to a colocation facility in Boston, as well as abandoned lateral fiber builds, certain corporate facilities in Colorado and excess communications inventory, which are classified as held for sale in other non-current assets on the consolidated balance sheet. As a result of the completion of additional colocation space in Boston by other providers, the continued overabundance of communications equipment in the secondary markets, and the soft demand for office space in the metropolitan Denver area, the Company believes that these assets are obsolete and that the estimated future undiscounted cash flows attributable to these assets will be insufficient to recover their current carrying value. The new carrying values of these assets are based on offers received from third parties for the real estate properties or actual sales of similar communications assets.

In December 2002, Level 3 sold one of its New York colocation facilities and the colocation facility near Boston. The Company leased back 3 of 10 floors of the New York colocation facility. The Company recognized a loss on these transactions of approximately \$81 million, which is included in Restructuring and Impairment Charges on the 2002 consolidated statement of operations.

In the fourth quarter of 2001, in light of the continued economic uncertainty, continued customer disconnections at higher rates than expected, increased difficulty in obtaining new revenue, and the overall slow down in the communications industry, the Company reviewed the carrying value of its long-lived assets for possible impairment in accordance with SFAS No. 144. The Company determined based upon its projections, giving effect to the continuing economic slowdown and continued over-capacity in certain areas of the telecommunications industry, the estimated future undiscounted cash flows attributable to certain assets or assets groups would not exceed the current carrying value of the assets. The Company, therefore, recorded an impairment charge of \$3.2 billion, in the fourth quarter of 2001, to reflect the difference between the estimated fair value of the assets on a discounted cash flow basis and their current carrying value as further described below.

The 2001 impairments primarily related to colocation assets, excess conduits in North America and European intercity and metropolitan networks, and certain transoceanic assets. Geographically, approximately 74% of the charges were attributable to North America, 17% were attributable to Europe and 9% attributable to transatlantic assets.

The financial problems of many of the "dot-coms", emerging carriers and competitors, a weakening economy, and changing customer focus, led to an over-capacity of colocation space in several U.S. and European markets. Level 3 attempted to sell or sublease its excess colocation space; however, market rates at the time, for much of the space were below its carrying values. As a result, the 2001 impairment charge included approximately \$1.6 billion, related to its colocation assets, which included owned facilities, leasehold improvements and related equipment.

Level 3 constructed its networks in North America and Europe in such a way that they could be continuously upgraded to the most current technology without affecting its existing customers. The upgrade ability of the network is based on multiple conduits available to the Company to install new generations of fiber. Level 3 also installed additional conduits with the intention of selling them to

F-32

other carriers. As of December 31, 2001, the Company has sold one conduit in its North American network and, due to the economic environment and decreasing capital expenditure budgets of potential buyers, did not expect additional sales in the foreseeable future. For this reason, the Company's 2001 impairment charge included approximately \$1.2 billion for the conduits that were previously determined to be and remain available for sale to third parties based on estimated cash flows from the disposition of the conduits.

The completion of several transoceanic cable systems in the second half of 2001 and the completion of additional systems in 2002, resulted in an over abundance of transoceanic capacity. This excess capacity, combined with limited demand, adversely affected the transoceanic capacity markets. At current pricing levels at December 31, 2001, the Company did not believe it would recover its investment in transoceanic capacity from the future cash flows of these assets. As a result, the Company's 2001 impairment charge included approximately \$320 million for its transatlantic submarine assets.

The Company's 2001 impairment charge also included approximately \$126 million for spare equipment write-downs and abandoned lateral builds in 2001.

Level 3 continues to conduct a comprehensive review of its communications assets, specifically assets deployed along its intercity network and in its gateway facilities. It is possible that additional communications assets may be identified as impaired and additional impairment charges may be recorded to reflect the realizable value of these assets in future periods.

(6) Sale of Toll Road Operations

On January 3, 2003, California Private Transportation Company ("CPTC"), a majority owned subsidiary of the Company, sold the "91 Express Lanes" toll road assets in Orange County, California to the Orange County Transportation Authority. The Company received net proceeds from the sale of \$46 million and recorded a gain of approximately \$70 million in other, net in the consolidated statement of operations. The Company's total long-term debt was reduced by approximately \$139 million as a result of the sale as the debt incurred to finance the construction of the toll road had been consolidated due to the Company's 65% equity interest in CPTC.

(7) Loss Per Share

The Company had a loss from continuing operations for the three years ended December 31, 2003. Therefore, the dilutive effect of the approximately 64 million, 156 million and 15 million shares issuable pursuant to the three series of convertible subordinated notes at December 31, 2003, 2002, and 2001 respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation. In addition, the dilutive effect of the approximately 52 million, 54 million and 53 million options and warrants outstanding at December 31, 2003, 2002 and 2001 respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

F-33

The following details the loss per share calculations for the Level 3 Common Stock:

	Year Ended		
	2003	2002	2001
Loss from Continuing Operations	\$ (721)	\$ (860)	\$ (4,373)
Income (Loss) from Discontinued Operations	5	2	(605)
Cumulative Effect of Change in Accounting Principle	5	—	—
Net Loss	\$ (711)	\$ (858)	\$ (4,978)
Total Number of Weighted Average Shares Outstanding used to Compute Basic and Dilutive Earnings Per Share (in thousands)	565,931	407,317	373,792
Earnings (Loss) Per Share of Level 3 Common Stock (Basic and Diluted):			
Loss from Continuing Operations	\$ (1.28)	\$ (2.11)	\$ (11.70)
Income (Loss) from Discontinued Operations	\$.01	\$ —	\$ (1.62)
Cumulative Effect of Change in Accounting Principle	\$.01	\$ —	\$ —
Net Loss	\$ (1.26)	\$ (2.11)	\$ (13.32)

(8) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to determine classification and fair values of financial instruments:

Cash and Cash Equivalents

Cash equivalents generally consist of funds invested in highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

Marketable and Restricted Securities

Level 3 has classified its marketable securities as available-for-sale. Restricted Securities—Current primarily includes cash investments that serve to collateralize outstanding letters of credit and certain operating obligations of the Company. As discussed further in Note 12, the investment in the common stock of Commonwealth Telephone was reclassified to a marketable equity security in 2003 as a result of the decrease in the voting interest below 20 percent. The cost of the securities used in computing unrealized and realized gains and losses is determined by specific identification. Fair values are estimated based on quoted market prices for the securities. Net unrealized holding gains and losses are included in accumulated other comprehensive income (loss) within stockholders' equity (deficit). At December 31, 2002, the Company did not hold any marketable securities.

F-34

At December 31, 2003 the unrealized holding gains on the marketable equity security were as follows:

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(dollars in millions)			
2003				
Marketable equity securities:				
Commonwealth Telephone common stock	\$ 18	\$ 24	\$ —	\$ 42

The Company did not recognize any realized gains and losses on sales of marketable and equity securities in 2003. The Company recognized \$14 million of losses in 2002 and \$17 million of gains in 2001 from the sale of marketable securities; all of which were attributable to foreign currency gains and losses on securities denominated in Euros.

Maturities for the restricted securities have not been presented, as the types of securities are either cash or money market mutual funds which do not have a single maturity date.

Long-Term Debt

The fair value of long-term debt was estimated using the December 31, 2003 and 2002 average of the bid and ask price for the publicly traded debt instruments. The fair value of the 9% Junior Convertible Subordinated Notes at December 31, 2002, was determined based on convertible bond valuation techniques that incorporate the use of the Black-Scholes model. The GMAC Commercial Mortgage is not traded in an organized public manner. The fair value of this instrument is assumed to approximate its carrying value at December 31, 2003 as it is secured by underlying assets and is at variable interest rates thus minimizing credit and interest rate risks.

The carrying amount and estimated fair values of Level 3's financial instruments are as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(dollars in millions)			
Cash and Cash Equivalents	\$ 1,129	\$ 1,129	\$ 1,142	\$ 1,142
Marketable Securities	42	42	—	—
Restricted Securities—Current	74	74	99	99
Restricted Securities—Noncurrent	61	61	467	467
Investments (Note 12)	6	22	21	62
Long-term Debt, including current portion (Note 13)	5,375	4,798	6,106	4,243

F-35

(9) Receivables

Receivables at December 31, 2003 and 2002 were as follows:

	Communications	Services	Coal	Other	Total
	(dollars in millions)				
2003					
Accounts Receivable—Trade:					
Services and Software Sales	\$ 119	\$ 453	\$ 11	\$ —	\$ 583
Other Receivables	6	—	—	—	6
Allowance for Doubtful Accounts	(20)	(8)	—	—	(28)
Total	\$ 105	\$ 445	\$ 11	\$ —	\$ 561
2002					
Accounts Receivable—Trade:					
Services and Software Sales	\$ 58	\$ 477	\$ 10	\$ 1	\$ 546
Other Receivables	10	—	—	—	10
Allowance for Doubtful Accounts	(24)	(5)	—	—	(29)
Total	\$ 44	\$ 472	\$ 10	\$ 1	\$ 527

Accounts receivable of \$12 million attributable to the information services' contact services business at December 31, 2002, have been reclassified to other current assets on the consolidated balance sheet as a result of the sale of the contact services business during the second quarter of 2003.

Other receivables primarily include non-service related receivables including European VAT (Value Added Taxes), sales tax refunds, equipment sales and other miscellaneous items.

The Company recognized bad debt expense in selling, general and administrative expenses of \$7 million, \$7 million and \$43 million in 2003, 2002 and 2001, respectively. Level 3 received \$4 million, \$1 million and \$1 million of proceeds for amounts previously deemed uncollectible in 2003, 2002 and 2001, respectively. The Company decreased accounts receivable and allowance for doubtful accounts by approximately \$8 million, \$23 million and \$29 million in 2003, 2002 and 2001, respectively, for previously reserved amounts the Company deemed as uncollectible.

(10) Property, Plant and Equipment

The Company has substantially completed the construction of its communications network. Costs associated directly with expansions and improvements to the network and customer installations, including employee related costs, have been capitalized, and interest costs incurred during construction was capitalized based on the weighted average accumulated construction expenditures and the interest rates related to borrowings associated with the construction (See Note 13). The Company generally capitalizes operating costs associated with network construction, provisioning of services and software development. Capitalized labor and related costs associated with employees and contract labor working on capital projects were approximately \$61 million, \$66 million, and \$150 million, for the years ended December 31, 2003, 2002 and 2001, respectively. Included in capitalized labor and related costs was \$4 million, \$7 million and \$49 million of capitalized non-cash compensation costs related to options and warrants for the years ended December 31, 2003, 2002 and 2001, respectively. Intercity segments,

F-36

gateway facilities, local networks and operating equipment that have been placed in service are being depreciated over their estimated useful lives, primarily ranging from 3-25 years.

The Company continues to develop business support systems required for its business plan. The external direct costs of software, materials and services, payroll and payroll related expenses for employees directly associated with the project, and interest costs incurred when developing the business support systems are capitalized. Upon completion of a project, the total cost of the business support system is amortized over an estimated useful life of three years.

In 2002, Level 3 either sold or entered into sale leaseback transactions for colocation facilities in London, Boston and New York City. The carrying value of these assets at the time of these transactions was approximately \$167 million and the Company received approximately \$91 million in gross proceeds, and recorded related losses within loss from operations in the consolidated statement of operations.

During 2002 and 2003, Level 3 was able to finalize negotiations and claims on several of its large multi-year network construction projects. As a result, the Company was able to release approximately \$28 million and \$215 million of capital expenditure accruals for the year ended December 31, 2003 and 2002, respectively that had previously been reported as property, plant and equipment. In the ordinary course of

business, as construction projects come to a close, the Company reviews the final amounts due and settles any outstanding amounts related to these contracts which can result in changes to estimated costs of the construction projects.

Included in Land and Mineral Properties are mineral properties related to the coal business with a cost basis of approximately \$5 million and \$5 million for the year ended December 31, 2003 and 2002, respectively. The remaining Land and Mineral Properties balance of approximately \$179 million and \$173 million for the year ended December 31, 2003 and 2002, respectively, represent owned assets of the communications and information services businesses, including land improvements. The coal mineral properties include owned and leased assets. The various coal lease agreements require minimum lease payments and provide for royalty or overriding royalty payments based on the tons of coal mined or sold from the properties. Depletion on the mineral properties is provided on a units-of extraction basis determined in relation to coal committed under sales contracts.

The Genuity transaction completed in February 2003, resulted in an increase to property, plant and equipment of approximately \$246 million.

In 2001, the Company recorded a charge on the statement of operations for impairment of certain assets. The impairments primarily related to colocation assets (\$1.6 billion), conduits in North America and European intercity and metropolitan networks (\$1.2 billion), and certain transoceanic assets (\$320 million).

F-37

Capitalized business support systems and network construction costs that have not been placed in service have been classified as construction-in-progress within Property, Plant & Equipment below.

	Cost	Accumulated Depreciation	Book Value
	(dollars in millions)		
2003			
Land and Mineral Properties	\$ 184	\$ (19)	\$ 165
Facility and Leasehold Improvements			
Communications	1,351	(200)	1,151
Information Services	27	(5)	22
Coal Mining	149	(144)	5
CPTC	—	—	—
Network Infrastructure	4,364	(740)	3,624
Operating Equipment			
Communications	1,617	(959)	658
Information Services	93	(63)	30
Coal Mining	73	(67)	6
CPTC	—	—	—
Furniture, Fixtures and Office Equipment	120	(87)	33
Other	33	(16)	17
Construction-in-Progress	16	—	16
	<u>\$ 8,027</u>	<u>\$ (2,300)</u>	<u>\$ 5,727</u>

	Cost	Accumulated Depreciation	Book Value
	(dollars in millions)		

2002			
Land and Mineral Properties	\$ 178	\$ (13)	\$ 165
Facility and Leasehold Improvements			
Communications	1,260	(125)	1,135
Information Services	28	(5)	23
Coal Mining	65	(63)	2
CPTC	92	(17)	75
Network Infrastructure	4,212	(448)	3,764
Operating Equipment			
Communications	1,280	(615)	665

Information Services	81	(55)	26
Coal Mining	78	(70)	8
CPTC	19	(13)	6
Furniture, Fixtures and Office Equipment	126	(85)	41
Other	34	(12)	22
Construction-in-Progress	73	—	73
	<u>\$ 7,526</u>	<u>\$ (1,521)</u>	<u>\$ 6,005</u>

F-38

Depreciation expense was \$766 million in 2003, \$776 million in 2002 and \$1,082 million in 2001. In 2003, a significant portion of 3 to 5 year assets placed in service in prior years became fully depreciated.

(11) Goodwill and Intangibles, Net

As of December 31, 2003, \$29 million, \$79 million, \$52 million, \$148 million, and \$121 million of goodwill and intangibles, net of amortization of intangibles, are attributable to the Terverse, Genuity, McLeod, CorpSoft, and Software Spectrum acquisitions, respectively.

As of December 31, 2002, \$72 million, \$155 million and \$125 million of goodwill and intangibles, net of amortization of intangibles, are attributable to the McLeod, CorpSoft and Software Spectrum acquisitions, respectively.

In addition, as of December 31, 2003 and 2002, the Company had \$30 million of goodwill attributable to the acquisition of XCOM in 1998.

The Company adopted the provisions of SFAS No. 142 in January 2002. SFAS No. 142 requires companies to segregate identifiable intangible assets acquired in a business combination from goodwill. The remaining goodwill is no longer subject to amortization over its estimated useful life. However, the carrying amount of the goodwill must be assessed at least annually for impairment using a fair value based test. Level 3 has acquired several businesses since the adoption of SFAS No. 142 that resulted in goodwill.

In July 2003, Level 3 purchased Terverse Communications, Inc. for approximately \$31 million in Level 3 common stock, cash consideration and transaction costs. This acquisition resulted in identifiable intangible assets of \$32 million primarily related to developed technology acquired with an insignificant amount allocated to customer contracts.

Level 3 purchased substantially all of the assets and operations of Genuity in February 2003. The initial fair value of the assets, adjusted for subsequent purchase price adjustments, indicated that the assets acquired net of the Company's estimate of obligations assumed was in excess of the purchase price paid by \$86 million. As a result, the Company did not recognize goodwill in this transaction and reallocated the negative goodwill against the long-lived asset values in accordance with SFAS No. 141. The Company has attributed approximately \$107 million of the Genuity purchase price to identifiable intangible assets, including \$79 million to specific customer contracts and \$28 million to the existing customer base. Level 3 is amortizing these intangibles over periods ranging from 3 to 5 years, with a weighted average remaining life of 4.2 years at December 31, 2003. The intangibles acquired as part of the Genuity transaction have been adjusted during the fourth quarter of 2003 from their previously allocated values to reflect changes in the purchase price allocation and the settlement with the Genuity Bankruptcy Estate described in Note 2.

Level 3 completed the acquisition of McLeod's wholesale dial-up business on January 24, 2002. The Company has attributed approximately \$49 million of the purchase price to customer contracts with an amortization period equal to the remaining term of the primary contract of approximately 30 months at the date of acquisition. The purchase price in excess of the fair value allocated to identifiable tangible and intangible assets resulted in goodwill of \$41 million.

F-39

The acquisition of CorpSoft was completed on March 13, 2002. The \$129 million cash purchase price, including transaction costs, exceeded the fair value of the net assets by approximately \$131 million based on a valuation of the assets acquired and estimates of the liabilities assumed. The Company has attributed approximately \$26 million of the purchase price to a customer relationship intangible asset with an amortization period equal to ten years.

On June 18, 2002, the Company completed the acquisition of Software Spectrum, Inc. The \$135 million purchase price, including transaction costs, exceeded the estimated fair value of the net assets by approximately \$79 million based on a valuation of the assets acquired and estimates of the liabilities assumed. The Company has attributed approximately \$49 million of the purchase price to a customer relationship

intangible asset with an amortization period equal to ten years.

At December 31, 2003 and 2002 identifiable intangible assets were as follows:

	Cost	Accumulated Amortization	Book Value
	(dollars in millions)		
2003			
Customer Contracts:			
Genuity	\$ 28	\$ (6)	\$ 22
McLeod	49	(38)	11
Customer Relationships:			
Genuity	79	(22)	57
Software Spectrum (including CorpSoft)	75	(13)	62
Technology:			
Telverse	32	(3)	29
	\$ 263	\$ (82)	\$ 181
	Cost	Accumulated Amortization	Book Value
	(dollars in millions)		
2002			
Customer Contracts:			
McLeod	\$ 49	\$ (18)	\$ 31
Customer Relationships:			
Software Spectrum (including CorpSoft)	75	(5)	70
	\$ 124	\$ (23)	\$ 101

Goodwill attributable to these acquisitions has been or will be assessed at least annually for impairment in accordance with SFAS No. 142, beginning with the first anniversary of the acquisition and December 31 of each year thereafter.

Goodwill and intangible asset amortization expense, including amortization expense attributable to equity method investees, was \$61 million and \$25 million for the years ended December 31, 2003 and 2002, respectively. Goodwill amortization expense for the year ended December 31, 2001 was \$41 million.

F-40

The following is pro-forma financial information of the Company assuming that SFAS No. 142 had been in effect in 2001 and goodwill amortization expense had not been recorded:

	As Reported	Goodwill Amortization	Adjusted Net Loss
		(dollars in millions)	
Year Ended December 31, 2001			
Loss from Continuing Operations	\$ (4,373)	\$ 41	\$ (4,332)
Net Loss.	(4,978)	41	(4,937)
Per Share:			
Loss from Continuing Operations	(11.70)		(11.59)
Net Loss.	(13.32)		(13.21)

The amortization expense related to intangible assets currently recorded on the Company's books for each of the five succeeding years is estimated to be the following for the years ended December 31: 2004—\$50 million; 2005—\$38 million; 2006—\$38 million; 2007—\$18 million

and 2008—\$11 million.

(12) Other Assets, Net

At December 31, 2003 and 2002 other assets consisted of the following:

	2003	2002
	(dollars in millions)	
Investments	\$ 6	\$ 21
Debt Issuance Costs, net	64	93
Prepaid Network Assets	2	11
CPTC Deferred Development and Financing Costs	—	19
Assets Held for Sale	1	10
Employee and Officer Notes Receivable	—	3
Prepaid Operating and Maintenance Costs	18	—
Other	9	15
	<u>\$ 100</u>	<u>\$ 172</u>

The Company holds equity positions in two publicly traded companies: RCN Corporation ("RCN") and Commonwealth Telephone Enterprises, Inc. RCN is a facilities-based provider of bundled local and long distance phone, cable television and Internet services to residential markets primarily on the East and West coasts as well as Chicago. Commonwealth Telephone owns Commonwealth Telephone Company, an incumbent local exchange carrier operating in various rural Pennsylvania markets, and CTSI, Inc. a competitive local exchange carrier.

On December 31, 2003, Level 3 owned approximately 27 million shares of RCN common stock and approximately one million of Commonwealth Telephone common shares, representing approximately 22% and 4.6% of the outstanding shares of RCN and Commonwealth Telephone, respectively. The Company accounts for its investment in RCN using the equity method. Due to the recapitalization of Commonwealth Telephone shares in September 2003, that reduced the Company's voting interest from 29% to 4.6%, the Company accounts for its investment in Commonwealth

F-41

Telephone using the cost method (See Note 8). The market value of the Company's investment in RCN was \$18 million at December 31, 2003 (See Note 20).

On February 22, 2002, Level 3 Holdings, Inc., a wholly owned subsidiary of the Company, agreed to acquire from Mr. David C. McCourt, a director of the Company, his 10% interest in Level 3 Telecom Holdings, Inc., the Company's subsidiary that indirectly holds the Company's ownership interests in RCN and Commonwealth Telephone. The total cash consideration paid to Mr. McCourt in this transaction was \$15 million and was accounted for as an increase in the carrying value of the RCN and Commonwealth Telephone investments.

In, 2002, Eldorado Equity Holdings, Inc., an indirect, wholly owned subsidiary of Level 3, sold in two separate transactions, approximately 9.6 million shares of common stock of Commonwealth Telephone. The Company received approximately \$362 million of proceeds from these transactions and recorded a gain on the disposition of \$191 million, which is included in other, net on the consolidated statement of operations.

As a result of these transactions, the Company owned approximately 4% of the total Commonwealth Telephone shares outstanding as of December 31, 2002 through its ownership of 1,017,061 shares of Class B common stock. Class B common shareholders are entitled to 15 votes for every share held. Therefore, the Company held a 29% voting interest in Commonwealth Telephone at December 31, 2002. Due primarily to the Company's significant voting interest in Commonwealth Telephone, the Company accounted for the investment using the equity method prior to the recapitalization discussed below.

On April 25, 2003, it was announced that the Company and Commonwealth Telephone had entered into a recapitalization agreement that provided for the reclassification and conversion of each outstanding share of Commonwealth Telephone Class B common stock into 1.09 shares of Commonwealth Telephone common stock. Commonwealth Telephone's shareholders approved the plan on September 3, 2003. This recapitalization reduced Level 3's equity and voting interest to approximately 4.6% at December 31, 2003, and as a result, the Company accounted for its investment using the cost method effective in September 2003. At December 31, 2003, Level 3 reflected the Commonwealth Telephone shares as available for sale marketable equity securities, and therefore increased the carrying value to reflect the current fair value of the shares (See Note 8).

During 2000, Level 3's proportionate share of RCN's losses exceeded the remaining carrying value of Level 3's investment in RCN. Level 3 does not have additional financial commitments to RCN; therefore it recognized equity losses only to the extent of its investment in RCN. If

RCN becomes profitable, Level 3 will not record its equity in RCN's profits until unrecorded equity in losses have been offset. The Company's investment in RCN, including goodwill, was zero at December 31, 2003 and 2002. The Company did not recognize approximately \$394 million and \$249 million of suspended equity losses attributable to RCN for the years ended December 31, 2002 and 2001, respectively. As of the date of this report, RCN had not released fourth quarter results. As such, the Company did not recognize approximately \$50 of suspended equity losses attributable to RCN for the nine months ended September 30, 2003, bringing the total amount of suspended equity losses to approximately \$713 million at September 30, 2003.

The Company previously made investments in certain public and private companies in connection with some of those entities agreeing to purchase various services from the Company, and has no

F-42

obligation to fund or guarantee any of these entities. The Company originally recorded these transactions as investments and deferred revenue on the balance sheet. The value of the investment and deferred revenue is equal to the estimated fair value of these securities at the time of the transaction or the value of the services to be provided, whichever was more readily determinable. The Company recorded a charge of \$37 million during 2001, for an other-than temporary decline in the value of such investments, which is included in other, net on the consolidated statements of operations. Future appreciation will be recognized only upon sale or other disposition of these securities. The carrying amount of the investments was zero at December 31, 2003 and 2002. The Company recognized revenue of approximately \$1 million, \$3 million and \$13 million for actual services provided to other entities involved in the program for the twelve months ended December 31, 2003, 2002 and 2001, respectively. As of December 31, 2003 and 2002, the Company had deferred revenue obligations of \$3 million and \$4 million with respect to these transactions.

In August 2001, The Company and divine, inc., a company included in those described above, entered into an agreement whereby divine would repurchase shares of common stock issued to Level 3 and absolve Level 3 of any further obligations with respect to the deferred revenue recorded at the time of the original transaction. As a result, Level 3 recorded a \$27 million gain in other, net on the consolidated statements of operations in 2001.

As of the date of completion of the Genuity transaction, Level 3 was obligated as part of certain capital lease agreements, to purchase approximately \$30 million of O&M services from suppliers over the next four years. As of December 31, 2003, the Company has reflected the current (\$9 million) and remaining noncurrent (\$15 million) portions of the O&M payments due under these arrangements.

Loans outstanding from certain executive officers of the Company were paid in full during the year ended December 31, 2003. These loans totaled \$3 million at December 31, 2002. The loans were taken out in 2001 and were secured by Level 3 common stock or other personal assets of the borrower bearing interest at 4.75%.

F-43

(13) Long-Term Debt

At December 31, 2003 and 2002, long-term debt was as follows:

	2003	2002
	(dollars in millions)	
Senior Secured Credit Facility:		
Term Loan Facility		
Tranche A	\$ —	\$ 450
Tranche B	—	275
Tranche C	—	400
Convertible Senior Discount Notes (9% due 2013)	211	—
Senior Notes (10.750% due 2011)	500	—
Convertible Senior Notes (2.875% due 2010)	374	—
Senior Notes (9.125% due 2008)	1,204	1,388
Senior Notes (11% due 2008)	362	433
Senior Discount Notes (10.5% due 2008)	409	566
Senior Euro Notes (10.75% due 2008)	400	335
Senior Discount Notes (12.875% due 2010)	420	371
Senior Euro Notes (11.25% due 2010)	130	109
Senior Notes (11.25% due 2010)	96	124

Convertible Subordinated Notes (6.0% due 2009)	362	364
Convertible Subordinated Notes (6.0% due 2010)	514	525
Junior Convertible Subordinated Notes	—	500
Commercial Mortgages:		
GMAC (3.67% due 2003-2005)	119	120
CPTC Long-term Debt (with recourse only to CPTC)	—	139
Capital leases assumed in Genuity transaction	268	—
Other	6	7
	<u>5,375</u>	<u>6,106</u>
Less current portion	(125)	(4)
	<u>\$ 5,250</u>	<u>\$ 6,102</u>

Debt Exchanges and Repurchases

Beginning in 2001, Level 3 began repurchasing several series of its public debt, including its two series of convertible debt, in exchange for Level 3 common stock. In August 2002, the SEC staff notified certain public companies and accounting firms that it was reviewing the accounting treatment for certain transactions involving the conversion of convertible debt pursuant to inducements made to prompt conversion of the debt to equity securities of the issuer. The SEC staff acknowledged that there was diversity in accounting practice and asked the Emerging Issues Task Force of the Financial Accounting Standards Board to address the issue as part of its September 2002 agenda.

In September 2002, the EITF issued EITF 02-15. The EITF concluded that these types of transactions should be accounted for as induced conversions in accordance with SFAS No. 84. SFAS No. 84 requires a non-cash charge to earnings for the implied value of an inducement to convert from convertible debt to common equity securities of the issuer. In addition, under SFAS No. 84, a gain or

F-44

loss on early extinguishment of debt, as applicable, is not recorded upon the conversion of convertible debt. The accounting is to be applied prospectively for those convertible debt for equity exchanges completed after September 11, 2002, the date of the EITF's consensus. The Company applied the provisions of SFAS No. 84 to all convertible debt for equity exchange transactions completed subsequent to the second quarter of 2002. The gains on early extinguishment of debt for debt exchanges or repurchases, and the SFAS No. 84 induced conversion expense for convertible debt for equity exchanges subsequent to June 30, 2002, are both included in other income (expense) in the accompanying consolidated statements of operations in the periods indicated below.

In the fourth quarter of 2003, the Company exchanged \$61 million aggregate principal amount of its 9.125% Senior Notes due 2008, \$53 million aggregate principal amount of its 11% Senior Notes due 2008, \$26 million aggregate principal amount of its 11.25% Senior Notes due 2010, and \$212 million face value (\$210 million carrying value) of its 10.5% Senior Discount Notes due 2008. The Company issued approximately 20 million shares of its common stock worth approximately \$105 million and \$208 million of a new issue of 9% Convertible Senior Discount Notes due 2013, ("9% Convertible Senior Discount Notes") in exchange for these senior notes. The transactions were accounted for as extinguishments of debt, in accordance with APB No. 26 "Early Extinguishment of Debt", ("APB No. 26"). The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$37 million for these transactions.

In the third quarter 2003, the Company exchanged \$2 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2009 and \$12 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2010. The Company issued approximately two million shares of its common stock with a market value of approximately \$10 million. The value of securities issuable pursuant to original conversion terms was approximately \$1 million. Therefore, pursuant to the provisions of SFAS No. 84, a debt conversion expense of \$9 million was recorded and included in other income (expense) in the consolidated statement of operations. The Company also exchanged \$18 million aggregate principal amount of its 11% Senior Notes due 2008, \$23 million of its 9.125% Senior Notes due 2008 and \$2 million aggregate principal amount of its 11.25% Senior Notes due 2010. The Company issued approximately 7 million shares of its common stock with a market value of approximately \$41 million. The transaction was accounted for as an extinguishment of debt, in accordance with APB No. 26. The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$2 million for these transactions.

In the second quarter of 2003, the Company exchanged \$100 million aggregate principal amount of its 9.125% Senior Notes due 2008. The Company issued approximately 13 million shares of its common stock with a market value of approximately \$96 million. The transaction was accounted for as an extinguishment of debt, in accordance with APB No. 26. The net gain on the early extinguishment of the debt, including transaction costs and unamortized debt issuance costs, was \$2 million. In addition, the Company issued approximately 184,000 shares of its common stock in payment of approximately \$2 million of accrued interest.

In the third and fourth quarter of 2002, the Company exchanged \$99 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2009 and \$159 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2010 in exchange for the issuance of approximately 20 million shares of its common stock with a market value of approximately \$102 million. The value of securities issuable

approximately \$14 million. Therefore, pursuant to the provisions of SFAS No. 84, a debt conversion expense of \$88 million was recorded.

In the first and second quarter of 2002, the Company exchanged \$136 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2009 and \$35 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2010. The Company issued approximately 12 million shares of its common stock with a market value of approximately \$52 million. The transactions were accounted for as extinguishments of debt, in accordance with APB No. 26 since they were completed prior to the issuance of EITF 02-15. The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$114 million for these transactions.

During the year ended December 31, 2002, the Company exchanged \$12 million aggregate principal amount of its 9.125% Senior Notes due 2008, \$87 million face value (\$62 million carrying value) of its 12.875% Senior Discount Notes due 2010, and \$88 million face value (\$79 million carrying value) of its 10.5% Senior Discount Notes due 2008. The Company issued approximately 15 million shares of its common stock worth approximately \$70 million in exchange for these senior notes. The transactions were accounted for as extinguishments of debt, in accordance with APB No. 26. The net gain on the early extinguishment of the debt, including unamortized debt issuance costs, was \$82 million for these transactions.

In February 2002, the Company's first-tier, wholly owned subsidiary, Level 3 Finance, LLC purchased \$89 million aggregate principal amount of Company debt for cash of \$31 million. The net gain on the extinguishments of the debt, including transaction costs, realized foreign currency gains and unamortized debt issuance costs, was approximately \$59 million and was accounted for as extinguishment of debt, in accordance with APB No. 26.

In 2001, the Company exchanged \$130 million of its 6% Convertible Subordinated Notes due in 2009 and \$64 million of its 6% Convertible Subordinated Notes due in 2010. The Company issued approximately 15.9 million shares of its common stock worth approximately \$72 million in exchange for the debt. The net gain on the early extinguishments of the debt, including transaction costs and unamortized debt issuance costs, was \$117 million and was accounted for as early extinguishment of debt, in accordance with APB No. 26.

In 2001, the Company's first-tier, wholly owned subsidiary, Level 3 Finance, LLC commenced a "Modified Dutch Auction" tender offer for a portion of the Company's senior debt and convertible debt securities. Under the "Modified Dutch Auction" procedure, Level 3 Finance accepted tendered notes in each offer in the order of the lowest to the highest tender prices specified by the tendering holders within the applicable price range for the applicable series of notes. Level 3 Finance purchased debt with a face value of approximately \$1.7 billion, plus accrued interest, for a total purchase price of approximately \$731 million in cash. The net gain on the repurchase, including transaction costs, foreign currency gains and unamortized debt issuance costs, was approximately \$967 million and was accounted for as extinguishment of debt, in accordance with APB No. 26.

Pursuant to SFAS No. 145, the Company reclassified \$255 million and \$1.075 billion of extraordinary gains on extinguishment of debt recognized in 2002 and 2001, respectively, to other income (expense) on the consolidated statements of operations.

Senior Secured Credit Facility

On October 1, 2003, Level 3 used the \$486 million proceeds from the issuance of the 10.75% Senior Notes due in 2011 described below, \$400 million noncurrent restricted cash and cash on hand to repay in full all outstanding purchase money indebtedness and related expenses under the Senior Secured Credit Facility and terminated the agreement. Level 3 recorded as interest expense, approximately \$24 million for unamortized deferred debt issuance costs attributable to the Senior Secured Credit Facility for which amortization was accelerated due to the repayment. The Company also paid \$4 million in fees to the lenders during the fourth quarter of 2003 as part of the termination of the agreement which is included in other income (expense) on the consolidated statement of operations.

9% Convertible Senior Discount Notes due 2013

In October 2003, Level 3 completed the exchange of approximately \$352 million (book value) of debt and accrued interest outstanding, as of October 24, 2003, for approximately 20 million shares of Level 3 common stock and \$208 million (book value) of a new issue of 9% Convertible Senior Discount Notes.

Level 3 Communications, Inc. issued \$295 million aggregate principal amount at maturity of 9% Convertible Senior Discount Notes. Interest on the 9% Convertible Senior Discount Notes accretes at a rate of 9% per annum, compounded semiannually, to an aggregate principal amount of \$295 million by October 15, 2007. Cash interest will not accrue on the 9% Convertible Senior Discount Notes prior to October 15,

2007; however, Level 3 Communications, Inc. may elect to commence the accrual of cash interest on all outstanding 9% Convertible Senior Discount Notes on or after October 15, 2004, in which case the outstanding principal amount at maturity of each 9% Convertible Senior Discount Note will, on the elected commencement date, be reduced to the accreted value of the 9% Convertible Senior Discount Note as of that date and cash interest shall be payable on that Note on April 15 and October 15 thereafter. Commencing October 15, 2007, interest on the 9% Convertible Senior Discount Notes will accrue at the rate of 9% per annum and will be payable in cash semiannually in arrears. Accrued interest expense through December 31, 2003 on the 9% Convertible Senior Discount Notes of \$3 million was added to the long-term debt balance.

The 9% Convertible Senior Discount Notes are convertible into shares of the Company's common stock at a conversion rate of \$9.99 per share, subject to certain adjustments. The total number of shares issuable upon conversion will range from approximately 22 million to 30 million shares depending upon the total accretion prior to conversion. On or after October 15, 2008, Level 3, at its option, may redeem for cash all or a portion of the notes. Level 3 may exercise this option only if the current market price for at least 20 trading days within any 30 consecutive trading day period exceeds 140% of the conversion price on October 15, 2008. This amount will be decreased to 130% and 120% on October 15, 2008 and 2009, respectively, if the initial holders sell greater than 33.33% of the notes. Level 3 is also obligated to pay the holders of the redeemed notes a cash amount equal to the present value of all remaining scheduled interest payments.

The 9% Convertible Senior Discount Notes will be subject to conversion into common stock at the option of the holder, in whole or in part, at any time or from time to time after 180 days after the

F-47

issue date at the following conversion prices (expressed as percentages of accreted value) plus accrued and unpaid interest thereon to the conversion date, of the time periods indicated below:

Year	Conversion Price
April 15, 2004 - October 14, 2004	73.549%
October 15, 2004 - April 14, 2005	76.859%
April 15, 2005 - October 14, 2005	80.317%
October 15, 2005 - April 14, 2006	83.932%
April 15, 2006 - October 14, 2006	87.709%
October 15, 2006 - April 14, 2007	91.656%
April 15, 2007 - October 14, 2007	95.780%
October 15, 2007 and thereafter	100.090%

These notes are senior unsecured obligations of Level 3 Communications, Inc., ranking *pari passu* with all existing and future senior unsecured indebtedness of Level 3 Communications, Inc.

10.75% Senior Notes due 2011

In October 2003, Level 3 Financing, Inc., a wholly owned, direct subsidiary of Level 3 Communications, Inc., received \$486 million of net proceeds from a private placement offering of \$500 million aggregate principal amount of its 10.75% Senior Notes due 2011 ("10.75% Senior Notes"). Interest on the notes accrues at 10.75% per year and is payable on April 15 and November 15 each year in cash.

The 10.75% Senior Notes are subject to redemption at the option of Level 3 Financing, Inc., in whole or in part, at any time or from time to time on or after October 15, 2007, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve months beginning October 15, of the years indicated below:

Year	Redemption Price
2007	105.375%
2008	102.688%
2009 and thereafter	100.000%

The 10.75% Senior Notes are senior, unsecured obligations of Level 3 Financing, Inc., ranking *pari passu* with all existing and future senior unsecured indebtedness of Level 3 Financing, Inc. The notes contain certain covenants, which among other things, limit consolidated debt, dividend payments, and transactions with affiliates. The net proceeds of the offering were used to repay amounts outstanding under the Senior Secured Credit Facility.

Debt issuance costs of \$14 million were originally capitalized and are being amortized to interest expense over the term of the Senior Notes. As a result of amortization, the capitalized debt issuance costs have been reduced to \$13 million at December 31, 2003.

2.875% Convertible Senior Notes due 2010

On July 8, 2003, the Company completed the offering of \$373.75 million aggregate principal amount of its 2.875% Convertible Senior Notes due 2010 ("2.875% Convertible Senior Notes") in an

F-48

underwritten public offering pursuant to the Company's shelf registration statement. Interest on the notes accrues at 2.875% per year and is payable semi-annually in arrears in cash on January 15 and July 15, beginning January 15, 2004. The 2.875% Convertible Senior Notes are senior, unsecured obligations of Level 3 Communications, Inc., ranking *pari passu* with all existing and future senior unsecured debt. The 2.875% Convertible Senior Notes contain certain covenants, which among other things, limit additional liens on assets of the Company.

The 2.875% Convertible Senior Notes are convertible into shares of the Company's common stock at a conversion rate of \$7.18 per share, subject to certain adjustments. On or after July 15, 2007, Level 3, at its option, may redeem for cash all or a portion of the notes. Level 3 may exercise this option only if the current market price for the Level 3 common stock for at least 20 trading days within any 30 consecutive trading day period exceeds prices ranging from 170% of the conversion price on July 15, 2007 decreasing to 150% of the conversion price on or after July 15, 2009. Level 3 would also be obligated to pay the holders of the redeemed notes a cash amount equal to the present value of all remaining scheduled interest payments.

Level 3 intends to use the net proceeds of \$361 million, after transaction costs, for working capital, capital expenditures and other general corporate purposes, including new product development, debt repurchases and acquisitions.

Debt issuance costs of \$13 million were originally capitalized and are being amortized to interest expense over the term of the 2.875% Convertible Senior Notes. As a result of amortization, the capitalized debt issuance costs have been reduced to \$11 million at December 31, 2003.

9.125% Senior Notes due 2008

In April 1998, Level 3 Communications, Inc. received \$1.94 billion of net proceeds from an offering of \$2 billion aggregate principal amount 9.125% Senior Notes Due 2008 ("9.125% Senior Notes"). As of December 31, 2003, a total of \$796 million aggregate principal amount of the 9.125% Senior Notes had been repurchased. Interest on the notes accrues at 9.125% per year and is payable on May 1 and November 1 each year in cash.

The 9.125% Senior Notes are subject to redemption at the option of Level 3 Communications, Inc., in whole or in part, at any time or from time to time on or after May 1, 2003, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve months beginning May 1, of the years indicated below:

Year	Redemption Price
2003	104.563%
2004	103.042%
2005	101.521%
2006 and thereafter	100.000%

The 9.125% Senior Notes are senior, unsecured obligations of Level 3 Communications, Inc., ranking *pari passu* with all existing and future senior unsecured indebtedness of the Company. The notes contain certain covenants, which among other things, limit consolidated debt, dividend payments, and transactions with affiliates. Level 3 Communications, Inc. used the net proceeds of the note offering in connection with the implementation of its business plan.

F-49

Debt issuance costs of \$65 million were originally capitalized and are being amortized to interest expense over the term of the Senior Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$17 million at December 31, 2003.

11% Senior Notes due 2008

In February 2000, Level 3 Communications, Inc. received \$779 million of net proceeds, after transaction costs, from a private offering of \$800 million aggregate principal amount of its 11% Senior Notes due 2008 ("11% Senior Notes"). As of December 31, 2003, a total of \$439 million aggregate principal amount of the 11% Senior Notes had been repurchased. Interest on the notes accrues at 11% per year and is payable semi-annually in arrears in cash on March 15 and September 15, beginning September 15, 2000. The 11% Senior Notes are senior, unsecured obligations of Level 3 Communications, Inc., ranking *pari passu* with all existing and future senior debt. The 11% Senior Notes cannot be prepaid by Level 3 Communications, Inc., and mature on March 15, 2008. The 11% Senior Notes contain certain covenants, which

among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates.

Debt issuance costs of \$21 million were originally capitalized and are being amortized to interest expense over the term of the 11% Senior Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$5 million at December 31, 2003.

10.5% Senior Discount Notes due 2008

In December 1998, Level 3 Communications, Inc. sold \$834 million aggregate principal amount at maturity of 10.5% Senior Discount Notes Due 2008 ("10.5% Senior Discount Notes"). The sales proceeds of \$500 million, excluding debt issuance costs, were recorded as long-term debt. As of December 31, 2003, a total of \$425 million aggregate principal amount of the 10.5% Senior Discount Notes had been repurchased. Interest on the 10.5% Senior Discount Notes accreted at a rate of 10.5% per annum, compounded semiannually, to an aggregate principal amount of \$834 million (\$409 million after repurchases) at December 1, 2003. Commencing December 1, 2003, interest on the 10.5% Senior Discount Notes accrued at the rate of 10.5% per annum and will be payable in cash semiannually in arrears. Accrued interest expense for the 11 month period ended November 30, 2003 on the 10.5% Senior Discount Notes of \$53 million was added to long-term debt.

The 10.5% Senior Discount Notes will be subject to redemption at the option of Level 3 Communications, Inc., in whole or in part, at any time or from time to time on or after December 1, 2003 at the following redemption prices (expressed as percentages of accreted value) plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve months beginning December 1, of the years indicated below:

Year	Redemption Price
2003	105.25%
2004	103.50%
2005	101.75%
2006 and thereafter	100.00%

F-50

These notes are senior unsecured obligations of Level 3 Communications, Inc., ranking *pari passu* with all existing and future senior unsecured indebtedness of Level 3 Communications, Inc. The 10.5% Senior Discount Notes contain certain covenants which, among other things, restrict or limit the Company's ability to incur additional debt, make certain restricted payments, pay dividends, enter into sale and leaseback transactions, enter into transactions with affiliates, and sell assets or merge with another company.

Debt issuance costs of \$14 million were originally capitalized and are being amortized over the term of the 10.5% Senior Discount Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$3 million at December 31, 2003.

10.75% Senior Euro Notes due 2008

On February 29, 2000, Level 3 Communications, Inc. received €488 million (\$478 million when issued) of net proceeds, after debt issuance costs, from an offering of €500 million aggregate principal amount 10.75% Senior Euro Notes due 2008 ("10.75% Senior Euro Notes"). As of December 31, 2003, a total of €179 million aggregate principal amount of the 10.75% Senior Euro Notes had been repurchased. Interest on the notes accrues at 10.75% per year and is payable in Euros semi-annually in arrears on March 15 and September 15 each year beginning on September 15, 2000. The 10.75% Senior Euro Notes are not redeemable by Level 3 Communications, Inc. prior to maturity. Debt issuance costs of €12 million (\$12 million) were originally capitalized and are being amortized over the term of the 10.75% Senior Euro Notes. As a result of amortization and debt repurchases, the net capitalized debt issuance costs have been reduced to €4 million at December 31, 2003.

The 10.75% Senior Euro Notes are senior, unsecured obligations of the Company, ranking *pari passu* with all existing and future senior debt. The 10.75% Senior Euro Notes contain certain covenants, which among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates.

The issuance of the €500 million 10.75% Senior Euro Notes has been designated as, and is effective as, an economic hedge against the investment in certain of the Company's foreign subsidiaries. Therefore, foreign currency gains and losses resulting from the translation of the debt have been recorded in other comprehensive income (loss) to the extent of translation gains or losses on such investment. The 10.75% Senior Euro Notes were valued, based on current exchange rates, at \$400 million in the Company's financial statements at December 31, 2003. The difference between the carrying value at December 31, 2003 and the value at issuance, after repurchases, was recorded in other comprehensive income.

12.875% Senior Discount Notes due 2010

On February 29, 2000, Level 3 Communications, Inc. sold in a private offering \$675 million aggregate principal amount at maturity of its

12.875% Senior Discount Notes due 2010 ("12.875% Senior Discount Notes"). The sale proceeds of \$360 million, excluding debt issuance costs, were recorded as long-term debt. As of December 31, 2003, a total of \$187 million aggregate principal amount of the 12.875% Senior Discount Notes had been repurchased, leaving \$488 million aggregate principal amount outstanding. Interest on the 12.875% Senior Discount Notes accretes at a rate of 12.875% per year, compounded semi-annually, to an aggregate principal amount of \$488 million by March 15, 2005. Cash interest will not accrue on the 12.875% Senior Discount Notes prior to

F-51

March 15, 2005. However, Level 3 Communications, Inc. may elect to commence the accrual of cash interest on all outstanding 12.875% Senior Discount Notes on or after March 15, 2003. In that case, the outstanding principal amount at maturity of each 12.875% Senior Discount Note will, on the elected commencement date, be reduced to the accreted value of the 12.875% Senior Discount Note as of that date and cash interest shall be payable on the 12.875% Senior Discount Notes on March 15 and September 15 thereafter. Commencing September 15, 2005, interest on the 12.875% Senior Discount Notes will accrue at the rate of 12.875% per year and will be payable in cash semi-annually in arrears. Accrued interest expense for the year ended December 31, 2003 on the 12.875% Senior Discount Notes of \$49 million was added to long-term debt.

The 12.875% Senior Discount Notes are subject to redemption at the option of Level 3 Communications, Inc., in whole or in part, at any time or from time to time on or after March 15, 2005. Level 3 Communications, Inc. may redeem the 12.875% Senior Discount Notes at the redemption prices set forth below, plus interest, if any, to the redemption date. The following prices are for 12.875% Senior Discount Notes redeemed during the 12-month period commencing on March 15 of the years set forth below and are expressed as percentages of principal amount.

Year	Redemption Price
2005	106.438%
2006	104.292%
2007	102.146%
2008 and thereafter	100.000%

The 12.875% Senior Discount Notes are senior, unsecured obligations of the Company, ranking *pari passu* with all existing and future senior debt. The 12.875% Senior Discount Notes contain certain covenants, which among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates.

Debt issuance costs of \$9 million were originally capitalized and are being amortized to interest expense over the term of the 12.875% Senior Discount Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$4 million at December 31, 2003.

11.25% Senior Euro Notes due 2010

On February 29, 2000, Level 3 Communications, Inc. received €293 million (\$285 million when issued) of net proceeds, after debt issuance costs, from an offering of €300 million aggregate principal amount 11.25% Senior Euro Notes due 2010 ("11.25% Senior Euro Notes"). As of December 31, 2003, a total of €196 million aggregate principal amount of the 11.25% Senior Euro Notes had been repurchased. Interest on the notes accrues at 11.25% per year and is payable semi-annually in arrears in Euros on March 15 and September 15 each year beginning September 15, 2000.

F-52

The 11.25% Senior Euro Notes are subject to redemption at the option of Level 3 Communications, Inc., in whole or in part, at any time or from time to time on or after March 15, 2005. The 11.25% Senior Euro Notes may be redeemed at the redemption prices set forth below, plus accrued and unpaid interest, if any, to the redemption date. The following prices are for 11.25% Senior Euro Notes redeemed during the 12-month period commencing on March 15 of the years set forth below, and are expressed as percentages of principal amount.

Year	Redemption Price
2005	105.625%
2006	103.750%
2007	101.875%
2008 and thereafter	100.000%

Debt issuance costs of €7 million (\$7 million) were originally capitalized and are being amortized over the term of the 11.25% Senior Euro Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to €2 million at December 31,

2003. The 11.25% Senior Euro Notes are senior, unsecured obligations of the Company, ranking *pari passu* with all existing and future senior debt. The 11.25% Senior Euro Notes contain certain covenants, which among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates.

The issuance of the €300 million 11.25% Senior Euro Notes has been designated as, and is effective as, an economic hedge against the investment in certain of the Company's foreign subsidiaries. Therefore, foreign currency gains and losses resulting from the translation of the debt have been recorded in other comprehensive income (loss) to the extent of translation gains or losses on such net investment. The 11.25% Senior Euro Notes were valued, based on current exchange rates, at \$130 million in the Company's financial statements at December 31, 2003.

11.25% Senior Notes due 2010

In February 2000, Level 3 Communications, Inc. received \$243 million of net proceeds, after transaction costs, from a private offering of \$250 million aggregate principal amount of its 11.25% Senior Notes due 2010 ("11.25% Senior Notes"). As of December 31, 2003, a total of \$154 million aggregate principal amount of the 11.25% Senior Notes had been repurchased. Interest on the notes accrues at 11.25% per year and is payable semi-annually in arrears on March 15 and September 15 in cash beginning September 15, 2000.

The 11.25% Senior Notes are subject to redemption at the option of Level 3 Communications, Inc., in whole or in part, at any time or from time to time on or after March 15, 2005. Level 3 Communications, Inc. may redeem the 11.25% Senior Notes at the redemption prices set forth below, plus accrued and unpaid interest, if any, to the redemption date. The following prices are

F-53

for 11.25% Senior Notes redeemed during the 12-month period commencing on March 15 of the years set forth below:

Year	Redemption Price
2005	105.625%
2006	103.750%
2007	101.875%
2008 and thereafter	100.000%

The 11.25% Senior Notes are senior, unsecured obligations of the Company, ranking *pari passu* with all existing and future senior debt. The 11.25% Senior Notes contain certain covenants, which among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates.

Debt issuance costs of \$7 million were originally capitalized and are being amortized to interest expense over the term of the 11.25% Senior Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$2 million at December 31, 2003.

6% Convertible Subordinated Notes due 2009

On September 14, 1999, the Company received \$798 million of proceeds, after transaction costs, from an offering of \$823 million aggregate principal amount of its 6% Convertible Subordinated Notes Due 2009 ("Subordinated Notes 2009"). The Subordinated Notes 2009 are unsecured and subordinated to all existing and future senior indebtedness of the Company. Interest on the Subordinated Notes 2009 accrues at 6% per year and is payable each year in cash on March 15 and September 15. The principal amount of the Subordinated Notes 2009 will be due on September 15, 2009. The Subordinated Notes 2009 may be converted into shares of common stock of the Company at any time prior to maturity, unless the Company has caused the conversion rights to expire. The conversion rate is 15.3401 shares per each \$1,000 principal amount of Subordinated Notes 2009, subject to adjustment in certain circumstances. On or after September 15, 2002, Level 3, at its option, may cause the conversion rights to expire. Level 3 may exercise this option only if the current market price exceeds approximately \$91.27 (which represents 140% of the conversion price) for 20 trading days within any period of 30 consecutive trading days including the last day of that period. As of December 31, 2003, less than \$1 million of debt had been converted into shares of common stock. As of December 31, 2003, a total of \$461 million aggregate principal amount of the Subordinated Notes 2009 had been repurchased or exchanged for common stock.

Debt issuance costs of \$25 million were originally capitalized and are being amortized to interest expense over the term of the Subordinated Notes 2009. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$6 million at December 31, 2003.

6% Convertible Subordinated Notes due 2010

In February 2000, the Company received \$836 million of net proceeds, after transaction costs, from a public offering of \$863 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2010 ("Subordinated Notes 2010"). The Subordinated Notes 2010 are unsecured and subordinated to all existing and future senior indebtedness of the Company. Interest on the Subordinated Notes 2010

accrues at 6% per year and is payable semi-annually in cash on March 15 and September 15 beginning September 15, 2000. The principal amount of the Subordinated Notes 2010 will be due on March 15, 2010.

The Subordinated Notes 2010 may be converted into shares of common stock of Level 3 Communications, Inc. at any time prior to the close of business on the business day immediately preceding maturity, unless previously redeemed, repurchased or Level 3 Communications, Inc. has caused the conversion rights to expire. The conversion rate is 7.416 shares per each \$1,000 principal amount of Subordinated Notes 2010, subject to adjustment in certain events.

On or after March 18, 2003, Level 3, at its option, may cause the conversion rights to expire. Level 3 may exercise this option only if the current market price exceeds approximately \$188.78 (which represents 140% of the conversion price) for at least 20 trading days within any period of 30 consecutive trading days, including the last trading day of that period. As of December 31, 2003, no debt had been converted into shares of common stock. As of December 31, 2003, a total of \$350 million aggregate principal amount of the Subordinated Notes 2010 had been repurchased or exchanged for common stock.

Debt issue costs of \$27 million were originally capitalized and are being amortized to interest expense over the term of the Subordinated Notes. As a result of amortization and debt repurchases, the capitalized debt issuance costs have been reduced to \$10 million at December 31, 2003.

Junior Convertible Subordinated Notes

In July 2002, the Company sold \$500 million aggregate principal amount of its 9% Junior Convertible Subordinated Notes due 2012 to entities controlled by three institutions: Longleaf Partners Funds, Berkshire Hathaway, Inc., and Legg Mason, Inc. The notes, which had a 10-year maturity, paid 9% cash interest annually, payable quarterly beginning October 15, 2002. The notes were convertible, at the option of the holders, into Level 3 common stock at any time at a conversion price of \$3.41 (subject to certain customary adjustments). The notes were convertible at the Company's option into convertible preferred stock under certain conditions and circumstances. The convertible notes ranked junior to substantially all of the Level 3 Communications, Inc.'s outstanding indebtedness.

In January 2003, a holder of the Junior Convertible Subordinated Notes converted \$20 million principal amount of the Notes into approximately six million shares of Level 3 common stock. Pursuant to the original conversion terms, the holder received 293,255 shares of Level 3 common stock for each \$1,000 principal amount of notes converted. The debt was converted pursuant to the original conversion terms; therefore, no gain or loss was recognized on the transaction.

In April 2003, a holder of the Junior Convertible Subordinated Notes converted \$23 million principal amount of the Notes into approximately 7 million shares of Level 3 common stock. The debt was converted pursuant to the original conversion terms; therefore, no gain or loss was recognized on the transaction.

In the June 2003, the remaining \$457 million aggregate principal amount of the Company's 9% Junior Convertible Subordinated Notes due 2012 were converted into approximately 161 million shares of Level 3 common stock with a market value of approximately \$1.135 billion. The market value of securities issuable pursuant to original conversion privileges on the conversion date was approximately \$945 million. Therefore, pursuant to the provisions of SFAS No. 84, debt conversion expense of

\$190 million was recorded in the second quarter of 2003. Approximately \$7 million of foregone accrued interest through the date of the conversion was credited to additional paid-in capital. In addition, approximately \$10 million of unamortized debt issuance costs were charged to additional paid-in capital as a result of the conversion to common stock. The total increase in common stock as a result of this conversion and related debt conversion expenses was \$644 million.

GMAC Commercial Mortgage due 2003

In June 2000, HQ Realty, Inc. (a wholly owned subsidiary of the Company) entered into a \$120 million floating-rate loan ("GMAC Mortgage") providing secured, non-recourse debt to finance the Company's world headquarters. HQ Realty, Inc. is a single purpose entity organized solely to own, hold, operate and manage the world headquarters which has been 100% leased to Level 3 Communications, LLC in Broomfield Colorado. Under the terms of the loan agreement, HQ Realty, Inc., will not engage in any business other than the ownership, management, maintenance and operation of the world headquarters. The assets of HQ Realty Inc. are not available to satisfy any third party obligations other than those of HQ Realty, Inc. In addition, the assets of the Company are not available to satisfy the obligations of HQ Realty, Inc. HQ Realty, Inc. received \$119 million of net proceeds after transaction costs. Level 3 was required to place \$13 million of the net proceeds in a restricted account. The release of these funds is contingent upon Level 3's debt rating increasing to BBB by S&P and Baa2 by

Moody's which did not occur in 2003.

The initial term of the GMAC Commercial Mortgage was through June 2003 with two one-year no cost extensions. The first one-year extension was exercised by the Company during 2003. Interest varies monthly with the 30 day London Interbank Offering Rate ("LIBOR") for U.S. Dollar Deposits as follows:

The Index plus:

- (1) 240 basis points during the Initial Term;
- (2) 250 basis points during the First Extension; and
- (3) 260 basis points during the Second Extension.

At December 31, 2003 the interest rate was 3.67%.

The GMAC Mortgage may be prepaid at par in whole or in part in multiples of \$100,000. The entire principal is due at maturity or at the end of the elected extension period. Interest only is due during the initial three-year term. Interest and amortization are due during the extension terms based on a 30-year amortization period with a balloon payment at maturity.

Existing debt issuance costs of \$1 million were capitalized and are being amortized as interest expense over the term of the GMAC Mortgage.

CPTC

On January 3, 2003, CPTC sold the "91 Express Lanes" toll road and related assets and obligations. The Company's long-term debt was reduced by approximately \$139 million as a result of the transaction. The Company had reflected the debt on its consolidated balance sheet due to its 65% equity interest in CPTC.

F-56

Genuity Capital Lease Obligations

As part of the Genuity transaction that closed on February 4, 2003, the Company assumed certain capital lease obligations of Genuity for operating equipment. The Company used a 15% discount rate to present value the minimum lease payments, representing the effective interest rate that could be obtained by the Company for a similar agreement, resulting in a capital lease obligation of \$309 million. The capital lease agreements also contain provisions whereby Level 3 is required to purchase approximately \$30 million of O&M services and network capacity ratably over the lease term, which are recorded as prepaid assets (recognized as cost of revenue over the term of the agreement) and other current and noncurrent liabilities. The future minimum lease payments under the capital lease obligations as of December 31, 2003, excluding the O&M and network capacity obligations and assuming the lease terms remain the same as on the acquisition date, are \$133 million in 2004; \$116 million in 2005; and \$76 million in 2006. The lease arrangements with the equipment contain certain provisions whereby Level 3 can reduce or terminate significant portions of the lease if one of the significant customers using the equipment terminates all or part of its commitment, subject to certain conditions, which would result in a reduction of the capital lease obligation at the time any such agreement occurs. As of the acquisition date of the lease, the exercise of the termination provision was considered remote. One of the customers utilizing this leased equipment has the option of reducing its minimum contractual commitment beginning in 2004.

iStar Commercial Mortgage due 2004

In March 2002, 85 Tenth Avenue, LLC (a wholly owned subsidiary of the Company) amended its \$113 million floating-rate loan, originally provided by Lehman Brothers Holdings, Inc. (the "Lehman Mortgage") that provided secured, non-recourse debt to finance the purchase and renovations of the New York Gateway facility. The amendment resulted in iStar DB Seller, LLC ("iStar") becoming the sole lender for the property. Previously, iStar, along with other third parties, owned notes of the 85 Tenth Avenue Trust, purchased from Lehman Brothers Holdings, Inc. Using funds previously reserved for additional renovations at the New York Gateway facility, along with funds advanced from iStar, 85 Tenth Avenue, LLC repaid the other third party holders of the notes of 85 Tenth Avenue Trust and reduced the principal outstanding under the amended loan agreement to \$60 million. Additionally, the amendment negotiated with iStar (the "iStar Mortgage") extended the initial term of the loan to March 1, 2004, with two optional one-year extensions. There was no prepayment penalty under the revised agreement. Interest varied monthly with the 30 day LIBOR for U.S. Dollar Deposits, plus 650 basis points. The amendment provided a LIBOR floor of 2.00% at all times. This interest, together with principal payments based on a 20-year amortization period, were due monthly during the initial term of the loan.

On December 31, 2002, the New York Gateway facility was sold. The proceeds from the transaction were used to repay the iStar Mortgage balance of \$60 million including accrued interest. Unamortized existing debt issuance costs of \$6 million were included in interest expense

during the fourth quarter of 2002.

Future Debt Maturities:

Scheduled maturities of long-term debt are as follows (in millions):

2004—\$125; 2005—\$203; 2006—\$64; 2007—\$1; 2008—\$2,376 and \$2,606 thereafter.

F-57

Included in the 2005 long-term debt maturities is \$117 million related to the GMAC Commercial Mortgage. The initial term of the GMAC Commercial Mortgage was through June 2003 with two one-year no cost extensions. The first one-year extension was exercised by the Company during 2003 and the debt maturities schedule assumes the Company will exercise the final one-year extension.

(14) Employee Benefit Plans

The Company adopted the recognition provisions of SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") in 1998. Under SFAS No. 123, the fair value of an option or other stock-based compensation (as computed in accordance with accepted option valuation models) on the date of grant is amortized over the vesting periods of the options in accordance with FIN 28. Although the recognition of the value of the instruments results in compensation or professional expenses in an entity's financial statements, the expense differs from other compensation and professional expenses in that these charges may not be settled in cash, but rather, are generally settled through issuance of common stock.

The adoption of SFAS No. 123 has resulted in material non-cash charges to operations since its adoption in 1998, and will continue to do so. The amount of the non-cash charges will be dependent upon a number of factors, including the number of grants and the fair value of each grant estimated at the time of its award.

The Company recognized on the statement of operations a total of \$86 million, \$181 million and \$314 million of non-cash compensation in 2003, 2002 and 2001, respectively. In addition, included in discontinued operations is non-cash compensation expense of \$7 million for the year ended 2001. In addition, the Company capitalized \$4 million, \$7 million and \$49 million in 2003, 2002 and 2001, respectively, of non-cash compensation for those employees and contractors directly involved in the construction of the network or development of the business support systems.

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for the three years ended December 31, 2003.

	2003	2002	2001
	(dollars in millions)		
NQSO	\$ —	\$ —	\$ 8
Warrants	9	11	42
OSO	30	116	227
C-OSO	15	40	58
Restricted Stock	2	1	2
Shareworks Match Plan	8	12	13
Shareworks Grant Plan	11	8	13
401(k) Match Expense	15	—	—
	90	188	363
Capitalized Noncash Compensation	(4)	(7)	(49)
Non-cash Compensation Expense—Continuing Operations	86	181	314
Discontinued Asian Operations	—	—	7
	\$ 86	\$ 181	\$ 321

F-58

Non-qualified Stock Options and Warrants

During the first quarter of 2003, the Company issued approximately 684,000 fully vested warrants to a consultant as payment primarily for acquisition-related consulting services. The warrants allow the consultant to purchase common stock at \$4.90 per share. The warrants were fully vested at issuance and will expire on January 1, 2013. At December 31, 2003, the fair value of the warrants was \$2 million and was calculated using the Black-Scholes valuation model with a risk free interest rate of 4.12% and an expiration date of January 1, 2013. The Company used a volatility rate of 70% to reflect the longer exercise period.

On March 31, 2003, the Company issued approximately 1.7 million warrants to a consultant as payment for future consulting financial advisory services. The warrants allow the consultant to purchase common stock at \$5.16 per share. The warrants vest equally in quarterly installments over twelve months. The warrants expire March 31, 2010. Pursuant to the relevant accounting guidance, the fair value of these warrants is determined on their respective vesting dates. The fair value of the unvested portion of these warrants is determined at each financial reporting date and was \$2 million at December 31, 2003 for the approximately 400,000 unvested warrants. At December 31, 2003, the total fair value of these warrants was approximately \$7 million and was calculated using the Black-Scholes valuation model with a risk free interest rate of 3.6%, a term of six years and a volatility rate of 75% over the term.

In June 2002, the Company issued two million warrants to a contractor as payment for consulting services. The warrants allow the contractor to purchase common stock at \$4.25 per share. Warrants to purchase 640,000 shares of common stock were vested immediately upon grant with the remaining 1,360,000 vesting equally over eight months. The warrants expire in February 2010. At December 31, 2003, the total amount expended for these warrants was approximately \$7 million.

As of December 31, 2003, there were approximately 16.4 million warrants outstanding ranging in prices from \$4.25 to \$60.06. Of these warrants, approximately 16.0 million were exercisable at December 31, 2003 with a weighted average exercise price of \$9.64 per warrant.

The Company did not grant any NQSOs during the year ended December 31, 2003. As of December 31, 2003, all NQSOs previously granted were fully vested.

F-59

Transactions involving NQSO stock options granted are summarized as follows:

	Units	Exercise Price Per Unit	Weighted Average Exercise Price
Balance December 31, 2000	12,001,208	\$.12 – \$84.75	\$ 6.63
Options granted	—	—	—
Options cancelled	(348,956)	1.76 – 56.75	10.18
Options exercised	(460,546)	.12 – 35.31	5.32
Balance December 31, 2001	11,191,706	.12 – 84.75	6.58
Options granted	—	—	—
Options cancelled	(1,181,124)	1.76 – 56.75	6.77
Options exercised	(215,346)	.12 – 5.43	4.51
Balance December 31, 2002	9,795,236	.12 – 84.75	6.60
Options granted	—	—	—
Options cancelled	(352,719)	6.50 – 42.00	24.79
Options exercised	(521,153)	1.76 – 6.50	5.48
Balance December 31, 2003	8,921,364	\$.12 – \$84.75	\$ 5.95
Options exercisable:			
December 31, 2001	9,013,915	\$.12 – \$84.75	\$ 6.70
December 31, 2002	9,667,663	.12 – 84.75	6.60
December 31, 2003	8,921,364	\$.12 – \$84.75	\$ 5.95

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/03	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable as of 12/31/03	Weighted Average Exercise Price

\$ 0.12 – \$ 0.12	61,168	4.16	\$.12	61,168	\$.12
1.76 – 1.79	4,046	4.30	1.76	4,046	1.76
4.04 – 5.43	6,795,825	3.26	5.07	6,795,825	5.07
6.20 – 8.50	1,816,725	4.06	6.96	1,816,725	6.96
17.50 – 25.03	230,000	1.47	21.69	230,000	21.69
40.38 – 51.88	2,000	.08	51.88	2,000	51.88
56.00 – 57.47	5,000	.80	57.47	5,000	57.47
61.75 – 84.75	6,600	.28	84.75	6,600	84.75
	8,921,364	3.38	\$ 5.95	8,921,364	\$ 5.95

Outperform Stock Option Plan

In April 1998, the Company adopted an outperform stock option ("OSO") program that was designed so that the Company's stockholders would receive a market return on their investment before OSO holders receive any return on their options. The Company believes that the OSO program aligns directly management's and stockholders' interests by basing stock option value on the Company's ability to outperform the market in general, as measured by the Standard & Poor's ("S&P") 500 Index.

F-60

Participants in the OSO program do not realize any value from awards unless the Company's common stock price outperforms the S&P 500 Index during the life of the grant. When the stock price gain is greater than the corresponding gain on the S&P 500 Index (or less than the corresponding loss on the S&P Index), the value received for awards under the OSO plan is based on a formula involving a multiplier related to the level by which the Company's common stock outperforms the S&P 500 Index. To the extent that Level 3's common stock outperforms the S&P 500 Index, the value of OSOs to a holder may exceed the value of nonqualified stock options.

In August 2002, the Company modified the OSO program to target that no more than 25% of Level 3's outperformance was delivered to employee-owners, and that the exercise of past and future OSO grants does not exceed shares reserved for issuance under the Company's 1995 Stock Plan, as amended. The following modifications, affecting August 19, 2002 and later grants, were made to the Plan:

- OSO targets will be defined in terms of number of OSOs rather than a target theoretical dollar value.
- The success multiplier was reduced from eight to four.
- Awards will continue to vest over 2 years and have a 4-year life. However, 50% of the award will vest at the end of the first year after grant, with the remaining 50% vesting over the second year (12.5% per quarter).
- A 2-year exercise moratorium was enacted for a portion of OSO grants made to Senior Vice Presidents and the senior executive team.

The mechanics for determining the value of an individual OSO is described below:

The initial strike price, as determined on the day prior to the OSO grant date, is adjusted over time (the "Adjusted Strike Price"), until the exercise date. The adjustment is an amount equal to the percentage appreciation or depreciation in the value of the S&P 500 Index from the date of grant to the date of exercise. The value of the OSO increases for increasing levels of outperformance. OSOs granted prior to August 19, 2002 have a multiplier range from zero to eight depending upon the performance of Level 3 common stock relative to the S&P 500 Index as shown in the following table. OSOs granted August 19, 2002 and later have a multiplier range from zero to four depending upon the performance of Level 3 common stock relative to the S&P 500 Index as shown in the following table.

If Level 3 Stock Outperforms the S&P 500 Index by:	Then the Pre-multiplier Gain Is Multiplied by a Success Multiplier of:	
	Pre August 19, 2002 Grants	August 19, 2002 and Later Grants
0% or Less	0.00	0.00
More than 0% but Less than 11%	Outperformance percentage multiplied by ⁸ / 11	Outperformance percentage multiplied by ⁴ / 11
11% or More	8.00	4.00

The Pre-multiplier gain is the Level 3 common stock price minus the Adjusted Strike Price on the date of exercise

OSO awards are made quarterly to eligible participants on the date of the grant.

Awards granted prior to August 19, 2002 vest in equal quarterly installments over two years and have a four-year life. Awards granted prior to March 2001 typically have a two-year moratorium on exercise from the date of grant. As a result, once a participant is 100% vested in the grant, the two-year moratorium expires. Therefore, most awards granted prior to March 2001 have an exercise window of two years. Level 3 granted 2.1 million OSOs to employees in December 2000 that vest 25% after six months with the remaining 75% vesting after 18 months. These OSOs and all additional OSOs granted March 1, 2001 and later are exercisable immediately upon vesting and have a four-year life. One half of OSOs granted on and after August 19, 2002 vest at the end of the first year after grant, with the remaining 50% vesting over the second year (12.5% per quarter).

The fair value of the OSOs granted in 2002 was calculated by applying a modified Black-Scholes model with the assumptions identified below. The Company uses a modified Black-Scholes model due to the additional variables required to calculate the outperformance multiplier of the OSO program.

	Pre August 19, 2002 Grants	August 19, 2002 through the Year Ended December 31, 2002	Year Ended December 31, 2003
S&P 500 Expected Dividend Yield Rate	1.80%	1.88%	1.51%
Expected Life	2 years	2 years	2 years
S&P 500 Expected Volatility Rate	23%	25%	25%
Level 3 Common Stock Expected Volatility Rate	55%	100%	80%
Expected Correlation Factor	.81	.60	.46
Calculated Theoretical Value	150%	186%	156%

The fair value of each OSO grant equals the theoretical value multiplied by the Level 3 common stock price on the day prior to the grant date.

The fair value under SFAS No. 123 for the approximately two million OSOs awarded to participants during the year ended December 31, 2003 was approximately \$20 million. As of December 31, 2003, the Company had not reflected \$9 million of unamortized compensation expense in its financial statements for previously granted OSOs.

Transactions involving OSO stock awards granted are summarized below:

	Units	Option Price Per Unit	Weighted Average Option Price
Balance December 31, 2000	10,064,588	\$26.87 – \$113.87	\$ 53.50
Options granted	15,757,972	3.82 – 25.31	9.52
Options cancelled	(1,758,725)	3.82 – 113.87	25.69
Options expired	(406,387)	25.31 – 113.87	48.65
Options exercised	(96,031)	3.82 – 34.50	8.45
Balance December 31, 2001	23,561,417	3.82 – 113.87	26.43
Options granted	5,435,942	2.45 – 5.58	3.92
Options cancelled	(567,124)	3.02 – 113.87	9.57
Options expired	(2,955,669)	3.02 – 113.87	39.53
Options exercised	(977,513)	3.02 – 5.58	4.19
Balance December 31, 2002	24,497,053	2.45 – 113.87	21.14

Options granted	2,165,221	4.90 – 6.66	5.46		
Options cancelled	(172,881)	2.45 – 113.87	4.85		
Options expired	(3,374,396)	3.02 – 113.87	56.93		
Options exercised	(1,631,583)	2.45 – 5.58	4.12		
Balance December 31, 2003	21,483,414	\$ 2.45 – \$113.87	\$ 15.36		
Options vested as of:					
December 31, 2001	8,738,516	\$ 3.82 – \$113.87	\$ 47.33		
December 31, 2002	15,714,493	3.02 – 113.87	29.62		
December 31, 2003	19,264,131	\$ 2.45 – \$113.87	\$ 16.54		
	OSOs Outstanding at December 31, 2003		OSOs Vested at December 31, 2003		
Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Option Price	Number Vested	Wei Ave Op Pr
	2,536,881	2.17	\$ 3.00	2,273,327	\$
	9,558,855	2.14	4.95	8,068,573	
	465,447	3.50	6.66	—	
	3,371,115	1.42	11.20	3,371,115	
	4,159,369	1.01	26.33	4,159,369	
	506,561	.42	76.31	506,561	
7	885,186	.48	97.19	885,186	
	21,483,414	1.73	\$ 15.36	19,264,131	\$

All of the approximately 19 million OSO units vested at December 31, 2003 are exercisable. At December 31, 2003, based on the Level 3 stock price and post-multiplier values, the Company would have been obligated to issue approximately 23 million shares for vested and exercisable OSO units.

F-63

In July 2000, the Company adopted a convertible outperform stock option program, ("C-OSO") as an extension of the existing OSO plan. The program is a component of the Company's ongoing employee retention efforts and offers similar features to those of an OSO, but provides an employee with the greater of the value of a single share of the Company's common stock at exercise, or the calculated OSO value of a single OSO at the time of exercise.

C-OSO awards were made to eligible employees employed on the date of the grant. The awards were made in September 2000, December 2000, and September 2001. The awards granted in 2000 vest over three years as follows: ¹ / 6 of each grant at the end of the first year, a further ² / 6 at the end of the second year and the remaining ³ / 6 in the third year. The September 2001 awards vest in equal quarterly installments over three years. Each award is immediately exercisable upon vesting. Awards expire four years from the date of the grant.

As of December 31, 2003, the Company had not reflected \$1 million of unamortized compensation expense in its financial statements for C-OSOs awarded in 2001.

Transactions involving C-OSO stock awards are summarized below:

	Units	Option Price Per Unit	Weighted Average Option Price
Balance December 31, 2000	1,939,987	\$26.87 – \$87.23	\$ 56.67
Options granted	4,958,786	3.82	3.82
Options cancelled	(890,057)	3.82 – 87.23	28.07
Options expired	(7,822)	87.23	87.23
Options exercised	(35,366)	3.82 – 87.23	46.56
Balance December 31, 2001	5,965,528	3.82 – 87.23	16.90

Options cancelled	(318,188)	3.82 – 87.23	13.02
Options expired	(76,602)	3.82 – 87.23	20.46
Options exercised	(570,753)	3.82 – 87.23	13.40
<hr/>			
Balance December 31, 2002	4,999,985	3.82 – 87.23	17.49
Options cancelled	(120,015)	3.82 – 87.23	12.39
Options expired	(35,929)	3.82 – 87.23	19.13
Options exercised	(779,359)	3.82 – 87.23	29.19
<hr/>			
Balance December 31, 2003	4,064,682	\$ 3.82 – \$87.23	\$ 15.38
<hr/>			
Options vested as of:			
December 31, 2001	622,675	\$ 3.82 – \$87.23	\$ 24.70
December 31, 2002	1,957,804	3.82 – 87.23	19.83
December 31, 2003	3,469,141	\$ 3.82 – \$87.23	\$ 17.37

F-64

Range of Exercise Prices	C-OSOs Outstanding at December 31, 2003			C-OSOs Exercisable at December 31, 2003	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Option Price	Number Exercisable	Weighted Average Option Price
\$ 3.82	3,117,831	1.7	\$ 3.82	2,522,290	\$ 3.82
26.87	529,940	.9	26.87	529,940	26.87
87.23	416,911	.7	87.23	416,911	87.23
	<hr/>			<hr/>	
	4,064,682	1.47	\$ 15.38	3,469,141	\$ 17.37
	<hr/>			<hr/>	

At December 31, 2003, based on the Level 3 stock price and post-multiplier values, the Company would have been obligated to issue approximately 10 million shares for vested and exercisable C-OSO units.

Restricted Stock

In 2003 and 2002, approximately 670,000 and 50,000 shares, respectively, of restricted stock were granted to employees. The restricted stock shares were granted to employees at no cost. The shares typically vest over a one to three year period; however, the employees are restricted from selling these shares for three years. The fair value of restricted stock granted in 2003 and 2002 of \$4 million and less than \$1 million, respectively, was calculated using the value of the Level 3 common stock the day prior to the grant. As of December 31, 2003, the Company had not reflected \$2 million of unamortized compensation expense in its financial statements for the restricted stock granted.

Shareworks and 401(k) Plans

Level 3 has designed its compensation programs with particular emphasis on equity-based incentive programs. The Company had developed two plans under its Shareworks program: the Match Plan and the Grant Plan. In December 2002, in order to provide employees opportunities to diversify their investments in Company-sponsored savings and retirement plans and to use Level 3's resources as effectively as possible, the Company decided to enhance the 401(k) plan by introducing a Company match on employee contributions. At the same time the Company determined that, effective January 1, 2003, the Shareworks Match and Grant Plans would be discontinued and past Shareworks Grant Plan contributions would be rolled into the 401(k) plan.

Match Plan —The Match Plan allowed eligible employees to defer between 1% and 7% of their eligible compensation to purchase Common Stock at the average stock price for the quarter. Full time employees of the communications business and certain information services businesses were considered eligible on the first day of the calendar quarter after their hire. The Company matched the shares purchased by the employee on a one-for-one basis. Stock purchased with payroll deductions was fully vested. Stock purchased with the Company's matching contributions vests three years after the end of the quarter in which it was made. Effective January 1, 2003, past contributions to the Match Plan will continue to vest, however, there will be no further contributions to the Plan by employees or the Company.

F-65

The Company's quarterly matching contribution is amortized to compensation expense over the vesting period of 36 months. The Company did not make matching contributions for the year ended December 31, 2003. The Company's matching contributions were \$9 million and \$16 million under the Match Plan in 2002 and 2001, respectively.

As of December 31, 2003 and 2002, the Company had not yet reflected unamortized compensation expense of \$6 and \$16 million, respectively related to the Company's matching contributions.

Grant Plan —The Grant Plan enabled the Company to grant shares of Common Stock to eligible employees of the Communications business and certain information services businesses based upon a percentage of the employees' eligible salary up to a maximum of 5%. Level 3 employees employed on December 31 of each year, who were age 21 or older with a minimum of 1,000 hours credited service were considered eligible. The shares granted were valued at the fair market value as of the last business day of the calendar year. All prior and future grants vested immediately upon the employee's third anniversary of joining the Shareworks Plan. All prior grants for active employees were vested as of January 1, 2003 and were transferred into the 401(k) plan. As discussed below, the Company made a three percent discretionary contribution under the Shareworks Grant Plan for the year ended December 31, 2003, into the 401(k) plan.

Foreign subsidiaries of the Company adopted Shareworks programs in 2000. These programs primarily include a grant plan and a stock purchase plan whereby employees may purchase Level 3 Common Stock at 80% of the share price at the beginning of the plan year.

401(k) Plan —The Company and its subsidiaries offer their qualified employees the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of Section 401(k) of the Internal Revenue Code. Each employee was eligible to contribute, on a tax deferred basis, a portion of annual earnings not to exceed \$12,000 in 2003. The Company did not match employee contributions for the communications business and therefore did not incur any compensation expense related to the 401(k) plan prior to January 1, 2003. Employees of CorpSoft and Software Spectrum were eligible to receive matching contributions up to a certain level. The Company recognized less than \$1 million of cash compensation expense for this plan. Effective January 1, 2003, the Company will match 100% of employee contributions up to 7% of eligible earnings or applicable regulatory limits. The Company's matching contribution will be made with Level 3 Common Stock based on the closing stock price on each pay date. The employees will be able to diversify the Company match contribution as soon as they are made, even if they are not fully vested. The Company's matching contributions will be fully vested upon completion of three years of service. For the year ended December 31, 2003, the Company made bi-weekly matching contributions of \$15 million.

The Company made a discretionary contribution to the 401(k) Plan in Level 3 common stock as of December 31, 2003, equal to three percent of eligible employees' 2003 eligible earnings under the Shareworks Grant Plan. The deposit was made into the employees' 401 (k) accounts during the first quarter of 2004. Level 3 recorded an expense of \$11 million attributable to this contribution in 2003.

F-66

(15) Income Taxes

An analysis of the income tax benefit (provision) attributable to loss from continuing operations before income taxes for the three years ended December 31, 2003 follows:

	2003	2002	2001
	(dollars in millions)		
Current:			
United States Federal	\$ —	\$ 120	\$ —
State	(7)	1	—
	(7)	121	—
Deferred, net of changes in valuation allowances:			
United States Federal	57	—	—
State	—	—	—
	57	—	—
Income Tax Benefit	\$ 50	\$ 121	\$ —

During 2003, the Internal Revenue Service completed the audit of the Company's 1996 and 1997 federal tax returns. The resolution of these federal tax audits and other state tax issues primarily related to its coal mining operations resulted in the Company reducing its deferred tax

liabilities and recording an income tax benefit of \$50 million.

During 2002 the Company received income tax refunds of \$121 million primarily due to a change in tax legislation related to net operating loss carrybacks, which was enacted in the first quarter of 2002.

The United States and foreign components of loss from continuing operations before income taxes follows:

	2003	2002	2001
	(dollars in millions)		
United States	\$ (581)	\$ (391)	\$ (3,600)
Foreign	(190)	(590)	(773)
	\$ (771)	\$ (981)	\$ (4,373)

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. Federal rate (35%) to the loss from continuing operations, before income taxes for the three years ended December 31, 2003 follows:

	2003	2002	2001
	(dollars in millions)		
Computed Tax Benefit at Statutory Rate	\$ 270	\$ 343	\$ 1,531
State Income Taxes	18	1	—
Coal Depletion	1	1	1
Goodwill Amortization	—	—	(13)
Taxes on Unutilized Losses of Foreign Operations	(15)	(26)	(63)
Taxes on Extinguishments of Convertible Debt	(68)	(83)	—
Other	65	2	(90)
Excess Book Net Operating Losses	(221)	(117)	(1,366)
Income Tax Benefit	\$ 50	\$ 121	\$ —

F-67

For federal income tax reporting purposes, the Company has approximately \$3.9 billion of net operating loss carryforwards, net of previous carrybacks, available to offset future Federal taxable income. The net operating loss carryforwards expire in 2023 and are subject to examination by the tax authorities.

The Internal Revenue Code contains provisions which may limit the net operating loss carryforwards available to be used in any given year upon the occurrence of certain events, including significant changes in ownership interests.

For federal income tax reporting purposes, the Company has approximately \$19 million of alternative minimum tax credits available to offset future regular federal income tax. The credits can be carried forward until fully utilized.

The components of the net deferred tax assets (liabilities) for the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
	(dollars in millions)	
Deferred Tax Assets:		
Asset bases—accumulated depreciation	\$ 938	\$ 1,045
Compensation and related benefits	316	307
Investment in securities	27	1
Investment in subsidiaries	2	2
Provision for estimated expenses or deferred revenue	—	54
Investment in joint ventures	84	54
Unutilized tax net operating losses	1,503	790

Other	60	66
Total Deferred Tax Assets	2,930	2,319
Deferred Tax Liabilities:		
Investments in securities	—	—
Coal sales	—	32
Other	33	45
Total Deferred Tax Liabilities	33	77
Net Deferred Tax Assets before valuation allowance	2,897	2,242
Valuation Allowance Components:		
Net Deferred Tax Assets	(2,855)	(2,311)
Stockholders' Equity (primarily tax benefit from option exercises)	(75)	(21)
Net Non-current Deferred Tax Liabilities after Valuation Allowance	\$ (33)	\$ (90)

F-68

(16) Stockholders' Equity

During 2003, the Company issued approximately 216 million shares in exchange for approximately \$1.007 billion aggregate principal amount of long-term debt (See Note 13).

During 2002, the Company issued approximately 47 million shares in exchange for \$582 million aggregate principal amount of long-term debt (See Note 13).

During 2001, the Company issued approximately 15.9 million shares, valued at approximately \$72 million, in exchange for \$194 million in convertible subordinated notes.

The Level 3 1995 Stock Plan permits option holders to tender shares to the Company to cover income taxes due on option exercises.

Issuances of common stock, for sales, conversions, option exercises and acquisitions for the three years ended December 31, 2003 are shown below.

	Outstanding Common Shares
December 31, 2000	367,599,870
Option and Shareworks Activity	1,245,093
Debt for Equity Exchanges and Conversions	15,858,959
December 31, 2001	384,703,922
Option and Shareworks Activity	11,852,318
Debt for Equity Exchanges and Conversions	46,970,434
Other	30,190
December 31, 2002	443,556,864
Option and Shareworks Activity	14,021,135
Debt for Equity Exchanges and Conversions	42,464,770
Conversion of 9% Junior Convertible Subordinated Notes	173,611,065
Telverse Communications, Inc.	4,174,800
December 31, 2003	677,828,634

(17) Industry and Geographic Data

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" defines operating segments as components of an enterprise for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. Operating segments are managed separately and represent strategic business units that offer different products and serve different markets. The Company's reportable segments include: communications; information services (including Software Spectrum); and coal mining. Other primarily includes California Private Transportation Company, L.P. ("CPTC"), equity investments, and other corporate assets and overhead not attributable to a specific segment.

Adjusted OIBDA, as defined by the Company, consists of income (loss) from operations before (1) depreciation and amortization expense, (2) stock-based compensation expense included within

F-69

selling, general and administrative expenses on the consolidated statements of operations and (3) non-cash impairment costs included within restructuring and impairment expenses on the consolidated statements of operations. The Company excludes stock based compensation due to its adoption of the expense recognition provisions of SFAS No. 123. Adjusted OIBDA (or equivalent) is an important part of the Company's internal reporting and is an indicator of profitability and operating performance used by the chief operating decision maker or decision making group, especially in a capital-intensive industry such as telecommunications. It is also a commonly used indicator in the communications industry to analyze companies on the basis of operating performance over time. Adjusted OIBDA is not intended to represent net income or cash flow for the periods presented, is not calculated consistently with the commonly used metric "EBITDA", and is not recognized under Generally Accepted Accounting Principles ("GAAP") but is used by management to assess segment results and allocate resources.

The information presented in the following tables includes information for the twelve months ended December 31, 2003, 2002 and 2001 for all statement of operations and cash flow information presented, and as of December 31, 2003 and 2002 for all balance sheet information presented. Information related to the acquired businesses is included from their respective acquisition dates. Revenue and the related expenses are attributed to countries based on where services are provided. Information for the years ended December 31, 2002 and 2001 have been revised due to discontinued operations (See Note 3).

F-70

Industry and geographic segment financial information follows. Certain prior year information has been reclassified to conform to the 2003 presentation.

	Communications	Information Services	Coal Mining	Other	Total
	(dollars in millions)				
2003					
Revenue:					
North America	\$ 1,821	\$ 1,363	\$ 80	\$ —	\$ 3,264
Europe	125	565	—	—	690
Asia	1	71	—	—	72
	<u>\$ 1,947</u>	<u>\$ 1,999</u>	<u>\$ 80</u>	<u>\$ —</u>	<u>\$ 4,026</u>
Adjusted OIBDA:					
North America	\$ 730	\$ 12	\$ 17	\$ (5)	
Europe	5	(3)	—	—	
Asia	—	1	—	—	
	<u>\$ 735</u>	<u>\$ 10</u>	<u>\$ 17</u>	<u>\$ (5)</u>	
Gross Capital Expenditures:					
North America	\$ 166	\$ 10	\$ 2	\$ —	\$ 178
Europe	13	—	—	—	13

Asia	—	—	—	—	—
	<u>\$ 179</u>	<u>\$ 10</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 191</u>
Depreciation and Amortization:					
North America	\$ 705	\$ 26	\$ 6	\$ —	\$ 737
Europe	87	3	—	—	90
Asia	—	—	—	—	—
	<u>\$ 792</u>	<u>\$ 29</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 827</u>

F-71

2002					
Revenue:					
North America	\$ 1,000	\$ 1,354	\$ 84	\$ 30	\$ 2,468
Europe	101	488	—	—	589
Asia	—	54	—	—	54
	<u>\$ 1,101</u>	<u>\$ 1,896</u>	<u>\$ 84</u>	<u>\$ 30</u>	<u>\$ 3,111</u>
Adjusted OIBDA:					
North America	\$ 285	\$ 33	\$ 20	\$ 10	
Europe	(4)	6	—	—	
Asia	—	1	—	—	
	<u>\$ 281</u>	<u>\$ 40</u>	<u>\$ 20</u>	<u>\$ 10</u>	
Gross Capital Expenditures:					
North America	\$ 177	\$ 15	\$ 1	\$ 2	\$ 195
Europe	23	—	—	—	23
Asia	—	—	—	—	—
	<u>\$ 200</u>	<u>\$ 15</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 218</u>
Depreciation and Amortization:					
North America	\$ 674	\$ 24	\$ 3	\$ 5	\$ 706
Europe	94	1	—	—	95
Asia	—	—	—	—	—
	<u>\$ 768</u>	<u>\$ 25</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 801</u>

F-72

	Communications	Information Services	Coal Mining	Other	Total
(dollars in millions)					
2001					
Revenue:					
North America	\$ 1,137	\$ 110	\$ 87	\$ 25	\$ 1,359
Europe	161	13	—	—	174
	<u>\$ 1,298</u>	<u>\$ 123</u>	<u>\$ 87</u>	<u>\$ 25</u>	<u>\$ 1,533</u>
Adjusted OIBDA:					

North America	\$	(139)	\$	4	\$	23	\$	(7)
Europe		(183)		2		—		—
	\$	(322)	\$	6	\$	23	\$	(7)
Gross Capital Expenditures:								
North America	\$	2,131	\$	17	\$	5	\$	1
Europe		171		—		—		—
	\$	2,302	\$	17	\$	5	\$	1
Depreciation and Amortization:								
North America	\$	894	\$	15	\$	3	\$	6
Europe		202		2		—		—
	\$	1,096	\$	17	\$	3	\$	6
Identifiable Assets								
<i>December 31, 2003</i>								
North America	\$	5,215	\$	690	\$	78	\$	1,234
Europe		884		149		—		30
Asia		—		13		—		—
	\$	6,099	\$	852	\$	78	\$	1,264
<i>December 31, 2002</i>								
North America	\$	5,296	\$	763	\$	68	\$	1,761
Europe		881		155		—		30
Asia		—		9		—		—
	\$	6,177	\$	927	\$	68	\$	1,791
Long-Lived Assets (excluding Goodwill)								
<i>December 31, 2003</i>								
North America	\$	5,028	\$	119	\$	60	\$	2
Europe		858		2		—		—
Asia		—		—		—		—
	\$	5,886	\$	121	\$	60	\$	2
<i>December 31, 2002</i>								
North America	\$	5,193	\$	127	\$	51	\$	551
Europe		820		3		—		—
Asia		—		—		—		—
	\$	6,013	\$	130	\$	51	\$	551

F-73

	Communications	Information Services	Coal Mining	Other	Total
	(dollars in millions)				
Goodwill					
<i>December 31, 2003</i>					
North America	\$ 71	\$ 207	\$ —	\$ —	\$ 278
Europe	—	—	—	—	—
Asia	—	—	—	—	—

	\$	71	\$	207	\$	—	\$	—	\$	278
December 31, 2002										
North America	\$	69	\$	210	\$	—	\$	—	\$	279
Europe		—		—		—		—		—
Asia		—		—		—		—		—
	\$	69	\$	210	\$	—	\$	—	\$	279

Product information for the Company's communications segment follows:

	Services					Total	
	Transport and Infrastructure	Softswitch	IP & Data	Reciprocal Compensation	Up-front Dark Fiber		
Communications Revenue							
2003							
North America	\$ 716	\$ 644	\$ 334	\$ 127	\$ —	\$ 1,82	
Europe	63	—	62	—	—	12	
Asia	—	—	1	—	—	—	
	\$ 779	\$ 644	\$ 397	\$ 127	\$ —	\$ 1,94	
2002							
North America	\$ 451	\$ 328	\$ 99	\$ 122	\$ —	\$ 1,00	
Europe	58	4	39	—	—	10	
	\$ 509	\$ 332	\$ 138	\$ 122	\$ —	\$ 1,10	
2001							
North America	\$ 446	\$ 189	\$ 80	\$ 134	\$ 288	\$ 1,13	
Europe	111	21	29	—	—	16	
	\$ 557	\$ 210	\$ 109	\$ 134	\$ 288	\$ 1,29	

The majority of North American revenue consists of services and products delivered within the United States. The majority of European revenue consists of services and products delivered primarily within the United Kingdom but also includes France and Germany. Transoceanic revenue is allocated equally between North America and Europe as it represents services provided between these two regions.

F-74

Product information for the Company's information services segment follows:

	2003	2002	2001
	(dollars in millions)		
Services			
<i>(i) Structure:</i>			
Outsourcing	\$ 77	\$ 80	\$ 85
Systems Integration	2	16	38
Software Spectrum.	9	17	—
	88	113	123
Software Sales and Licensing			
Software Spectrum	1,911	1,783	—

\$	1,999	\$	1,896	\$	123
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The following information provides a reconciliation of Net Income (Loss) to Adjusted OIBDA by operating segment, as defined by the Company, for the years ended December 31, 2003, 2002, and 2001:

	Communications	Information Services	Coal Mining	Other
	(dollars in millions)			
2003				
Net Income (Loss)	\$ (820)	\$ (33)	\$ 16	\$ 126
(Income) Loss from Discontinued Operations	(12)	7	—	—
Cumulative Effect of Change in Accounting principle	—	—	(5)	—
Income Tax Provision (Benefit)	—	1	—	(51)
Total Other (Income) Expense	697	(2)	—	(80)
Operating Income (Loss)	(135)	(27)	11	(5)
Depreciation and Amortization Expense	792	29	6	—
Non-Cash Compensation Expense	78	8	—	—
Adjusted OIBDA	\$ 735	\$ 10	\$ 17	\$ (5)

F-75

	Communications	Information Services	Coal Mining	Other
	(dollars in millions)			
2002				
Net Income (Loss)	\$ (1,099)	\$ 14	\$ 17	\$ 210
Income from Discontinued Operations	—	(2)	—	—
Income Tax Benefit	(118)	(2)	—	(1)
Total Other (Income) Expense	373	(1)	—	(204)
Operating Income (Loss)	(844)	9	17	5
Depreciation and Amortization Expense	768	25	3	5
Non-Cash Compensation Expense	175	6	—	—
Non-Cash Impairment Expense	182	—	—	—
Adjusted OIBDA	\$ 281	\$ 40	\$ 20	\$ 10
	Communications	Information Services	Coal Mining	Other
	(dollars in millions)			
2001				
Net Income (Loss)	\$ (4,975)	\$ (22)	\$ 20	\$ (1)
Loss from Discontinued Operations	605	—	—	—
Total Other Income	(596)	—	—	(12)
Operating Income (Loss)	(4,966)	(22)	20	(13)
Depreciation and Amortization Expense	1,096	17	3	6
Non-Cash Compensation Expense	303	11	—	—
Non-Cash Impairment Expense	3,245	—	—	—
Adjusted OIBDA	\$ (322)	\$ 6	\$ 23	\$ (7)

(18) Commitments and Contingencies

In May 2001, Level 3 Communications, Inc., and two of its subsidiaries were named as a defendant in *Bauer, et. al. v. Level 3 Communications, LLC, et al.*, a purported multi-state class action, filed in the U.S. District Court for the Southern District of Illinois. In April 2002, the same plaintiffs filed a second nearly identical purported multi-state class action in state court in Madison County, Illinois. In July 2001, the Company was named as a defendant in *Koyle, et. al. v. Level 3 Communications, Inc., et. al.*, a purported multi-state class action filed in the U.S. District Court for the District of Idaho. In September 2002, Level 3 Communications, LLC was named as a defendant in *Smith et al v. Sprint Communications Company, L.P., et al.*, a purported nationwide class action filed in the United States District Court for the Northern District of Illinois. These actions involve the Company's right to install its fiber optic cable network in easements and right-of-ways crossing the plaintiffs' land. In general, the Company obtained the rights to construct its network from railroads, utilities, and others, and is installing its network along the rights-of-way so granted. Plaintiffs in the purported class actions assert

F-76

that they are the owners of lands over which the Company's fiber optic cable network passes, and that the railroads, utilities, and others who granted the Company the right to construct and maintain its network did not have the legal ability to do so. The complaint seeks damages on theories of trespass, unjust enrichment and slander of title and property, as well as punitive damages. The Company has also received, and may in the future receive, claims and demands related to rights-of-way issues similar to the issues in these cases that may be based on similar or different legal theories. To date, all attempts to have class action status granted on complaints filed against the Company or any of its subsidiaries involving claims and demands related to rights-of-way issues have been denied.

On July 25, 2003, the *Smith* Court entered an Order preliminarily approving a settlement agreement that will resolve all claims against the Company arising out of the Company's location of fiber optic cable and related telecommunications facilities that the Company owns within railroad rights-of-way throughout the United States. In connection with the Court's Order preliminarily approving the settlement, the Court entered an Order enjoining the parties in all pending federal and state railroad rights-of-way class action litigation involving the Company from further pursuing those pending actions at this time.

Under the terms of the settlement agreement, landowners who own property adjacent to the railroad rights-of-way in which the Company placed its fiber optic cable and related facilities may submit claims and receive specified compensation. The Company is unable to quantify the ultimate amount of payments to be made pursuant to the settlement until if and when (1) the settlement receives final approval and all appeals have been exhausted; and (2) the claims process has been completed.

In September 2003, a petition for appeal was granted which seeks a reversal of the *Smith* Court's decision to preliminarily approve the settlement and certify a nationwide class for settlement purposes. The United States Court of Appeals for the Seventh Circuit held oral argument on the appeal in January 2004, and a decision is pending. It is still too early for the Company to reach a conclusion as to the ultimate outcome of these actions. However, management believes that the Company and its subsidiaries have substantial defenses to the claims asserted in all of these actions (and any similar claims which may be named in the future), and intends to defend them vigorously if the settlement is not approved.

On November 19, 2002, Gary Haegle commenced a shareholder's derivative suit on behalf of the Company in the District Court of Colorado for the City and County of Broomfield entitled *Haegle v. Scott, et al.*, (Index No. 02-CV-0196). The action is brought against the Company as a nominal defendant and against the directors of the Company, a former director of the Company and Peter Kiewit Sons', Inc. The Complaint alleges that the director defendants, aided and abetted by PKS, breached their fiduciary duties to the Company in connection with several transactions between the Company and PKS including contracts under which PKS constructed the Company's fiber optic cable network and manages the Company's mine properties. The Complaint also alleges that in building the fiber optic cable network, the defendants caused the Company to violate the property rights of landowners, thereby subjecting the Company to substantial potential liability. In addition, the Complaint alleges that Company assets were transferred to its officers and directors in the form of personal loans, excessive salaries and the payment of personal expenses. The action seeks both equitable and legal relief, including restitution, compensatory and punitive damages of an unspecified amount, imposition of a constructive trust, disgorgement and injunctive relief. The defendants filed a

F-77

motion to dismiss, which was denied by the court in early October. Subsequently, the Board of Directors of the Company appointed a Special Litigation Committee comprised of an independent director with the exclusive power to conduct or cause to be conducted an impartial and independent investigation of all matters alleged by the Plaintiff and to determine whether the litigation should be maintained, terminated, or otherwise disposed, in accordance with its findings as to whether the litigation is in the best interests of the Company. In addition, the Company filed a motion to stay all proceedings in the case, including all discovery, for a period of six months to enable the Special Litigation Committee to complete its evaluation. This motion was granted by the Court. As a result, all proceedings in this case have been stayed until June 17, 2004. Although it is too early for the Company to reach a conclusion as to the ultimate outcome of these actions, management believes that there are

substantial defenses to the claims asserted in this action, and intends to defend them vigorously.

During the third quarter of 2002, the Company made a \$21 million payment in full settlement of an outstanding litigation matter that did not relate to the Company's core businesses. The settlement payment approximated the liability that had been established for this issue. The payment is reflected in Net Cash Used in Continuing Operations—Other on the consolidated statement of cash flows.

The Company and its subsidiaries are parties to many other legal proceedings. Management believes that any resulting liabilities for these legal proceedings, beyond amounts accrued, will not materially affect the Company's financial condition or future results of operations, but could impact future cash flows.

Operating Leases

The Company is leasing rights of way, communications capacity and premises under various operating leases which, in addition to rental payments, require payments for insurance, maintenance, property taxes and other executory costs related to the lease. Certain leases provide for adjustments in lease cost based upon adjustments in the consumer price index and increases in the landlord's management costs. The lease agreements have various expiration dates through 2030.

The Company has obligations under non-cancelable operating leases for certain facilities and equipment, including lease obligations for which facility related restructuring charges have been recorded. Future minimum payments, including common area maintenance, for the next five years under these leases consist of the following at December 31, 2003 (in millions):

2004	\$ 84
2005	80
2006	77
2007	77
2008	74
Thereafter	418
	<hr/>
Total	\$ 810
	<hr/>

Rent expense, including common area maintenance, under non-cancelable lease agreements was \$100 million in 2003, \$61 million in 2002 and \$95 million in 2001.

F-78

It is customary in Level 3's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of Level 3 in accordance with specified terms and conditions. As of December 31, 2003, Level 3 had outstanding letters of credit of approximately \$28 million, which are collateralized by cash. The Company does not believe it is practicable to estimate the fair value of the letters of credit and does not believe exposure to loss is likely nor material.

(19) Related Party Transactions

Peter Kiewit Sons', Inc. ("PKS") acted as the general contractor on several significant projects for the Company in 2003, 2002 and 2001. These projects include the (i)Structure Phoenix Data Center, the U.S. intercity network, certain metropolitan networks and certain Gateway sites, the Company's corporate headquarters and other office space in Colorado. PKS provided approximately \$4 million, \$9 million, and \$693 million of construction services related to these projects in 2003, 2002, and 2001 respectively. In 2001, Level 3 issued warrants, valued at \$32 million, in lieu of cash for services related to construction of the North American intercity network. PKS transferred a portion of these warrants to Walter Scott, Jr. and William L. Grewcock, a director and former director, respectively of Level 3 and PKS, for consideration in 2002.

The Company reached a final agreement with PKS in May 2003 regarding disputed claims on the intercity network contract. PKS returned approximately 606,000 fully vested warrants that had been granted to them in December 2001 and had been capitalized to property, plant and equipment. The Company reduced stockholders' equity and property, plant and equipment by approximately \$2 million for the value of the warrants returned. The Company also satisfied \$10 million of related current obligations with PKS through the payment of funds that had been classified as restricted cash.

Level 3 also receives certain mine management services from PKS. The expense for these services was \$5 million for 2003, \$7 million for 2002, and \$5 million for 2001, and is recorded in selling, general and administrative expenses. As of December 31, 2003 and 2002, the Company owed approximately \$2 million and \$2 million, respectively for fourth quarter mine management services.

RCN, an equity method investee, purchased \$5 million, \$5 million and \$3 million of telecommunications and information services outsourcing services from the Company in 2003, 2002 and 2001, respectively. At December 31, 2003 and 2002, RCN owed Level 3 approximately \$2 million and \$3 million, respectively for costs associated with communications joint build projects. RCN and the Company are currently negotiating a settlement of this receivable.

On February 22, 2002, Level 3 Holdings, Inc., a wholly owned subsidiary of the Company, agreed to acquire from Mr. David C. McCourt, a director of the Company, his 10% interest in Level 3 Telecom Holdings, Inc., the Company's subsidiary that indirectly holds the Company's ownership interests in RCN and Commonwealth Telephone. The total cash consideration paid to Mr. McCourt in this transaction was \$15 million (See Note 12).

(20) Subsequent Events

On January 20, 2004, the Company sold its remaining shares in Commonwealth Telephone for approximately \$41 million in cash, resulting in a gain of approximately \$22 million.

F-79

As of the date of this report RCN has indicated that it intends to file for Chapter 11 bankruptcy. As a result of this announcement, the market value of Level 3's investment in RCN decreased significantly. However, this did not have an effect on the carrying value of the investment in RCN as of December 31, 2003 as it was zero. On March 5, 2004, the market value of the Company's investment in RCN was approximately \$9 million.

In February 2004, Level 3 agreed to settle a vendor contract with Allegiance Telecom, Inc. The settlement, which is subject to approval of the Allegiance bankruptcy court and other conditions, would terminate a multi-year contract Level 3 has to purchase wholesale dial access services, including the use of operating equipment, from Allegiance. To settle the contract, Level 3 has agreed to pay Allegiance \$54 million in cash. The Company has approximately \$200 million of outstanding debt in the form of capital lease obligations that will be eliminated as a result of the settlement.

(21) Unaudited Quarterly Financial Data

	March		June		September		December	
	2003	2002	2003	2002	2003	2002	2003	2002
(in millions except per share data)								
Revenue	\$ 1,227	\$ 386	\$ 937	\$ 750	\$ 874	\$ 1,049	\$ 988	\$ 926
Operating Income (Loss)	171	(223)	(142)	(211)	(109)	(130)	(76)	(249)
Income (Loss) from Continuing Operations	110	(90)	(456)	(156)	(250)	(300)	(125)	(314)
Income (Loss) from Discontinued Operations	4	—	(6)	—	3	1	4	1
Cumulative Effect of Change in Accounting Principle	5	—	—	—	—	—	—	—
Net Income (Loss)	119	(90)	(462)	(156)	(247)	(299)	(121)	(313)
Loss per Share (Basic and Diluted):								
Income (Loss) from Continuing Operations	\$ 0.24	\$ (0.23)	\$ (0.93)	\$ (0.39)	\$ (0.38)	\$ (0.73)	\$ (0.19)	\$ (0.73)
Income (Loss) from Discontinued Operations	0.01	—	(0.02)	—	—	—	0.01	—
Cumulative Effect of Change in Accounting Principle	0.01	—	—	—	—	—	—	—
Net Income (Loss)	\$ 0.26	\$ (0.23)	\$ (0.95)	\$ (0.39)	\$ (0.38)	\$ (0.73)	\$ (0.18)	\$ (0.73)

Loss per share was calculated for each three-month period on a stand-alone basis. As a result of stock transactions during the periods, the sum of the loss per share for the four quarters of each year may not equal the loss per share for the twelve month periods. As a result of discontinued operations in 2003, certain amounts previously included in the 2003 quarterly reports on Forms 10-Q have been reclassified from continuing operations to discontinued operations.

The increase in revenues during 2003 is largely attributable to the acquisition of substantially all of the assets and operations of Genuity in February 2003. In addition, the Company recognized \$294 million of revenue related to XO in the first quarter of 2003. The Company also recognized income tax benefit of \$12 million and \$38 million during the third and fourth quarters of 2003, respectively.

The Company realized a gain of approximately \$70 million in the first quarter of 2003 attributable to the sale of the "91 Express Lanes" toll road assets.

The Company exchanged approximately \$1.007 billion of its long-term for common stock in 2003. The Company recognized gains on extinguishment of debt of approximately \$2 million, \$2 million, and \$37 million during the second, third and fourth quarters of 2003,

respectively. In addition, the Company

F-80

recognized induced conversion expense related to the exchange of equity for convertible debt of \$190 million and \$9 million during the second and third quarters of 2003, respectively. The induced conversion expense is included in other, net on the consolidated statement of operations.

The Company purchased software resellers CorpSoft and Software Spectrum in March and June of 2002, respectively. Revenue attributable to these businesses was \$53 million, \$422 million, \$742 million and \$620 million in the first, second, third and fourth quarters of 2002, respectively.

The Company recorded impairment charges of \$44 million and \$57 in the second and fourth quarters of 2002 related to a colocation facility in Boston, as well as excess communications inventory and certain corporate facilities in Colorado, which are classified as held for sale in other non-current assets. As a result of the completion of additional colocation space in Boston by other providers, the continued overabundance of communications equipment in the secondary markets, and the soft demand for office space in the metropolitan Denver area, the Company believes that these assets are obsolete and that the estimated future undiscounted cash flows attributable to these assets will be insufficient to recover their current carrying value. The new carrying values of these assets are based on offers received from third parties for the real estate properties or actual sales of similar communications assets.

In December 2002, Level 3 sold one of its New York colocation facilities and a colocation facility near Boston. The Company recognized a loss on these transactions of approximately \$81 million which is included in restructuring and impairment charges on the consolidated statements of operations.

The Company realized gains of \$102 million and \$89 million in the second and fourth quarters of 2002, respectively, attributable to the sale of Commonwealth Telephone common stock.

Level 3 recognized an income tax benefit of \$120 million in the first quarter of 2002 due to Federal tax legislation enacted in the period.

The Company exchanged approximately \$671 million of its long-term for common stock in 2002. The Company recognized gains on extinguishment of debt of approximately \$130 million, \$76 million, \$5 million and \$44 million during the first, second, third and fourth quarters of 2002, respectively. In addition, the Company recognized induced conversion expense related to the exchange of equity for convertible debt of \$20 million and \$68 million during the third and fourth quarters of 2002, respectively. The induced conversion expense is included in other, net on the consolidated statement of operations.

F-81

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, this 15th day of March, 2004.

LEVEL 3 COMMUNICATIONS, INC.

By: /s/ JAMES Q. CROWE

Name: James Q. Crowe
Title: *Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ WALTER SCOTT JR.

Walter Scott Jr.

Chairman of the Board

March 15, 2004

/s/ JAMES Q. CROWE

<hr/> James Q. Crowe	Chief Executive Officer and Director	March 15, 2004
/s/ CHARLES C. MILLER, III		
<hr/> Charles C. Miller, III	Vice Chairman and Executive Vice President	March 15, 2004
/s/ SUNIT S. PATEL		
<hr/> Sunit S. Patel	Group Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2004
/s/ ERIC J. MORTENSEN		
<hr/> Eric J. Mortensen	Senior Vice President and Controller (Principal Accounting Officer)	March 15, 2004
/s/ MOGENS C. BAY		
<hr/> Mogens C. Bay	Director	March 15, 2004
/s/ RICHARD R. JAROS		
<hr/> Richard R. Jaros	Director	March 15, 2004
/s/ ROBERT E. JULIAN		
<hr/> Robert E. Julian	Director	March 15, 2004
/s/ DAVID C. MCCOURT		
<hr/> David C. McCourt	Director	March 15, 2004
/s/ ARUN NETRAVALI		
<hr/> Arun Netravali	Director	March 15, 2004
/s/ JOHN T. REED		
<hr/> John T. Reed	Director	March 15, 2004
/s/ COLIN V.K. WILLIAMS		
<hr/> Colin V.K. Williams	Director	March 15, 2004
/s/ MICHAEL B. YANNEY		
<hr/> Michael B. Yanney	Director	March 15, 2004
<hr/>		

LEVEL 3 COMMUNICATIONS, INC.,

as Guarantor,

LEVEL 3 FINANCING, INC.

as Issuer,

and

THE BANK OF NEW YORK,

as Trustee

Indenture

Dated as of October 1, 2003

10.750% Senior Notes Due 2011

TABLE OF CONTENTS

	Page
ARTICLE ONE	
DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION	
SECTION 101.	Definitions 1
SECTION 102.	Compliance Certificates and Opinions 22
SECTION 103.	Form of Documents Delivered to Trustee 22
SECTION 104.	Acts of Holders 23
SECTION 105.	Notices, etc., to Trustee and the Issuer 24
SECTION 106.	Notice to Holders; Waiver 24
SECTION 107.	Effect of Headings and Table of Contents 25
SECTION 108.	Successors and Assigns 25
SECTION 109.	Separability Clause 25
SECTION 110.	Benefits of Indenture 25
SECTION 111.	Governing Law 25
SECTION 112.	Conflict with Trust Indenture Act 25
SECTION 113.	Legal Holidays 25
SECTION 114.	No Personal Liability of Directors, Officers, Employees and Stockholders 25
SECTION 115.	Independence of Covenants 26
SECTION 116.	Exhibits 26
SECTION 117.	Counterparts 26

SECTION 118.	Duplicate Originals	26
--------------	---------------------	----

ARTICLE TWO SECURITY FORMS

SECTION 201.	Form and Dating	26
--------------	-----------------	----

ARTICLE THREE THE SECURITIES

SECTION 301.	Amount of Securities	26
SECTION 302.	Execution and Authentication	27
SECTION 303.	Security Registrar and Paying Agent	27
SECTION 304.	Paying Agent To Hold Money in Trust	28
SECTION 305.	Holders Lists	28
SECTION 306.	Replacement Securities	28
SECTION 307.	Temporary Securities	28
SECTION 308.	Cancellation	28
SECTION 309.	Defaulted Interest	29
SECTION 310.	CUSIP Numbers	29

ARTICLE FOUR SATISFACTION AND DISCHARGE

SECTION 401.	Satisfaction and Discharge of Indenture	29
SECTION 402.	Application of Trust Money	30

i

ARTICLE FIVE REMEDIES

SECTION 501.	Events of Default	30
SECTION 502.	Acceleration of Maturity; Rescission and Annulment	31
SECTION 503.	Collection of Indebtedness and Suits for Enforcement by Trustee	32
SECTION 504.	Trustee May File Proofs of Claim	32
SECTION 505.	Trustee May Enforce Claims Without Possession of Securities	33
SECTION 506.	Application of Money Collected	33
SECTION 507.	Limitation on Suits	33
SECTION 508.	Unconditional Right of Holders to Receive Principal, Premium and Interest	34
SECTION 509.	Restoration of Rights and Remedies	34
SECTION 510.	Rights and Remedies Cumulative	34
SECTION 511.	Delay or Omission Not Waiver	34
SECTION 512.	Control by Holders	34
SECTION 513.	Waiver of Past Defaults	34
SECTION 514.	Waiver of Stay or Extension Laws	35
SECTION 515.	Undertaking for Costs	35

ARTICLE SIX THE TRUSTEE

SECTION 601.	Certain Duties and Responsibilities	35
SECTION 602.	Notice of Default	36
SECTION 603.	Certain Rights of Trustee	36
SECTION 604.	Trustee Not Responsible for Recitals or Issuance of Securities	37
SECTION 605.	May Hold Securities	38
SECTION 606.	Money Held in Trust	38
SECTION 607.	Compensation and Reimbursement	38
SECTION 608.	Corporate Trustee Required; Eligibility; Conflicting Interests	38
SECTION 609.	Resignation and Removal; Appointment of Successor	39
SECTION 610.	Acceptance of Appointment by Successor	40
SECTION 611.	Merger, Conversion, Consolidation or Succession to Business	40

ARTICLE SEVEN HOLDERS' LISTS AND REPORTS BY TRUSTEE AND THE ISSUER

SECTION 701.	Disclosure of Names and Addresses of Holders	40
SECTION 702.	Reports by Trustee	41
SECTION 703.	Reports by Parent and the Issuer	41

ARTICLE EIGHT CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801.	Parent May Consolidate, etc., Only on Certain Terms	41
SECTION 802.	Successor Parent Substituted	42
SECTION 803.	Issuer May Consolidate, etc., Only on Certain Terms	42
SECTION 804.	Successor Issuer Substituted	43
SECTION 805.	Guarantor (other than Parent) May Consolidate, etc., Only on Certain Terms	43
SECTION 806.	Successor Guarantor Substituted	44
SECTION 807.	Offering Proceeds Note Guarantor May Consolidate, etc., Only on Certain Terms	44

ARTICLE NINE SUPPLEMENTAL INDENTURES

SECTION 901.	Supplemental Indentures Without Consent of Holders	45
SECTION 902.	Supplemental Indentures With Consent of Holders	46
SECTION 903.	Execution of Supplemental Indentures	47
SECTION 904.	Effect of Supplemental Indentures	47
SECTION 905.	Conformity with Trust Indenture Act	47
SECTION 906.	Reference in Securities to Supplemental Indentures	47
SECTION 907.	Notice of Supplemental Indentures	47

ARTICLE TEN COVENANTS

SECTION 1001.	Payment of Principal, Premium, if Any, and Interest	48
SECTION 1002.	Maintenance of Office or Agency	48
SECTION 1003.	Money for Security Payments to Be Held in Trust	48
SECTION 1004.	Corporate Existence	49
SECTION 1005.	Maintenance of Properties	49
SECTION 1006.	Insurance	50
SECTION 1007.	Reports	50
SECTION 1008.	Statement by Officers as to Default	50
SECTION 1009.	Change of Control Triggering Event	50
SECTION 1010.	Limitation on Consolidated Debt	52
SECTION 1011.	Limitation on Debt of the Issuer and Issuer Restricted Subsidiaries	55
SECTION 1012.	Limitation on Restricted Payments	58
SECTION 1013.	Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries	60
SECTION 1014.	Limitation on Liens	61
SECTION 1015.	Limitation on Sale and Leaseback Transactions	62
SECTION 1016.	Limitation on Asset Dispositions	63
SECTION 1017.	Limitation on Issuance and Sales of Capital Stock of Restricted Subsidiaries	65
SECTION 1018.	Transactions with Affiliates	65
SECTION 1019.	Limitation on Designations of Unrestricted Subsidiaries	66
SECTION 1020.	Limitation on Actions with respect to Existing Intercompany Obligations	67
SECTION 1021.	Covenant Suspension	68
SECTION 1022.	Special Interest Notice	69

ARTICLE ELEVEN REDEMPTION OF SECURITIES

SECTION 1101.	Right of Redemption	70
SECTION 1102.	Applicability of Article	70
SECTION 1103.	Election to Redeem; Notice to Trustee	70
SECTION 1104.	Selection by Trustee of Securities to Be Redeemed	70
SECTION 1105.	Notice of Redemption	70
SECTION 1106.	Deposit of Redemption Price	71

SECTION 1107.	Securities Payable on Redemption Date	71
SECTION 1108.	Securities Redeemed in Part	71

ARTICLE TWELVE DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1201.	Issuer's Option to Effect Defeasance or Covenant Defeasance	72
SECTION 1202.	Defeasance and Discharge	72
SECTION 1203.	Covenant Defeasance	72
SECTION 1204.	Conditions to Defeasance or Covenant Defeasance	73
SECTION 1205.	Deposited Money and Government Securities to Be Held in Trust; Other Miscellaneous Provisions	74
SECTION 1206.	Reinstatement	74

ARTICLE THIRTEEN GUARANTEES AND OFFERING PROCEEDS NOTE GUARANTEES

SECTION 1301.	Guarantees	75
SECTION 1302.	Contribution	76
SECTION 1303.	Release of Guarantees	76
SECTION 1304.	Successors and Assigns	76
SECTION 1305.	No Waiver	76
SECTION 1306.	Modification	77
SECTION 1307.	Execution of Supplemental Indenture for Future Guarantors	77
SECTION 1308.	Subordination of Note Guarantees	77
SECTION 1309.	Execution of Offering Proceeds Note Guarantees for Future Offering Proceeds Note Guarantors; Subordination of Offering Proceeds Note Guarantee	77
APPENDIX A	— Provisions Relating to Initial Securities and Exchange Securities	
EXHIBIT A	— Form of Exchange Security	
EXHIBIT B	— Form of Incumbency Certificate	
EXHIBIT C	— Form of Supplemental Indenture	
EXHIBIT D	— Form of Subordination Agreement	
EXHIBIT E	— Form of Offering Proceeds Note Guarantee	

INDENTURE, dated as of October 1, 2003, among Level 3 Communications, Inc., a corporation duly organized and existing under the laws of the State of Delaware (herein called "Parent"), having its principal office at 1025 Eldorado Boulevard, Broomfield, Colorado 80021, Level 3 Financing, Inc. (the "Issuer"), having its principal office at 1025 Eldorado Boulevard, Broomfield, Colorado 80021, and The Bank of New York, a New York banking corporation, as Trustee (herein called the "Trustee").

RECITALS OF THE ISSUER

The Issuer has duly authorized the creation of an issue of 10.750% Senior Notes Due 2011 (the "Initial Securities") and, if and when issued pursuant to a Registered Exchange Offer or Private Exchange Offer pursuant to a Registration Agreement for the Initial Securities, 10.750% Senior Notes Due 2011 (the "Exchange Securities" and, together with the Initial Securities, the "Securities"), of substantially the tenor and amount hereinafter set forth, and to provide therefor the Issuer and Parent have duly authorized the execution and delivery of this Indenture.

All things necessary have been done to make the Securities, when executed by the Issuer and authenticated and delivered hereunder and duly issued by the Issuer, the valid obligations of the Issuer and to make this Indenture a valid agreement of each of Parent, the Issuer and the Trustee, in accordance with their and its terms.

Simultaneously with the closing of the offering of the Initial Securities, the Issuer will lend the net proceeds of the issuance of the Securities and certain cash on hand to Level 3 LLC in return for the Offering Proceeds Note. Currently, Level 3 LLC is the obligor on the Parent Intercompany Note. Pursuant to the Subordination Agreement, Level 3 LLC's obligations under the Parent Intercompany Note will be subordinated to its obligations under the Offering Proceeds Note upon the limited circumstances set forth therein. As set forth herein, under certain circumstances, Restricted Subsidiaries will be required to enter into a Note Guarantee and an Offering Proceeds Note Guarantee and subordinate certain intercompany obligations to their obligations under such guarantee pursuant to the Subordination Agreement.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 101. *Definitions.*

For all purposes of this Indenture, including the recitals set forth above, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;

(b) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean United States generally accepted accounting principles as in effect on the date of this Indenture;

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section, paragraph or other subdivision;

(e) unless otherwise indicated, references to Articles, Sections, paragraphs or other subdivisions are references to such Articles, Sections, paragraphs or other subdivisions of this Indenture; and

(f) "or" is not exclusive and "including" means including without limitation.

"Accreted Value" of any Debt issued at a price less than the principal amount at stated maturity, means, as of any date of determination, an amount equal to the sum of (a) the issue price of such Debt as determined in accordance with Section 1273 of the Code or any successor provisions plus (b) the aggregate of the portions of the original issue discount (the excess of the amounts considered as part of the "stated redemption price at maturity" of such Debt within the meaning of Section 1273(a)(2) of the Code or any successor provisions, whether denominated as principal or interest, over the issue price of such Debt) that shall theretofore have accrued pursuant to Section 1272 of the Code (without regard to Section 1272(a)(7) of the Code) from the date of issue of such Debt to the date of determination, minus all amounts theretofore paid in respect of such Debt, which amounts are considered as part of the "stated redemption price at maturity" of such Debt within the meaning of Section 1273(a)(2) of the Code or any successor provisions (whether such amounts paid were denominated principal or interest).

"Acquired Debt" means, with respect to any specified Person, (i) Debt of any other Person existing at the time such Person merges with or into or consolidates with or becomes a Subsidiary of such specified Person and (ii) Debt secured by a Lien encumbering any Property acquired by such specified Person, which Debt was not incurred in anticipation of, and was outstanding prior to, such merger, consolidation or acquisition.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Additional Securities" means, subject to the Issuer's compliance with the covenants in this Indenture, including Section 1010 and Section 1011, 10.750% Senior Notes due 2011 issued from time to time after the Issue Date under the terms of this Indenture (other than pursuant to Section 306, 307, 1016 or 1108 of this Indenture and other than Exchange Securities or Private Exchange Securities issued pursuant to an exchange offer for other Securities outstanding under this Indenture).

"Affiliate" of any Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of Sections 1016 and 1018 and the definition of "Telecommunications/IS Assets" only, "Affiliate" shall also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of Parent or of rights or warrants to purchase such Voting Stock (whether or not currently

exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Affiliate Transaction" has the meaning specified in Section 1018.

"Agent Member" has the meaning specified in Section 2.1(b) of Appendix A.

"Asset Disposition" means any transfer, conveyance, sale, lease, issuance or other disposition by Parent or any Restricted Subsidiary in one or more related transactions (including a consolidation or merger or other sale of any such Restricted Subsidiary with, into or to another Person in a transaction in which such Restricted Subsidiary ceases to be a Restricted Subsidiary of Parent, but excluding a disposition by a Restricted Subsidiary to Parent or a Restricted Subsidiary or by Parent to a Restricted Subsidiary) of (i) shares of Capital Stock or other ownership interests of a Restricted Subsidiary (other than as permitted by clause (v), (vi), (vii) or (ix) of Section 1017), (ii) substantially all of the assets of

Parent or any Restricted Subsidiary representing a division or line of business or (iii) other Property of Parent or any Restricted Subsidiary outside of the ordinary course of business (excluding any transfer, conveyance, sale, lease or other disposition of equipment that is obsolete or no longer used by or useful to Parent; *provided, however*, that Parent has delivered to the Trustee an Officers' Certificate stating that such criteria are satisfied); *provided* in each case that the aggregate consideration for such transfer, conveyance, sale, lease or other disposition is equal to \$5,000,000 or more in any 12-month period. The following shall not be Asset Dispositions: (i) Permitted Telecommunications Capital Asset Dispositions that comply with clause (i) of the first paragraph of Section 1016, (ii) when used with respect to Parent, any Asset Disposition permitted pursuant to Article Eight which constitutes a disposition of all or substantially all of the assets of Parent and the Restricted Subsidiaries taken as a whole, (iii) Receivables sales constituting Debt under Qualified Receivable Facilities permitted to be Incurred pursuant to Section 1010 or Section 1011 and (iv) any disposition that constitutes a Permitted Investment or a Restricted Payment permitted by Section 1012.

"Attributable Value" means, as to any particular lease under which any Person is at the time liable other than a Capital Lease Obligation, and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such Person under such lease during the remaining term thereof (including any period for which such lease has been extended) as determined in accordance with generally accepted accounting principles, discounted from the last date of such remaining term to the date of determination at a rate per annum equal to the discount rate which would be applicable to a Capital Lease Obligation with like term in accordance with generally accepted accounting principles. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of insurance, taxes, assessments, utility, operating and labor costs and similar charges. In the case of any lease which is terminable by the lessee upon the payment of penalty, such net amount shall also include the lesser of the amount of such penalty (in which case no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the rent which would otherwise be required to be paid if such lease is not so terminated. "Attributable Value" means, as to a Capital Lease Obligation, the principal amount thereof.

"Board of Directors" of any Person means the board of directors of such Person.

"Board Resolution" of any Person means a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.

"Capital Lease Obligation" of any Person means the obligation to pay rent or other payment amount under a lease of (or other Debt arrangements conveying the right to use) Property of such Person which is required to be classified and accounted for as a capital lease or a liability on the face of a balance sheet of such Person in accordance with generally accepted accounting principles (a "Capital Lease"). The stated maturity of such obligation shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. The principal amount of such obligation shall be the capitalized amount thereof that would appear on the face of a balance sheet of such Person in accordance with generally accepted accounting principles.

"Capital Stock" of any Person means any and all shares, interests, participations or other equivalents (however designated) of corporate stock or other equity participations, including partnership interests, whether general or limited, of such Person and any rights (other than debt

securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such Person.

"Cash Equivalents" means (i) Government Securities maturing, or subject to tender at the option of the holder thereof, within two years

after the date of acquisition thereof, (ii) time deposits and certificates of deposit of any commercial bank organized in the United States having capital and surplus in excess of \$500,000,000 or a commercial bank organized under the law of any other country that is a member of the OECD having total assets in excess of \$500,000,000 (or its foreign currency equivalent at the time) with a maturity date not more than one year from the date of acquisition, (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with (x) any bank meeting the qualifications specified in clause (ii) above or (y) any primary government securities dealer reporting to the Market Reports Division of the Federal Reserve Bank of New York, (iv) direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing, or subject to tender at the option of the holder thereof, within 90 days after the date of acquisition thereof; *provided, however*, that at the time of acquisition, the long-term debt of such state, political subdivision or public instrumentality has a rating of A (or higher) from S&P or A-2 (or higher) from Moody's (or, if at any time neither S&P nor Moody's shall be rating such obligations, then an equivalent rating from such other nationally recognized rating service acceptable to the Trustee), (v) commercial paper issued by the parent corporation of any commercial bank organized in the United States having capital and surplus in excess of \$500,000,000 or a commercial bank organized under the laws of any other country that is a member of the OECD having total assets in excess of \$500,000,000 (or its foreign currency equivalent at the time), and commercial paper issued by others having one of the two highest ratings obtainable from either S&P or Moody's (or, if at any time neither S&P nor Moody's shall be rating such obligations, then from such other nationally recognized rating service acceptable to the Trustee) and in each case maturing within one year after the date of acquisition, (vi) overnight bank deposits and bankers' acceptances at any commercial bank organized in the United States having capital and surplus in excess of \$500,000,000 or a commercial bank organized under the laws of any other country that is a member of the OECD having total assets in excess of \$500,000,000 (or its foreign currency equivalent at the time), (vii) deposits available for withdrawal on demand with a commercial bank organized in the United States having capital and surplus in excess of \$500,000,000 or a commercial bank organized under the laws of any other country that is a member of the OECD having total assets in excess of \$500,000,000 (or its foreign currency equivalent at the time) and (viii) investments in money market funds substantially all of whose assets comprise securities of the types described in clauses (i) through (vii).

"Change of Control" has the meaning specified in Section 1009.

"Change of Control Triggering Event" has the meaning specified in Section 1009.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Stock" of any Person means Capital Stock of such Person that does not rank prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such Person, to shares of Capital Stock of any other class of such Person.

"Consolidated Capital Ratio" means as of the date of determination the ratio of (i) the aggregate amount of Debt of Parent and its Restricted Subsidiaries on a consolidated basis as at the date of

determination to (ii) the sum of (a) \$2,024,000,000, (b) the aggregate net proceeds to Parent from the issuance or sale of any Capital Stock (including Preferred Stock) of Parent other than Disqualified Stock subsequent to the Measurement Date, (c) the aggregate net proceeds from the issuance or sale of Debt of Parent or any Restricted Subsidiary subsequent to the Measurement Date convertible or exchangeable into Capital Stock of Parent other than Disqualified Stock, in each case upon conversion or exchange thereof into Capital Stock of Parent subsequent to the Measurement Date and (d) the after-tax gain on the sale, subsequent to the Measurement Date, of Special Assets to the extent such Special Assets have been sold for cash, Cash Equivalents, Telecommunications/IS Assets or the assumption of Debt of Parent or any Restricted Subsidiary (other than Debt that is subordinated to the Securities or any applicable Note Guarantee or Offering Proceeds Note Guarantee) and release of Parent and all Restricted Subsidiaries from all liability on the Debt assumed; *provided, however*, that, for purposes of calculation of the Consolidated Capital Ratio, the net proceeds from the issuance or sale of Capital Stock or Debt described in clause (b) or (c) above shall not be included to the extent (x) such proceeds have been utilized to make a Permitted Investment under clause (i) of the definition thereof or a Restricted Payment or (y) such Capital Stock or Debt shall have been issued or sold to Parent, a Subsidiary of Parent or an employee stock ownership plan or trust established by Parent or any such Subsidiary for the benefit of their employees.

"Consolidated Cash Flow Available for Fixed Charges" for Parent and its Restricted Subsidiaries or for the Issuer and the Issuer Restricted Subsidiaries for any period means the Consolidated Net Income of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period increased by the sum of, to the extent reducing such Consolidated Net Income for such period, (i) Consolidated Interest Expense of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period, plus (ii) Consolidated Income Tax Expense of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period, plus (iii) consolidated depreciation and amortization expense and any other non-cash items (other than any such non-cash item to the extent that it represents an accrual of or reserve for cash expenditures in any future period) for Parent and its Restricted Subsidiaries or for the Issuer and the Issuer Restricted Subsidiaries, as applicable; *provided, however*, that there shall be excluded

therefrom the Consolidated Cash Flow Available for Fixed Charges (if positive) of any Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable (calculated separately for such Restricted Subsidiary or Issuer Restricted Subsidiary in the same manner as provided above for Parent or the Issuer, as applicable) that is subject to a restriction which prevents the payment of dividends or the making of distributions to Parent or another Restricted Subsidiary or to the Issuer or another Issuer Restricted Subsidiary, as applicable, to the extent of such restrictions.

"Consolidated Income Tax Expense" for Parent and its Restricted Subsidiaries or for the Issuer and the Issuer Restricted Subsidiaries for any period means the aggregate amounts of the provisions for income taxes of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period calculated on a consolidated basis in accordance with generally accepted accounting principles.

"Consolidated Interest Expense" for Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries for any period means the interest expense included in a consolidated income statement (excluding interest income) of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period in accordance with generally accepted accounting principles, including without limitation or duplication (or, to the extent not so included, with the addition of), (i) the amortization of Debt discounts and issuance costs, including commitment fees; (ii) any payments or fees with respect to letters of credit, bankers' acceptances or similar facilities; (iii) net costs with respect to interest rate swap or similar agreements or foreign currency hedge, exchange or similar agreements (including fees); (iv) Preferred Stock Dividends (other than dividends paid in shares of Preferred Stock that is not Disqualified Stock) declared and paid or

payable; (v) accrued Disqualified Stock Dividends, whether or not declared or paid; (vi) interest on Debt guaranteed by Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable; (vii) the portion of any Capital Lease Obligation or Sale and Leaseback Transaction paid during such period that is allocable to interest expense; (viii) interest Incurred in connection with investments in discontinued operations; and (ix) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than Parent or a Restricted Subsidiary or the Issuer or an Issuer Restricted Subsidiary, as applicable) in connection with Debt Incurred by such plan or trust.

"Consolidated Net Income" for Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries for any period means the net income (or loss) of Parent and its Restricted Subsidiaries or the Issuer and the Issuer Restricted Subsidiaries, as applicable, for such period determined on a consolidated basis in accordance with generally accepted accounting principles; *provided, however*, that there shall be excluded therefrom (a) for purposes of Section 1012 only, the net income (or loss) of any Person acquired by Parent or a Restricted Subsidiary or the Issuer or an Issuer Restricted Subsidiary, as applicable, in a pooling-of-interests transaction for any period prior to the date of such transaction, (b) the net income (or loss) of any Person that is not a Restricted Subsidiary or an Issuer Restricted Subsidiary, as applicable, except to the extent of the amount of dividends or other distributions actually paid to Parent or a Restricted Subsidiary or to the Issuer or an Issuer Restricted Subsidiary, as applicable, by such Person during such period (except, for purposes of Section 1012 only, to the extent such dividends or distributions have been subtracted from the calculation of the amount of Investments to support the actual making of Investments), (c) gains or losses realized upon the sale or other disposition of any Property of Parent or its Restricted Subsidiaries or the Issuer or the Issuer Restricted Subsidiaries, as applicable, that is not sold or disposed of in the ordinary course of business (it being understood that Permitted Telecommunications Capital Asset Dispositions shall be considered to be in the ordinary course of business), (d) gains or losses realized upon the sale or other disposition of any Special Assets, (e) all extraordinary gains and extraordinary losses, determined in accordance with generally accepted accounting principles, (f) the cumulative effect of changes in accounting principles, (g) non-cash gains or losses resulting from fluctuations in currency exchange rates, (h) any non-cash expense related to the issuance to employees or directors of Parent or any Restricted Subsidiary or the Issuer or any Issuer Restricted Subsidiary, as applicable, of (1) options to purchase Capital Stock of Parent or such Restricted Subsidiary or the Issuer or such Issuer Restricted Subsidiary, as applicable, or (2) other compensatory rights; *provided*, in either case, that such options or rights, by their terms can be redeemed at the option of the holder of such option or right only for Capital Stock, (i) with respect to a Restricted Subsidiary or an Issuer Restricted Subsidiary, as applicable, that is not a Wholly Owned Subsidiary any aggregate net income (or loss) in excess of Parent's or any Restricted Subsidiary's or the Issuer's or any Issuer Restricted Subsidiary's, as applicable, pro rata share of the net income (or loss) of such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, that is not a Wholly Owned Subsidiary and (j) if the period is the second, third or fourth fiscal quarter of 2003 or the first fiscal quarter of 2004, an aggregate of \$293,686,650 for all such quarters (such amount relating to communications revenues recognized by Parent and its Subsidiaries in connection with the amendment in February 2003 of the 1998 Cost Sharing and IRU Agreement with XO Communications); *provided further* that there shall further be excluded therefrom the net income (but not net loss) of any Restricted Subsidiary or any Issuer Restricted Subsidiary, as applicable, that is subject to a restriction which prevents the payment of dividends or the making of distributions to Parent or another Restricted Subsidiary or to the Issuer or another Issuer Restricted Subsidiary, as applicable, to the extent of such restriction.

"Consolidated Net Worth" of any Person means the stockholders' equity of such Person, determined on a consolidated basis in accordance with generally accepted accounting principles, less amounts attributable to Disqualified Stock of such Person.

"Consolidated Tangible Assets" of any Person means the total amount of assets (less applicable reserves and other properly deductible

items) which under generally accepted accounting principles would be included on a consolidated balance sheet of such Person and its Subsidiaries after deducting therefrom all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, which in each case under generally accepted accounting principles would be included on such consolidated balance sheet.

"Corporate Trust Office" means the principal corporate trust office of the Trustee, at which at any particular time its corporate trust business shall be administered, which office at the date of execution of this Indenture is located at 101 Barclay Street, Floor 8 West, New York, New York 10286, except that, with respect to presentation of Securities for payment or for registration of transfer or exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted.

"Credit Facilities" means one or more credit agreements, loan agreements or similar facilities, secured or unsecured, providing for revolving credit loans, term loans and/or letters of credit, including any Qualified Receivable Facility, entered into from time to time by Parent and its Restricted Subsidiaries, or Purchase Money Debt, or Debt Incurred pursuant to Capital Lease Obligations, Sale and Leaseback Transactions, or senior secured note issuances, and including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, as the same may be amended, supplemented, modified, restated or replaced from time to time.

"Debt" means (without duplication), with respect to any Person, whether recourse is to all or a portion of the assets of such Person and whether or not contingent, (i) every obligation of such Person for money borrowed, (ii) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of Property, (iii) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person, (iv) every obligation of such Person issued or assumed as the deferred purchase price of Property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business), (v) every Capital Lease Obligation of such Person and all Attributable Value in respect of Sale and Leaseback Transactions entered into by such Person, (vi) all obligations to redeem or repurchase Disqualified Stock issued by such Person, (vii) the liquidation preference of any Preferred Stock (other than Disqualified Stock, which is covered by the preceding clause (vi)) issued by any Restricted Subsidiary of such Person, (viii) every obligation under Interest Rate or Currency Protection Agreements of such Person and (ix) every obligation of the type referred to in clauses (i) through (viii) of another Person and all dividends of another Person the payment of which, in either case, such Person has Guaranteed. The "amount" or "principal amount" of Debt at any time of determination as used herein represented by (a) any Debt issued at a price that is less than the principal amount at maturity thereof, shall be, except as otherwise set forth herein, the Accreted Value of such Debt at such time or (b) in the case of any Receivables sale constituting Debt, the amount of the unrecovered purchase price (that is, the amount paid for Receivables that has not been actually recovered from the collection of such Receivables) paid by the purchaser (other than Parent or a Wholly Owned Restricted Subsidiary of Parent) thereof. The amount of Debt represented by an obligation under an Interest Rate or Currency Protection Agreement shall be equal to (x) zero if such obligation has been Incurred pursuant to clause (x) of paragraph (b) of Section 1010 or clause (viii) of paragraph (b) of Section 1011 or (y) the notional amount of such obligation if not Incurred pursuant to such clause.

"Default" means any event, act or condition the occurrence of which is, or after notice or the passage of time or both would be, an Event of Default.

"Depository" means The Depository Trust Company, its nominees and successors.

"Designation" and "Designation Amount" have the respective meanings specified in Section 1019.

"Disqualified Stock" of any Person means any Capital Stock of such Person which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final Stated Maturity of the Securities; *provided, however*, that any Preferred Stock which would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require Parent or the Issuer, respectively, to repurchase or redeem such Preferred Stock upon the occurrence of a change of control occurring prior to the final Stated Maturity of the Securities shall not constitute Disqualified Stock if the change of control provisions applicable to such Preferred Stock are no more favorable to the holders of such Preferred Stock than the provisions applicable to the Securities contained in Section 1009 and such Preferred Stock specifically provides that Parent or the Issuer, respectively, will not repurchase or redeem any such stock pursuant to such provisions prior to the Issuer's repurchase of such Securities as are required to be repurchased pursuant to Section 1009.

"Disqualified Stock Dividends" means all dividends with respect to Disqualified Stock of Parent held by Persons other than a Wholly Owned Restricted Subsidiary. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory federal income tax rate (expressed as a decimal number between 1 and 0) applicable to Parent for the period during which such dividends were paid.

"Domestic Restricted Subsidiary" means any Restricted Subsidiary other than (a) a Foreign Restricted Subsidiary or (b) a Subsidiary of a Foreign Restricted Subsidiary.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934, as amended (or any successor act), and the rules and regulations thereunder (or respective successors thereto).

"Exchange Securities" has the meaning stated in the first recital of this Indenture.

"Excess Proceeds" has the meaning specified in Section 1016.

"Existing Notes" means Parent's 2 ⁷/₈ % Convertible Senior Notes due 2010 in an aggregate principal amount not to exceed \$373,750,000, 11% Senior Notes due 2008 in an aggregate principal amount not to exceed \$800,000,000, 11 ¹/₄ % Senior Notes due 2010 in an aggregate principal amount not to exceed \$250,000,000, 12 ⁷/₈ % Senior Discount Notes due 2010 in an aggregate principal amount at maturity not to exceed \$675,000,000, 10 ³/₄ % Senior Notes due 2008 in an aggregate principal amount not to exceed €500,000,000, 11 ¹/₄ % Senior Notes due 2010 in an aggregate principal amount not to exceed €300,000,000, 9 ¹/₈ % Senior Notes due 2008 in an aggregate principal amount not to exceed \$2,000,000,000, 10 ¹/₂ % Senior Discount Notes due 2008 in an aggregate principal amount at maturity not to exceed \$833,815,000, 6% Convertible Subordinated Notes due 2009 in an aggregate principal amount not to exceed \$823,000,000 and 6% Convertible Subordinated Notes due 2010 in an aggregate principal amount not to exceed \$862,500,000.

"Expiration Date" has the meaning specified in "Offer to Purchase" below.

"Fair Market Value" means, with respect to any Property, the price that could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under pressure or compulsion to complete the transaction. Unless otherwise specified herein, Fair Market Value shall be determined by the Board of Directors of Parent acting in good faith and shall be evidenced by a Board Resolution of Parent (except in the case of the last paragraph under Section 1016) delivered to the Trustee.

8

"Federal Bankruptcy Code" means the Bankruptcy Act of Title 11 of the United States Code, as amended from time to time.

"Foreign Restricted Subsidiary" means any Restricted Subsidiary that is not organized under the laws of the United States of America or any State thereof or the District of Columbia.

"Global Security" means a Rule 144A Global Security or a Regulation S Global Security, as the case may be.

"Government Securities" means direct obligations of, or obligations fully and unconditionally guaranteed or insured by, the United States of America or any agency or instrumentality thereof for the payment of which obligations or guarantee the full faith and credit of the United States is pledged and which are not callable or redeemable at the issuer's option (unless, for purposes of the definition of "Cash Equivalents" only, the obligations are redeemable or callable at a price not less than the purchase price paid by Parent or the applicable Restricted Subsidiary, together with all accrued and unpaid interest (if any) on such Government Securities).

"Guarantee" by any Person means any obligation, direct or indirect, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guaranteeing, any Debt of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt, including any such obligations arising by virtue of partnership arrangements or by agreements to keep-well, (ii) to purchase Property or services or to take-or-pay for the purpose of assuring the holder of such Debt of the payment of such Debt, (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or (iv) entered into for the purpose of assuring in any other manner the obligee against loss in respect thereof, in whole or in part (and "Guaranteed", "Guaranteeing" and "Guarantor" shall have meanings correlative to the foregoing); *provided, however*, that the Guarantee by any Person shall not include endorsements by such Person for collection or deposit, in either case, in the ordinary course of business.

"Guarantor" means (1) Parent and (2) any other Person that becomes a Guarantor pursuant to Section 1010, Section 1011, Article Eight or any other provision of this Indenture.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Incur" means, with respect to any Debt or other obligation of any Person, to create, issue, incur (by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Debt or other obligation including the recording, as required pursuant to generally accepted accounting principles or otherwise, of any such Debt or other obligation on the balance sheet of such Person (and "Incurrence", "Incurred" and "Incurring" shall have meanings correlative to the foregoing); *provided, however*, that a change in generally accepted accounting principles that results in an obligation of such Person that exists at such time becoming Debt shall not be deemed an Incurrence of such Debt and that neither the accrual of interest nor the accretion of original issue discount shall be deemed an Incurrence of Debt. Debt otherwise incurred by a Person before it becomes a Subsidiary of Parent shall be deemed to have been Incurred at the time at which it

becomes a Subsidiary.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

"Initial Foreign Purchaser" means each non-U.S. person (within the meaning of Regulation S) that purchased Initial Securities from the Initial Purchasers in offshore transactions meeting the requirements of Regulation S.

"Initial Purchasers" means Citigroup Global Markets Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated and UBS Warburg LLC.

"Initial Securities" has the meaning stated in the first recital of this Indenture.

"Interest Payment Date" means the Stated Maturity of an installment of interest on the Securities.

"Interest Rate or Currency Protection Agreement" of any Person means any forward contract, futures contract, swap, option or other financial agreement or arrangement (including caps, floors, collars and similar agreements) relating to, or the value of which is dependent upon, interest rates or currency exchange rates or indices.

"Invested Capital" means the sum of (a) \$500,000,000, (b) the aggregate net proceeds received by Parent from the issuance or sale of any Capital Stock, including Preferred Stock, of Parent but excluding Disqualified Stock, subsequent to the Measurement Date, and (c) the aggregate net proceeds from the issuance or sale of Debt of Parent or any Restricted Subsidiary subsequent to the Measurement Date convertible or exchangeable into Capital Stock of Parent other than Disqualified Stock, in each case upon conversion or exchange thereof into Capital Stock of Parent subsequent to the Measurement Date; *provided, however*, that the net proceeds from the issuance or sale of Capital Stock or Debt described in clause (b) or (c) shall be excluded from any computation of Invested Capital to the extent (i) utilized to make a Restricted Payment or (ii) such Capital Stock or Debt shall have been issued or sold to Parent, a Subsidiary of Parent or an employee stock ownership plan or trust established by Parent or any such Subsidiary for the benefit of their employees.

"Investment" by any Person means any direct or indirect loan, advance or other extension of credit or capital contribution (by means of transfers of cash or other Property to others or payments for Property or services for the account or use of others, or otherwise) to, purchase, redemption, retirement or acquisition of Capital Stock, bonds, notes, debentures or other securities or evidence of Debt issued by, or Incurrence of, or payment on, a Guarantee of any obligation of, any other Person; *provided, however*, that Investments shall exclude commercially reasonable extensions of trade credit. The amount, as of any date of determination, of any Investment shall be the original cost of such Investment, *plus* the cost of all additions, as of such date, thereto and *minus* the amount, as of such date, of any portion of such Investment repaid to such Person in cash as a repayment of principal or a return of capital, as the case may be (except to the extent such repaid amount has been included in Consolidated Net Income of Parent and its Restricted Subsidiaries to support the actual making of Restricted Payments), but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any Property other than cash, such Property shall be valued at its Fair Market Value at the time of such transfer.

"Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P.

"Issuer" means the Person named as "Issuer" in the first paragraph of this Indenture, until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Issuer" shall mean such successor Person.

"Issue Date" means the date on which the Original Securities are initially issued.

"Issue Date Purchase Money Debt" means Purchase Money Debt outstanding on the Issue Date; *provided, however*, that the amount of such Purchase Money Debt when Incurred did not exceed 100% of the cost of the construction, installation, acquisition, lease, development or improvement of the applicable Telecommunications/IS Assets.

"Issue Date Rating" means Caa2 in the case of Moody's and CCC- in the case of S&P, which are the respective ratings assigned to the Securities by the Rating Agencies on the Issue Date.

"Issuer Debt Ratio" means the ratio of (a) the aggregate consolidated principal amount (or, in the case of Debt issued at a discount, the then-Accreted Value) of Debt of the Issuer and the Issuer Restricted Subsidiaries (other than Debt owed to Parent or a Sister Restricted Subsidiary that is subordinated to the Offering Proceeds Note (if Level 3 LLC is the obligor on such Debt) or to an Offering Proceeds Note Guarantee of the obligor on such Debt), on a consolidated basis, outstanding as of the most recent available quarterly or annual balance sheet, after giving pro forma effect to the proposed Incurrence of Debt giving rise to such calculation and any other Debt Incurred or repaid since such balance sheet date and the receipt and application of the net proceeds thereof, to (b) the sum of, without duplication, (x) Consolidated Cash Flow Available for Fixed Charges of the Issuer and the Issuer Restricted Subsidiaries for the four full fiscal quarters next preceding such proposed Incurrence of Debt for which consolidated financial statements are available and (y) Consolidated Cash Flow Available for Fixed Charges of Parent and the Sister Restricted Subsidiaries to the extent attributable to Sister Restricted Subsidiaries that are Guarantors for such four full fiscal quarters.

"Issuer Order" or "Issuer Request" means a written request or order signed in the name of the Issuer by the Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, the President or a Vice President, and by the Chief Financial Officer, the Chief Accounting Officer, the Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary of the Issuer, and delivered to the Trustee.

"Issuer Restricted Subsidiaries" means the Subsidiaries of the Issuer that are Restricted Subsidiaries.

"Joint Venture" means a Person in which Parent or a Restricted Subsidiary holds not more than 50% of the shares of Voting Stock.

"Level 3 LLC" means Level 3 Communications, LLC, a Delaware limited liability company and a direct Wholly Owned Subsidiary of the Issuer.

"Lien" means, with respect to any Property, any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness), encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property (including any Capital Lease Obligation, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing and any Sale and Leaseback Transaction). For purposes of this definition the sale, lease, conveyance or other transfer by Parent or any of its Subsidiaries of, including the grant of indefeasible rights of use or equivalent arrangements with respect to, dark or lit communications fiber capacity or communications conduit shall not constitute a Lien. For the sake of clarity, subordination and setoff rights do not constitute Liens.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption or otherwise.

"Measurement Date" means April 28, 1998.

"Moody's" means Moody's Investors Service, Inc. or, if Moody's Investors Service, Inc. shall cease rating debt securities having a maturity at original issuance of at least one year and such ratings business shall have been transferred to a successor Person, such successor Person; *provided*, however, that if Moody's Investors Service, Inc. ceases rating debt securities having a maturity at original issuance of at least one year and its ratings business with respect thereto shall not have been transferred to any successor Person, then "Moody's" shall mean any other national recognized rating agency (other than S&P) that rates debt securities having a maturity at original issuance of at least one year and that shall have been designated by the Trustee by a written notice given to the Issuer.

"Net Available Proceeds" from any Asset Disposition by any Person means cash or cash equivalents received (including amounts received by way of sale or discounting of any note, installment receivable or other receivable, but excluding any other consideration received in the form of assumption by the acquirer of Debt or other obligations relating to such Property) therefrom by such Person, net of (i) all legal, title and recording taxes, expenses and commissions and other fees and expenses (including appraisals, brokerage commissions and investment banking fees) Incurred and all federal, state, provincial, foreign and local taxes required to be accrued as a liability as a consequence of such Asset Disposition, (ii) all payments made by such Person or its Subsidiaries on any Debt which is secured by such Property in accordance with the terms of any Lien upon or with respect to such Property or which must by the terms of such Lien, or in order to obtain a necessary consent to such Asset Disposition or by applicable law, be repaid out of the proceeds from such Asset Disposition, (iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or Joint Ventures of such Person as a result of such Asset Disposition and (iv) appropriate amounts to be provided by such Person or any Subsidiary thereof, as the case may be, as a reserve in accordance with generally accepted accounting principles against any liabilities associated with such Property and retained by such Person or any Subsidiary thereof, as the case may be, after such Asset Disposition, including liabilities under any indemnification obligations and severance and other employee termination costs associated with such Asset Disposition, in each case as determined by the Board of Directors of such Person, in its reasonable good faith judgment evidenced by a Board Resolution filed with the Trustee; *provided*, however, that any reduction in such reserve within twelve months following the consummation of such Asset Disposition will be, for all purposes of this Indenture and the Securities, treated as a new Asset Disposition at the time of such reduction with Net Available Proceeds equal to the amount of such reduction; *provided further*, however, that, in the event that any consideration for a transaction (which would otherwise constitute Net Available Proceeds) is required to be held in escrow pending determination of whether a purchase price adjustment will be made, at such time as such portion of the consideration is

released to such Person or its Restricted Subsidiary from escrow, such portion shall be treated for all purposes of this Indenture and the Securities as a new Asset Disposition at the time of such release from escrow with Net Available Proceeds equal to the amount of such portion of consideration released from escrow.

"Non-Telecommunications Subsidiary" means any Issuer Restricted Subsidiary not engaged in any material respect in the Telecommunications/IS Business.

"Note Guarantee" means an unconditional Guarantee of the due and punctual payment of the principal of and premium, if any, and interest on the Securities, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and all other monetary obligations of the Issuer under this Indenture and the Securities, and the due and punctual performance of all covenants, agreements, obligations and liabilities of the Issuer under or pursuant to this Indenture and the Securities, including the Parent Guarantee.

"Offer" has the meaning specified in "Offer to Purchase" below.

"Offer to Purchase" means a written offer (the "Offer") sent by the Issuer by first-class mail, postage prepaid, to each Holder of Securities at its address appearing in the Security Register on the date of the Offer offering to purchase up to the principal amount of Securities specified in such Offer at the purchase price specified in such Offer (as determined pursuant to this Indenture). Unless otherwise required by applicable law, the Offer shall specify an expiration date (the "Expiration Date") of the Offer to Purchase which shall be, subject to any contrary requirements of applicable law, not less than 30 days or more than 60 days after the date of such Offer and a settlement date (the "Purchase Date") for purchase of Securities within five Business Days after the Expiration Date. The Issuer shall notify the Trustee at least 15 Business Days (or such shorter period as is acceptable to the Trustee) prior to the mailing of the Offer of the obligation to make an Offer to Purchase, and the Offer shall be mailed by the Issuer or, at the Issuer's request, by the Trustee in the name and at the expense of the

Issuer. The Offer shall contain information concerning the business of Parent and its Subsidiaries which the Issuer in good faith believes will enable such Holders to make an informed decision with respect to the Offer to Purchase (which at a minimum will include (i) the most recent annual and quarterly financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the documents required to be filed with the Trustee pursuant to this Indenture (which requirements may be satisfied by delivery of such documents together with the Offer), (ii) a description of material developments in Parent's business subsequent to the date of the latest of such financial statements referred to in clause (i) (including a description of the events requiring the Issuer to make the Offer to Purchase), (iii) if applicable, appropriate pro forma financial information concerning the Offer to Purchase and the events requiring the Issuer to make the Offer to Purchase and (iv) any other information required by applicable law to be included therein). The Offer shall contain all instructions and materials necessary to enable such Holders to tender Securities pursuant to the Offer to Purchase. The Offer shall also state:

- a. the Section of this Indenture pursuant to which the Offer to Purchase is being made;
- b. the Expiration Date and the Purchase Date;
- c. the aggregate principal amount of the Outstanding Securities offered to be purchased by the Issuer pursuant to the Offer to Purchase (including, if less than 100%, the manner by which such amount has been determined pursuant to the Section hereof requiring the Offer to Purchase) (the "Purchase Amount");
- d. the purchase price to be paid by the Issuer for \$1,000 aggregate principal amount of Securities accepted for payment (as specified pursuant to this Indenture) (the "Purchase Price");
- e. that the Holder may tender all or any portion of the Securities registered in the name of such Holder and that any portion of a Security tendered must be tendered in an integral multiple of \$1,000 principal amount;
- f. the place or places where Securities are to be surrendered for tender pursuant to the Offer to Purchase;
- g. that any Securities not tendered or tendered but not purchased by the Issuer will continue to accrue interest;
- h. that on the Purchase Date the Purchase Price will become due and payable upon each Security being accepted for payment pursuant to the Offer to Purchase and that interest thereon, if any, shall cease to accrue on and after the Purchase Date;
- i. that each Holder electing to tender a Security pursuant to the Offer to Purchase will be required to surrender such Security at the place or places specified in the Offer prior to the close of business on the Expiration Date (such Security being, if the Issuer or the Trustee so requires, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing);

j. that Holders will be entitled to withdraw all or any portion of Securities tendered if the Issuer (or the Paying Agent) receives, not later than the close of business on the Expiration Date, a facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Security the Holder tendered, the certificate number of the Security the Holder tendered and a statement that such Holder is withdrawing all or a portion of his tender;

k. that (i) if Securities in an aggregate principal amount less than or equal to the Purchase Amount are duly tendered and not withdrawn pursuant to the Offer to Purchase, the Issuer shall purchase all such Securities and (ii) if Securities in an aggregate principal amount in excess of the Purchase Amount are tendered and not withdrawn pursuant to the Offer to Purchase, the Issuer shall

purchase Securities having an aggregate principal amount equal to the Purchase Amount on a *pro rata* basis (with such adjustments as may be deemed appropriate so that only Securities in denominations of \$1,000 or integral multiples thereof shall be purchased); and

l. that in the case of any Holder whose Security is purchased only in part, the Issuer shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unpurchased portion of the Security so tendered.

Any Offer to Purchase shall be governed by and effected in accordance with the Offer for such Offer to Purchase.

"Offering Proceeds Note" means the intercompany demand note dated the Issue Date, in an initial principal amount equal to \$500,000,000, issued by Level 3 LLC to the Issuer as it may be amended from time to time pursuant to Sections 301 and 1020.

"Offering Proceeds Note Guarantee" means an unconditional Guarantee of the due and punctual payment of the principal of and premium, if any, and interest on the Offering Proceeds Note, when and as due, whether on demand, at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and all other monetary obligations of Level 3 LLC under the Offering Proceeds Note, in substantially the form set forth in Exhibit E hereto.

"Offering Proceeds Note Guarantor" means any Restricted Subsidiary that provides an Offering Proceeds Note Guarantee pursuant to Section 1010, Section 1011 or any other provision of the Indenture.

"Officers' Certificate" of any Person means a certificate signed by the Chairman of the Board of Directors of such Person, a Vice Chairman of the Board of Directors of such Person, the President or a Vice President, and by the Chief Financial Officer, the Chief Accounting Officer, the Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary of such Person and delivered to the Trustee, which shall comply with this Indenture.

"Opinion of Counsel" means an opinion of counsel acceptable to the Trustee (who may be counsel to Parent or the Issuer, including an employee of Parent or the Issuer).

"OECD" shall mean the Organization for Economic Cooperation and Development.

"Original Securities" has the meaning set forth in Section 301.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) on and after any maturity or redemption date, Securities, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than Parent or the Issuer) in trust or set aside and segregated in trust by Parent, the Issuer (if Parent or the Issuer shall act as its own Paying Agent) for the Holders of such Securities; *provided* that (a) the Trustee or the Paying Agent, as applicable, is not prohibited from paying such money to the Holders and (b) if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture;

(iii) Securities, except to the extent provided in Sections 1202 and 1203, with respect to which the Issuer has effected defeasance or covenant defeasance as provided in Article Twelve; and

(iv) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands the Securities are valid obligations of the Issuer;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, consent, notice or waiver hereunder, and for the purpose of making the calculations required by TIA Section 313, Securities owned by the Issuer or any other obligor upon the Securities or any Affiliate of the Issuer or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which any Responsible Officer of the Trustee actually knows to be so owned or as to which the Trustee has received written notice shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Issuer or any other obligor upon the Securities or any Affiliate of the Issuer or such other obligor.

"Parent" means the Person named as "Parent" in the first paragraph of this Indenture, until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Parent" shall mean such successor Person.

"Parent Guarantee" means the Note Guarantee of Parent.

"Parent Intercompany Note" means the intercompany demand note dated December 8, 1999, as amended and restated on the Issue Date, in the principal amount of \$11,547,230,519.00, issued by Level 3 LLC to Parent.

"Paying Agent" means any Person (including Parent or the Issuer acting as Paying Agent) authorized by Parent or the Issuer to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Issuer.

"Permitted Holders" means the members of Parent's Board of Directors on the Measurement Date and their respective estates, spouses, ancestors, and lineal descendants, the legal representatives of any of the foregoing and the trustees of any bona fide trusts of which the foregoing are the sole beneficiaries or the grantors, or any Person of which the foregoing "beneficially owns" (as defined in Rule 13d-3 under the Exchange Act) at least 66 ² / 3 % of the total voting power of the Voting Stock of such Person.

"Permitted Interest Rate or Currency Protection Agreement" of any Person means any Interest Rate or Currency Protection Agreement entered into with one or more financial institutions in the ordinary course of business that is designed to protect such Person against fluctuations in interest rates or currency exchange rates with respect to Debt Incurred and not for purposes of speculation and which, in the case of an interest rate agreement, shall have a notional amount no greater than the principal amount at maturity due with respect to the Debt being hedged thereby.

"Permitted Investments" means (a) Cash Equivalents; (b) investments in prepaid expenses; (c) negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits; (d) loans, advances or extensions of credit to employees and directors made in the ordinary course of business and consistent with past practice; (e) obligations under Permitted Interest Rate or Currency Protection Agreements; (f) bonds, notes, debentures and other securities received as a result of Asset Dispositions pursuant to and in compliance with Section 1016; (g) Investments in any Person as a result of which such Person becomes a Restricted Subsidiary; (h) Investments made prior to the Measurement Date; (i) Investments made after the Measurement

Date in Persons engaged in the Telecommunications/IS Business in an aggregate amount not to exceed Invested Capital; and (j) additional Investments in an aggregate amount not to exceed \$200,000,000.

"Permitted Liens" means (a) Liens for taxes, assessments, governmental charges, levies or claims which are not yet delinquent or which are being contested in good faith by appropriate proceedings, if a reserve or other appropriate provision, if any, as shall be required in conformity with generally accepted accounting principles shall have been made therefor; (b) other Liens incidental to the conduct of Parent's and its Restricted Subsidiaries' businesses or the ownership of its Property not securing any Debt, and which do not in the aggregate materially detract from the value of Parent's and its Restricted Subsidiaries' Property when taken as a whole, or materially impair the use thereof in the operation of its business; (c) Liens, pledges and deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of statutory obligations; (d) Liens, pledges or deposits made to secure the performance of tenders, bids, leases, public or statutory obligations, sureties, stays, appeals, indemnities, performance or other similar bonds and other obligations of like nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money, the obtaining of advances or credit or the payment of the deferred purchase price of Property and which do not in the aggregate materially impair the use of Property in the operation of the business of Parent and the Restricted Subsidiaries taken as a whole); (e) zoning restrictions, servitudes, easements, rights-of-way, restrictions and other similar charges or encumbrances incurred in the ordinary course of business which, in the aggregate, do not materially detract from the value of the Property subject thereto or materially interfere with the ordinary conduct of the business of Parent or its Restricted Subsidiaries; and (f) any interest or title of a lessor in the Property subject to any lease other than a Capital Lease.

"Permitted Telecommunications Capital Asset Disposition" means the transfer, conveyance, sale, lease or other disposition of optical fiber and/or conduit and any related equipment used in a Segment (as defined) of Parent's communications network that (i) constitute capital assets in accordance with generally accepted accounting principles and (ii) after giving effect to such disposition, would result in Parent retaining at least either (A) 24 optical fibers per route mile on such Segment as deployed at the time of such disposition or (B) 12 optical fibers and one empty conduit per route mile on such Segment as deployed at such time. "Segment" means (x) with respect to Parent's intercity network, the through-portion of such network between two local networks (i.e., Omaha to Denver) and (y) with respect to a local network of Parent (i.e., Dallas), the entire through-portion of such network, excluding the spurs which branch off the through-portion.

"Person" means any individual, corporation, company, partnership, joint venture, limited liability company, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof or any other entity.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for a mutilated security or in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Security.

"Preferred Stock" of any Person means Capital Stock of such Person of any class or classes (however designated) that ranks prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding-up of such Person, to shares of Capital Stock of any other class of such Person.

"Preferred Stock Dividends" means all dividends with respect to Preferred Stock of Restricted Subsidiaries held by Persons other than Parent or the Issuer or a Wholly Owned Restricted Subsidiary of Parent or the Issuer, respectively. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory federal income rate

(expressed as a decimal number between 1 and 0) applicable to the issuer of such Preferred Stock for the period during which such dividends were paid.

"Private Exchange Offer" means the offer by the Issuer, pursuant to Section 2(f) of the Registration Agreement dated October 1, 2003, or pursuant to any similar Registration Agreement entered into in connection with the registration of Additional Securities, to issue and deliver to certain purchasers, in exchange for the Initial Securities held by such purchasers as part of their initial distribution, a like aggregate principal amount of Private Exchange Securities.

"Private Exchange Securities" means the Exchange Securities to be issued pursuant to this Indenture in connection with a Private Exchange Offer pursuant to the relevant Registration Agreement.

"Private Placement Legend" means the third paragraph of the legend set forth in the Securities in the form set forth in Exhibit 1 to Appendix A.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock in, and other securities of, any other Person. For purposes of any calculation required pursuant to this Indenture, the value of any Property shall be its Fair Market Value.

"Proportionate Interest" in any issuance of Capital Stock of a Restricted Subsidiary means a ratio (i) the numerator of which is the aggregate amount of all Capital Stock of such Restricted Subsidiary beneficially owned by Parent and the Restricted Subsidiaries and (ii) the denominator of which is the aggregate amount of Capital Stock of such Restricted Subsidiary beneficially owned by all Persons (excluding, in the case of this clause (ii), any Investment made in connection with such issuance).

"Purchase Amount" has the meaning specified in "Offer to Purchase" above.

"Purchase Date" has the meaning specified in "Offer to Purchase" above.

"Purchase Money Debt" means Debt (including Acquired Debt and Capital Lease Obligations, mortgage financings and purchase money obligations) incurred for the purpose of financing all or any part of the cost of construction, installation, acquisition, lease, development or improvement by Parent or any Restricted Subsidiary of any Telecommunications/IS Assets of Parent or any Restricted Subsidiary and including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, as the same may be amended, supplemented, modified or restated from time to time.

"Purchase Price" has the meaning specified in "Offer to Purchase" above.

"Qualified Credit Facility" means one or more credit agreements, loan agreements, or similar facilities, secured or unsecured, providing for revolving credit loans, term loans and/or letters of credit, including any Qualified Receivable Facility, entered into from time to time by Parent and its Restricted Subsidiaries, and including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, as the same may be amended, supplemented, modified, restated or replaced from time to time.

"Qualified Institutional Buyer" or "QIB" has the meaning specified in Rule 144A.

"Qualified Receivable Facility" means Debt of Parent or any Subsidiary Incurred from time to time pursuant to either (x) credit facilities secured by Receivables or (y) Receivables purchase facilities, and including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, as the same may be amended, supplemented, modified or restated from time to time.

"Rating Agencies" mean Moody's and S&P.

"Rating Date" means the earlier of the date of public notice of the occurrence of a Change of Control or of the intention of Parent to effect a Change of Control.

"Rating Decline" shall be deemed to have occurred if, no later than 90 days after the Rating Date (which period shall be extended so long as the rating of the Securities is under publicly announced consideration for possible downgrade by any of the Rating Agencies), either of the Rating Agencies assigns or reaffirms a rating to the Securities that is lower than the applicable Issue Date Rating (or the equivalent thereof). If, prior to the Rating Date, either of the ratings assigned to the Securities by the Rating Agencies is lower than the applicable Issue Date Rating, then a Rating Decline will be deemed to have occurred if such rating is not changed by the 90th day following the Rating Date. A downgrade within rating categories, as well as between rating categories, will be considered a Rating Decline. A "Rating Decline" also shall be deemed to have occurred if a Rating Decline (as defined in any indenture governing any of the Existing Notes) shall have occurred in respect of any of the Existing Notes.

"Receivables" means receivables, chattel paper, instruments, documents or intangibles evidencing or relating to the right to payment of money and proceeds and products thereof in each case generated in the ordinary course of business.

"Redemption Date", when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"refinancing" has the meaning specified in Section 1010(b)(viii) and 1011(b)(iv).

"Registered Exchange Offer" means the offer by the Issuer, pursuant to the relevant Registration Agreement, to certain Holders of Initial Securities, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount of Exchange Securities registered under the Securities Act.

"Registration Agreement" means the Registration Agreement dated October 1, 2003, among the Issuer, Parent and the Initial Purchasers relating to the Original Securities or any similar agreement relating to any registration of Additional Securities.

"Regular Record Date" for the interest payable on any Interest Payment Date means the April 1 or October 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Regulation S" means Regulation S under the Securities Act.

"Regulation S Global Security" has the meaning specified in Section 2.1(a) of Appendix A.

"Required Filing Dates" has the meaning specified in Section 1007.

"Responsible Officer", when used with respect to the Trustee, means any officer within the Trustee's Corporate Trust Office, including any vice president, any assistant secretary, any assistant treasurer, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Payment" has the meaning specified in Section 1012.

"Restricted Subsidiary" means (a) a Subsidiary of Parent or of a Restricted Subsidiary, including the Issuer, that has not been designated or classified as an Unrestricted Subsidiary pursuant to and in compliance with Section 1019 and (b) an Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary pursuant to such Section.

"Revocation" has the meaning specified in Section 1019.

"Rule 144A" means Rule 144A under the Securities Act.

"Rule 144A Global Security" has the meaning specified in Section 2.1(a) of Appendix A.

"S&P" means Standard & Poor's Ratings Service or, if Standard & Poor's Ratings Service shall cease rating debt securities having a maturity at original issuance of at least one year and such ratings business shall have been transferred to a successor Person, such successor Person; *provided, however*, that if Standard & Poor's Ratings Service ceases rating debt securities having a maturity at original issuance of at least one year and its ratings business with respect thereto shall not have been transferred to any successor Person, then "S&P" shall mean any other nationally recognized rating agency (other than Moody's) that rates debt securities having a maturity at original issuance of at least one year and that shall have been designated by the Trustee by a written notice given to the Issuer.

"Sale and Leaseback Transaction" of any Person means any direct or indirect arrangement pursuant to which any Property is sold or transferred by such Person or a Restricted Subsidiary of such person and is thereafter leased back from the purchaser or transferee thereof by such Person or one of its Restricted Subsidiaries. The stated maturity of such arrangement shall be the date of the last payment of rent or any other amount due under such arrangement prior to the first date on which such arrangement may be terminated by the lessee without payment of a penalty.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended (or any successor act), and the rules and regulations thereunder (or respective successors thereto).

"Security Register" and "Security Registrar" have the respective meanings specified in Section 303.

"Shelf Registration Statement" means a registration statement issued by Parent and the Issuer in connection with the offer and sale of Initial Securities pursuant to the relevant Registration Agreement.

"Significant Subsidiary" means any Subsidiary that would be a "Significant Subsidiary" of Parent within the meaning of Rule 1-02 under Regulation S-X promulgated by the Commission.

"Sister Restricted Subsidiary" means a Restricted Subsidiary that is not the Issuer or an Issuer Restricted Subsidiary.

"Special Assets" means (a) the Capital Stock or assets of RCN Corporation and Commonwealth Telephone Enterprises, Inc. (and any intermediate holding companies or other entities formed solely for the purpose of owning such Capital Stock or assets) owned, directly or indirectly, by Parent or any Restricted Subsidiary on the Measurement Date, and (b) any Property, other than cash, Cash Equivalents and Telecommunications/IS Assets, received as consideration for the disposition after the Measurement Date of Special Assets (as contemplated by the first proviso in Section 1016).

"Special Interest" has the meaning specified in Exhibit A.

"Stated Maturity" when used with respect to a Security or any installment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Security at the option of

the Holder thereof upon the happening of any contingency beyond the control of the Issuer unless such contingency has occurred).

"Subordinated Debt" means Debt of Parent (a) that is not secured by any Lien on or with respect to any Property now owned or acquired after the Measurement Date and (b) as to which the payment of principal of (and premium, if any) and interest and other payment obligations in

respect of such Debt shall be subordinate to the prior payment in full in cash of the Parent Guarantee to at least the following extent: (i) no payments of principal of (or premium, if any) or interest on or otherwise due (including by acceleration or for additional amounts) in respect of, or repurchases, redemptions or other retirements of, such Debt (collectively, "payments of such Debt") may be permitted for so long as any default (after giving effect to any applicable grace periods) in the payment of principal (or premium, if any) or interest on the Securities exists, including as a result of acceleration; (ii) in the event that any other Default exists with respect to the Securities, upon notice by Holders of 25% or more in aggregate principal amount of the Securities to the Trustee, the Trustee shall have the right to give notice to Parent and the holders of such Debt (or trustees or agents therefor) of a payment blockage, and thereafter no payments of such Debt may be made for a period of 179 days from the date of such notice; *provided, however*, that not more than one such payment blockage notice may be given in any consecutive 360-day period, irrespective of the number of defaults with respect to the Securities during such period; (iii) if payment of such Debt is accelerated when any Securities are Outstanding, no payments of such Debt may be made until three Business Days after the Trustee receives notice of such acceleration and, thereafter, such payments may only be made to the extent the terms of such Debt permit payment at that time; and (iv) such Debt may not (x) provide for payments of principal of such Debt at the stated maturity thereof or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by Parent (including any redemption, retirement or repurchase which is contingent upon events or circumstances but excluding any retirement required by virtue of acceleration of such Debt upon an event of default thereunder), in each case prior to the final Stated Maturity of the Securities or (y) permit redemption or other retirement (including pursuant to an offer to purchase made by Parent) of such other Debt at the option of the holder thereof prior to the final Stated Maturity of the Securities, other than, in the case of clause (x) or (y), any such payment, redemption or other retirement (including pursuant to an offer to purchase made by Parent) which is conditioned upon (A) a change of control of Parent pursuant to provisions substantially similar to those described in Section 1009 (and which shall provide that such Debt will not be repurchased pursuant to such provisions prior to the Issuer's repurchase of the Securities required to be repurchased by the Issuer pursuant to the provisions described in Section 1009) or (B) a sale or other disposition of assets pursuant to provisions substantially similar to those described in Section 1016 (and which shall provide that such Debt will not be repurchased pursuant to such provisions prior to the Issuer's repurchase of the Securities required to be repurchased by the Issuer pursuant to the provision described in Section 1016).

"Subordination Agreement" means the Subordination Agreement dated the Issue Date, among the Issuer, Parent and Level 3 LLC, and the other Restricted Subsidiaries and Sister Restricted Subsidiaries becoming party thereto as contemplated therein, pursuant to which such Restricted Subsidiaries shall subordinate obligations owed to Parent or any Sister Restricted to any obligations owed in respect of the Offering Proceeds Note, in substantially in the form set forth in Exhibit D hereto.

"Subsidiary" of any Person means (i) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more Subsidiaries thereof or (ii) any other Person (other than a corporation) in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof.

"Telecommunications/IS Assets" means (a) any Property (other than cash, cash equivalents and securities) to be owned by Parent or any Restricted Subsidiary and used in the Telecommunications/IS Business; (b) for purposes of Sections 1010, 1011 and 1014 only, Capital Stock of any Person; or (c) for all other purposes of this Indenture, Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by Parent or another Restricted Subsidiary from any Person other than an Affiliate of Parent; *provided, however*, that, in the case of clause (b) or (c), such Person is primarily engaged in the Telecommunications/IS Business.

"Telecommunications/IS Business" means the business of (i) transmitting, or providing services relating to the transmission of, voice, video or data through owned or leased transmission facilities, (ii) constructing, creating, developing or marketing communications networks, related network transmission equipment, software and other devices for use in a communications business, (iii) computer outsourcing, data center management, computer systems integration, reengineering of computer software for any purpose (including, without limitation, for the purposes of porting computer software from one operating environment or computer platform to another or to address issues commonly referred to as "Year 2000 issues") or (iv) evaluating, participating or pursuing any other activity or opportunity that is primarily related to those identified in (i), (ii) or (iii) above; *provided, however*, that the determination of what constitutes a Telecommunications/IS Business shall be made in good faith by the Board of Directors of Parent.

"Trust Indenture Act" or "TIA" means the Trust Indenture Act of 1939 as in force at the date as of which this Indenture was executed, except as provided in Section 9.05.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Unrestricted Subsidiary" means (a) 91 Holding Corp. (the subsidiary that holds indirectly Parent's interests in the SR91 tollroad), Level 3 Finance LLC, Level 3 Finance II LLC, Eldorado Funding LLC, SR 91 Holding LLC, SR91 Corp, SR LP, Express Lanes, Inc., California Private Transportation Company LP, CPTC LLC and 85 Tenth Avenue LLC; (b) any Subsidiary of an Unrestricted Subsidiary; and (c) any Subsidiary of Parent designated as such pursuant to and in compliance with Section 1019 and not thereafter redesignated as a Restricted Subsidiary as permitted pursuant thereto. For the sake of clarity, actions taken by an Unrestricted Subsidiary will not be deemed to have been taken, directly or indirectly, by Parent or any Restricted Subsidiary.

"Vice President", when used with respect to any Person, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

"Voting Stock" of any Person means Capital Stock of such Person which ordinarily has voting power for the election of directors (or persons performing similar functions) of such Person, whether at all times or only for so long as no senior class of securities has such voting power by reason of any contingency.

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person all of the outstanding Voting Stock or other ownership interests (other than directors' qualifying shares) of which shall at the time be owned by such Person or by one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

The following terms, unless otherwise defined pursuant to this Section 101, have the meanings given to them in Appendix A:

"Additional Securities"

"Agent Members"

"Definitive Security"

21

"Depository"

"Distribution Compliance Period"

"Exchange Securities"

"Euroclear"

"Global Security"

"Initial Purchasers"

"Initial Securities"

"Original Securities"

"Private Exchange"

"Private Exchange Securities"

"Purchase Agreement"

"QIB"

"Registered Exchange Offer"

"Registration Agreement"

"Regulation S"

"Rule 144A"

"Rule 144A Global Security"

"Rule 144A Securities"

"Securities"

"Securities Act"

"Securities Custodian"

"Shelf Registration Statement"

"Transfer Restricted Securities"

SECTION 102. *Compliance Certificates and Opinions.*

Upon any application or request by the Issuer to the Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance with which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

- (4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of,

22

only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Issuer or any Guarantor may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Issuer or any Guarantor, respectively, stating that the information with respect to such factual matters is in the possession of the Issuer or any Guarantor, respectively, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated (with proper identification of each matter covered therein) and form one instrument.

SECTION 104. *Acts of Holders.*

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner that the Trustee deems sufficient.

(c) The principal amount and serial numbers of Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) If the Issuer shall solicit from the Holders of Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Issuer may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Issuer shall have no obligation to do so. Notwithstanding TIA Section 316(c), such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand,

23

authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; *provided* that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Security. However, any such Holder or future Holder may revoke the request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date such Act becomes effective.

SECTION 105. *Notices, etc., to Trustee and the Issuer.*

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or

(2) the Issuer or any Guarantor by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Issuer or such Guarantor addressed to it (in the case of a Guarantor, in care of the Issuer) at the address of the Issuer's principal office specified in the first paragraph of this Indenture, or at any other address previously furnished in writing to the Trustee by the Issuer.

SECTION 106. *Notice to Holders; Waiver.*

Where this Indenture provides for notice of any event to Holders by the Issuer or the Trustee, such notice shall be given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at the address of such Holder as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Notices shall be effective only upon receipt. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event to Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice for every purpose hereunder.

SECTION 107. *Effect of Headings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 108. *Successors and Assigns.*

All covenants and agreements in this Indenture by the Issuer and Parent shall bind its successors and assigns, whether so expressed or not.

SECTION 109. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 110. *Benefits of Indenture.*

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, any Paying Agent, any Security Registrar and their successors hereunder and the Holders any legal or equitable right, remedy or claim under this Indenture.

SECTION 111. *Governing Law.*

THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

SECTION 112. *Conflict with Trust Indenture Act.*

The Trust Indenture Act shall apply as a matter of contract to this Indenture for purposes of interpretation, construction and defining the rights and obligations hereunder. If any provision hereof limits, qualifies or conflicts with any provision of the Trust Indenture Act or another provision which is required or deemed to be included in this Indenture by any of the provisions of the Trust Indenture Act, such provision or requirement of the Trust Indenture Act shall control.

If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or excluded, as the case may be.

SECTION 113. *Legal Holidays.*

In any case where any Interest Payment Date, Redemption Date, or Stated Maturity or Maturity of any Security shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of principal (or premium, if any) or interest need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or Redemption Date or at the Stated Maturity or Maturity; *provided* that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, Stated Maturity or Maturity, as the case may be.

SECTION 114. *No Personal Liability of Directors, Officers, Employees and Stockholders.*

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, shall have any liability for any obligations of the Issuer or any Guarantor under the Securities or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation, solely by reason of its status as a director, officer, employee, incorporator or stockholder of the Issuer or a Guarantor. By accepting a Security, each Holder waives and releases all such liability

25

(but only such liability). The waiver and release are part of the consideration for issuance of the Securities.

SECTION 115. *Independence of Covenants.*

All covenants and agreements in this Indenture shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or condition exists.

SECTION 116. *Exhibits.*

All exhibits attached hereto are by this reference made a part hereof with the same effect as if herein set forth in full.

SECTION 117. *Counterparts.*

This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 118. *Duplicate Originals.*

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

ARTICLE TWO

SECURITY FORMS

SECTION 201. *Form and Dating.*

Provisions relating to the Initial Securities and the Exchange Securities are set forth in Appendix A, which is hereby incorporated in and expressly made part of this Indenture. The Initial Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit 1 to Appendix A which is hereby incorporated in and expressly made a part of this Indenture. The Exchange Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Issuer is

subject, if any, or usage, provided that any such notation, legend or endorsement is in a form reasonably acceptable to the Issuer. Each Security shall be dated the date of its authentication. The terms of the Securities set forth in Exhibit 1 to Appendix A and Exhibit A are part of the terms of this Indenture.

The definitive Securities shall be printed, lithographed or engraved on steel-engraved borders or may be produced in any other manner permitted by the rules of any securities exchange or system on which the Securities may be listed or eligible for trading, all as determined by the officers of the Issuer executing such Securities, as evidenced by their execution of such Securities.

ARTICLE THREE

THE SECURITIES

SECTION 301. *Amount of Securities.* Subject to Section 302, the Trustee shall authenticate Initial Securities for original issue on the Issue Date in the aggregate principal amount of \$500,000,000 (the "Original Securities").

The Issuer shall be entitled, subject to its compliance with the covenants set forth in this Indenture, including Section 1010 and Section 1011, to issue Additional Securities under this Indenture

26

which shall have identical terms as the Original Securities, other than with respect to the date of issuance and issue price. The Original Securities, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor shall be treated as a single class for all purposes under this Indenture.

With respect to the Additional Securities, the Issuer shall set forth in a Board Resolution and an Officers' Certificate, a copy of each which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of such Additional Securities to be authenticated and delivered pursuant to this Indenture;

(2) the issue price, the issue date and the CUSIP number of such Additional Securities; *provided, however*, that no Additional Securities may be issued at a price that would cause such Additional Securities to have "original issue discount" within the meaning of Section 1273 of the Code; and

(3) whether such Additional Securities shall be Transfer Restricted Securities and issued in the form of Securities as set forth in the Appendix to this Indenture or shall be issued in the form of Exchange Securities as set forth in Exhibit A.

For each issuance of Additional Securities, the Issuer shall use the net proceeds of each such issuance and additional funds as necessary to lend to Level 3 LLC an amount equal to the principal amount of the Additional Securities so issued, and the principal amount of the Offering Proceeds Note shall be increased by such amount.

SECTION 302. *Execution and Authentication.* Two Officers shall sign the Securities for the Issuer by manual or facsimile signature.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Securities executed by the Issuer to the Trustee for authentication, together with a written order of the Issuer in the form of an Officers' Certificate for the authentication and delivery of such Securities, and the Trustee in accordance with such written order of the Issuer shall authenticate and deliver such Securities.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee may appoint an authenticating agent reasonably acceptable to the Issuer to authenticate the Securities. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Security Registrar, Paying Agent or agent for service of notices and demands.

SECTION 303. *Security Registrar and Paying Agent.* The Issuer shall maintain an office or agency in The City of New York where Securities may be presented for registration of transfer or for exchange (the "Security Registrar") and an office or agency in The City of New York where Securities may be presented for payment to the Paying Agent. The Security Registrar shall keep a register of the Securities and of their transfer and exchange (the register maintained in the office of the Security Registrar and in any other office or agency designated pursuant

to Section 1002 being herein sometimes referred to as the "Security Registrar"). The Issuer may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Issuer shall enter into an appropriate agency agreement with any Security Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Issuer shall notify the Trustee of the name and address of any such agent. If the Issuer fails to maintain a Securities Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 607.

The Issuer initially appoints the Trustee as Security Registrar and Paying Agent in connection with the Securities.

SECTION 304. *Paying Agent To Hold Money in Trust.* Prior to each due date of the principal and interest on any Security, the Issuer shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Issuer shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal or interest on the Securities and shall notify the Trustee of any default by the Issuer in making any such payment. If the Issuer or a Wholly Owned Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Issuer at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee.

SECTION 305. *Holders Lists.* The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Security Registrar, the Issuer shall furnish to the Trustee, in writing at least five Business Days before each Interest Payment Date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

SECTION 306. *Replacement Securities.* If a mutilated Security is surrendered to the Security Registrar or if the Holder of a Security claims that such Security has been lost, destroyed or wrongfully taken, the Issuer shall issue and the Trustee shall authenticate a replacement Security if the requirements of Section 8-405 of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Trustee. Such Holder shall furnish an indemnity bond sufficient in the judgment of the Issuer and the Trustee to protect the Issuer, the Trustee, the Paying Agent, the Security Registrar and any co-registrar from any loss which any of them may suffer if a Security is replaced. The Issuer and the Trustee may charge the Holder for their expenses in replacing a Security.

Every replacement Security is an additional obligation of the Issuer.

SECTION 307. *Temporary Securities.* Until definitive Securities are ready for delivery, the Issuer may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Issuer considers appropriate for temporary Securities. Without unreasonable delay, the Issuer shall prepare and the Trustee shall authenticate definitive Securities and deliver them in exchange for temporary Securities.

SECTION 308. *Cancellation.* The Issuer at any time may deliver Securities to the Trustee for cancellation. The Security Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and dispose of in accordance with its customary procedures (subject to the record retention requirements of the Exchange Act) all Securities surrendered for registration of transfer, exchange, payment or cancellation unless the Issuer directs the Trustee to deliver canceled Securities to the Issuer. The Issuer may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Trustee for cancellation.

SECTION 309. *Defaulted Interest.* If the Issuer defaults in a payment of interest on the Securities, the Issuer shall pay the defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Issuer may pay the defaulted interest to the persons who are Holders on a subsequent special record date. The Issuer shall fix or cause to be fixed any such special record date and payment date to the reasonable satisfaction of the Trustee and shall promptly mail to each Holder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

SECTION 310. *CUSIP Numbers.* The Issuer in issuing the Securities may use "CUSIP" numbers (if then generally in use) and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; *provided, however*, that neither the Issuer nor the Trustee shall have any responsibility for any defect in the "CUSIP" number that appears on any Security, check, advice of payment or redemption notice, and any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the

Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer will promptly notify the Trustee in writing of any change in the "CUSIP" number(s).

ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. *Satisfaction and Discharge of Indenture.*

This Indenture shall cease to be of further effect (subject to Section 1206 and except as to surviving rights of registration of transfer, transfer, exchange and replacement of Securities expressly provided for herein or pursuant hereto) and the Trustee, at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture when

(1) either

(a) all Outstanding Securities have been delivered to the Trustee for cancellation; or

(b) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable within one year, or

(iii) are to be called for redemption within one year under irrevocable arrangements satisfactory to the Trustee in its sole discretion for the giving of notice of redemption by the Trustee in the name and at the expense of the Issuer,

and the Issuer, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire indebtedness on the Securities not theretofore delivered to the Trustee for cancellation, for principal of (and premium, if any, on), and interest on, the Securities to Maturity or the Redemption Date, as the case may be;

(2) the Issuer has paid or caused to be paid all other sums payable by the Issuer hereunder; and

(3) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations under Sections 607 and 609 and, if money shall have been deposited with the Trustee pursuant to

clause (1)(b) of this Section 401, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. *Application of Trust Money.*

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Issuer acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

ARTICLE FIVE

REMEDIES

SECTION 501. *Events of Default.*

"Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (1) failure to pay principal of (or premium, if any, on) any Security when due; or
- (2) failure to pay any interest on any Security when due, continued for 30 days; or
- (3) default in the payment of principal of (and premium, if any) and interest on Securities required to be purchased pursuant to an Offer to Purchase pursuant to Section 1009 when due and payable; or
- (4) failure to perform or comply with the provisions of Section 801, 803, 805, 807 or 1016; or
- (5) failure to perform any covenant or agreement of Parent, the Issuer or any Restricted Subsidiary in this Indenture or in any Security (other than a covenant a default in whose performance is elsewhere in this Section specifically dealt with) continued for 60 days after written notice to the Issuer by the Trustee or Holders of at least 25% in aggregate principal amount of the Outstanding Securities, which notice shall specify the default and state that such notice is a "Notice of Default" hereunder; or
- (6) default under the terms of any instrument evidencing or securing Debt of Parent or any Restricted Subsidiary having an outstanding principal amount of not less than \$25,000,000 or its foreign currency equivalent at the time individually or in the aggregate which default results in the acceleration of the payment of such indebtedness or constitutes the failure to pay such indebtedness when due (after expiration of any applicable grace period); or
- (7) the rendering of a judgment or judgments against Parent or any Restricted Subsidiary in an aggregate amount in excess of \$25,000,000 or its foreign currency equivalent at the time and shall not be waived, satisfied or discharged for any period of 45 consecutive days during which a stay of enforcement shall not be in effect; or
- (8) any Note Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee) or any Guarantor denies or disaffirms its obligations under its Note Guarantee; or
- (9) the entry of a decree or order by a court having jurisdiction in the premises adjudging Parent, the Issuer or any Significant Subsidiary a bankrupt or insolvent, or approving as properly

filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of Parent, the Issuer or any Significant Subsidiary under the Federal Bankruptcy Code or any other applicable federal, state or foreign law, or appointing a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of Parent, the Issuer or any Significant Subsidiary or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 30 consecutive days; or

(10) the institution by Parent, the Issuer or any Significant Subsidiary of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable federal, state or foreign law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of Parent, the Issuer or any Significant Subsidiary or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

SECTION 502. *Acceleration of Maturity; Rescission and Annulment.*

If an Event of Default (other than an Event of Default specified in Section 501(9) or 501(10) with respect to Parent or the Issuer) shall occur and be continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Securities may declare the principal amount of all the Securities to be due and payable immediately, by a notice in writing to the Issuer (and to the Trustee if given by Holders), and upon any such declaration such principal amount shall become immediately due and payable. If an Event of Default specified in Section 501(9) or 501(10) occurs with respect to Parent or the Issuer, the principal amount of all the Securities shall *ipso facto* become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article Five, the Holders of a majority in aggregate principal amount of the Outstanding Securities, by written notice to the Issuer and the Trustee, may rescind and annul such declaration and its consequences if

- (1) the Issuer has paid or deposited with the Trustee a sum sufficient to pay
 - (A) all overdue interest on all Outstanding Securities,

(B) all unpaid principal of (and premium, if any, on) any Outstanding Securities which has become due otherwise than by such declaration of acceleration, and interest on such unpaid principal at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest on overdue interest at the rate borne by the Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default, other than the nonpayment of amounts of principal of (or premium, if any, on) Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

31

SECTION 503. *Collection of Indebtedness and Suits for Enforcement by Trustee.*

The Issuer covenants that if

- (a) Default is made in the payment of any interest on any Security when due, continued for 30 days, or
- (b) default is made in the payment of the principal of (or premium, if any, on) any Security when due,

the Issuer will, upon demand of the Trustee, pay to the Trustee for the benefit of the Holders of such Securities the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, and interest on any overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installment of interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay such amounts forthwith upon such demand, the Trustee, in its own name as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Issuer or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Issuer or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. *Trustee May File Proofs of Claim.*

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer or any other obligor upon the Securities (including Parent and any other Guarantor) or the Property of the Issuer or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer for the payment of overdue principal, premium, if any, or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

- (i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel) and of the Holders allowed in such judicial proceeding, and
- (ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and

32

advances of the Trustee and its agents and counsel, and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 505. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article Five shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively; and

THIRD: The balance, if any, to the Person or Persons entitled thereto.

SECTION 507. Limitation on Suits.

No Holder of any Securities shall have any right to institute any proceeding with respect to this Indenture or for any other remedy hereunder, unless

(1) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default;

(2) the Holders of not less than 25% in aggregate principal amount of the Outstanding Securities shall have made written request and offered reasonable indemnity to the Trustee to institute such proceeding as trustee; and

(3) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Securities a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days;

it being understood and intended that no one or more Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, including Section 507, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment as provided herein (including, if applicable, Article Twelve) and in such Security of the principal of (and premium, if any) and interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Issuer, any Guarantor, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. *Rights and Remedies Cumulative.*

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Five or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. *Control by Holders.*

The Holders of a majority in aggregate principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; *provided* that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,
- (2) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction, and
- (3) the Trustee need not take any action which might involve it in personal liability or be unjustly prejudicial to the Holders not consenting.

SECTION 513. *Waiver of Past Defaults.*

The Holders of not less than a majority in principal amount of the Outstanding Securities may, on behalf of the Holders of all the Securities, waive any past Default hereunder and its consequences, except a Default

- (1) in the payment of the principal of (or premium, if any) or interest on any Security, or

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- (2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security affected, or

- (3) in respect of the covenant contained in Section 1020, which under Article Nine cannot be waived without the consent of the Holders of two-thirds in principal amount of the Outstanding Securities.

The Issuer and Parent shall deliver to the Trustee an Officers' Certificate stating that the requisite majority have consented to such waiver and attaching such consents upon which, subject to Section 104, the Trustee may conclusively rely. Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

SECTION 514. *Waiver of Stay or Extension Laws.*

The Issuer and each Guarantor covenant (to the extent that they may lawfully do so) that they shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer and each Guarantor (to the extent that they may lawfully do so) hereby expressly waive all benefit or advantage of any such law and covenant that they shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had

been enacted.

SECTION 515. *Undertaking for Costs.*

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorney's fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 515 does not apply to a suit by the Trustee or a suit by Holders of more than 10% in principal amount of the then Outstanding Securities.

ARTICLE SIX

THE TRUSTEE

SECTION 601. *Certain Duties and Responsibilities.*

(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their

35

exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that

(1) this paragraph (c) shall not be construed to limit the effect of paragraph (a) of this Section 601;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity reasonably satisfactory to it against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 601.

SECTION 602. *Notice of Default.*

If a Default occurs and is continuing, the Trustee shall transmit, in the manner and to the extent provided in TIA Section 313(c), notice of such Default within 60 days after it is known to any Responsible Officer of the Trustee or written notice of it is received by the Trustee; *provided, however*, that, except in the case of a Default in the payment of the principal of (or premium, if any) or interest on any Security, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, a trust committee of

directors or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders.

The Trustee is not required to take notice or deemed to have notice of any Event of Default with respect to the Securities, except an Event of Default under Section 5.01(1), (2), (3) or (4) hereof (provided that in the case of Section 5.01(4), such Event of Default constitutes a failure to purchase Securities pursuant to an Offer to Purchase pursuant to Section 10.16), unless the Trustee shall have received written notice at its Corporate Trust Office (which notice shall reference the Securities, the Issuer and the Indenture) of such Event of Default from the Issuer or any Holder or unless a Responsible Officer of the Trustee shall otherwise have knowledge thereof.

SECTION 603. *Certain Rights of Trustee.*

Subject to Section 601 and to the provisions of TIA Sections 315(a) through 315(d):

(1) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

36

(2) any request or direction of the Issuer mentioned herein shall be sufficiently evidenced by an Issuer Request or Issuer Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, receive and rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee may act through counsel, agents, custodians and nominees and shall not be responsible for the misconduct or negligence of any such person appointed and supervised with due care and in good faith;

(6) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(7) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney;

(8) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(9) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder; and

(10) the Trustee may request that Parent or the Issuer deliver an Officers' Certificate in substantially the form of Exhibit B hereto setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 604. *Trustee Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities, except for the Trustee's certificates of authentication, shall be taken as the statements of Parent or the Issuer, as applicable, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder. The Trustee shall not be accountable for the use or application by

SECTION 605. *May Hold Securities.*

The Trustee, any Paying Agent, any Security Registrar or any other agent of Parent, the Issuer or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to TIA Sections 310(b) and 311, may otherwise deal with Parent, the Issuer with the same rights it would have if it were not any Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 606. *Money Held in Trust.*

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Issuer.

SECTION 607. *Compensation and Reimbursement.*

The Issuer agrees:

- (1) to pay to the Trustee from time to time such compensation as shall be agreed in writing between the Issuer and the Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);
- (2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence, willful misconduct or bad faith; and
- (3) to indemnify each of the Trustee and any predecessor trustee and its directors, officers, employees and agents for, and to hold them harmless against, any and all loss, liability, damage, claim or expense including taxes (other than taxes based on the income of the Trustee) incurred without negligence, willful misconduct or bad faith on the part of any of them, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself or themselves against any claim (whether asserted by the Issuer, a Guarantor, a Holder or any other Person) or liability in connection with the exercise or performance of any of its or their powers or duties hereunder.

The obligations of the Issuer under this Section 607 to compensate the Trustee, to pay or reimburse the Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Trustee shall constitute additional indebtedness hereunder. As security for the performance of such obligations of the Issuer, the Trustee shall have a claim prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any, on) or interest on particular Securities.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(9) or (10), the expenses (including the reasonable charges and expenses of its counsel) of and the compensation for such services are intended to constitute expenses of administration under any applicable federal, state or foreign bankruptcy, insolvency or other similar law.

The provisions of this Section 607 shall survive the termination of this Indenture or the earlier resignation or removal of the Trustee.

SECTION 608. *Corporate Trustee Required; Eligibility; Conflicting Interests.*

(a) There shall be at all times a Trustee hereunder which shall be subject to and comply with the provisions of Section 310(a)(1) of the Trust Indenture Act and shall have a combined capital and

surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of federal, state, territorial or District of Columbia supervising or examining authority, then, for the purposes of this Section 608, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time a Responsible Officer of the Trustee shall have actual knowledge that the Trustee ceases to be eligible in accordance with the provisions of this Section 608, it shall resign immediately in the manner and with the effect hereinafter specified in this Article VI.

(b) The Trustee shall be subject to and comply with Section 310(b) of the Trust Indenture Act.

SECTION 609. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article VI shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 610.

(b) The Trustee may resign at any time by giving written notice thereof to the Issuer. If the instrument of acceptance by a successor Trustee required by Section 610 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition, at the expense of the Issuer, any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities, delivered to the Trustee and to the Issuer. If the instrument of acceptance by a successor Trustee required by Section 610 shall not have been delivered to the Trustee within 30 days after the giving of such notice of removal, the Trustee designated for removal may petition, at the expense of the Issuer, any court of competent jurisdiction for the appointment of a successor Trustee.

(d) If at any time:

(1) the Trustee shall fail to comply with the provisions of TIA Section 310(b) after written request therefor by the Issuer or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 608(a) and shall fail to resign after written request therefor by the Issuer or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Issuer, by a Board Resolution, may remove the Trustee or (ii) subject to TIA Section 3.15(e), any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by a Board Resolution, shall promptly appoint a successor Trustee. If the Issuer does not promptly appoint a successor Trustee after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in aggregate principal amount of the Outstanding Securities delivered to the Issuer and the retiring Trustee. In either case, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor

Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to the Holders of Securities in the manner provided for in Section 106. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

(g) The retiring Trustee shall not be liable for any of the acts or omissions of any successor Trustee appointed hereunder.

SECTION 610. Acceptance of Appointment by Successor.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article VI.

SECTION 611. *Merger, Conversion, Consolidation or Succession to Business.*

Any Person into which the Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder; *provided* that such Person shall be otherwise qualified and eligible under this Article Six, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion, consolidation or transfer of assets to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities. In case at that time any of the Securities shall not have been authenticated, any successor Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee. In all such cases such certificates shall have the full force and effect which this Indenture provides that the certificate of authentication of the Trustee shall have; *provided, however*, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion, consolidation or transfer of assets.

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND THE ISSUER

SECTION 701. *Disclosure of Names and Addresses of Holders.*

Every Holder of Securities, by receiving and holding the same, agrees with the Issuer and the Trustee that none of the Issuer or the Trustee or any agent of any of them shall be held accountable by

40

reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with TIA Section 3.12, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under TIA Section 3.12(b).

SECTION 702. *Reports by Trustee.*

Within 60 days after May 15 of each year commencing with the first May 15 after the first issuance of Securities, the Trustee shall transmit to the Holders, in the manner and to the extent provided in TIA Section 313(c), a brief report dated as of such May 15 if required by TIA Section 313(a).

A copy of each such report at the time of its mailing to Holders shall be filed with the Commission and the principal national securities exchange (if any) on which the Securities are listed.

The Issuer shall promptly notify a Responsible Officer of the Trustee if the Securities become listed on any national securities exchange or of any delisting thereof.

SECTION 703. *Reports by Parent and the Issuer.*

Parent or the Issuer shall file with the Trustee and deliver to the Holders of Securities the reports and other information required to be provided by them pursuant to Section 1007.

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801. *Parent May Consolidate, etc., Only on Certain Terms.*

Parent shall not, in a single transaction or a series of related transactions, (i) consolidate with or merge into any other Person or Persons or permit any other Person to consolidate with or merge into Parent or (ii) directly or indirectly, transfer, sell, lease, convey or otherwise dispose of all or substantially all its assets to any other Person or Persons unless:

- (1) in a transaction in which Parent is not the surviving Person or in which Parent transfers, sells, leases, conveys or otherwise

disposes of all or substantially all of its assets to any other Person, the resulting surviving or transferee Person (the "successor entity") is organized under the laws of the United States of America or any State thereof or the District of Columbia and shall expressly assume, by a supplemental indenture executed and delivered to the Trustee in form satisfactory to the Trustee, all of Parent's obligations under the Indenture and the Parent Guarantee;

(2) immediately before and after giving effect to such transaction and treating any Debt which becomes an obligation of Parent (or the successor entity) or a Restricted Subsidiary as a result of such transaction as having been Incurred by Parent or such Restricted Subsidiary at the time of the transaction, no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction, the Consolidated Net Worth of Parent (or the successor entity) is equal to or greater than that of Parent immediately prior to the transaction;

(4) immediately after giving effect to such transaction and treating any Debt which becomes an obligation of Parent (or the successor entity) or a Restricted Subsidiary as a result of such transaction as having been Incurred by Parent or such Restricted Subsidiary at the time of the transaction, Parent (or the successor entity) could Incur at least \$1.00 of additional Debt pursuant to paragraph (a) of Section 1010;

41

(5) if, as a result of any such transaction, Property of Parent (or the successor entity) or any Restricted Subsidiary would become subject to a Lien prohibited by Section 1014, Parent or the successor entity to Parent shall have secured the Securities as required by said covenant;

(6) in the case of a transfer, sale, lease, conveyance or other disposition of all or substantially all of the assets of Parent, such assets shall have been transferred as an entirety or virtually as an entirety to one Person and such Person shall have complied with all the provisions of this paragraph; and

(7) Parent and the Issuer have delivered to the Trustee an Officers' Certificate and Opinion of Counsel, each in form and substance reasonably satisfactory to the Trustee, stating that such consolidation, merger, transfer, sale, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with this Article and that all conditions precedent herein have been complied with, and, with respect to such Officers' Certificate, setting forth the manner of determination of the Consolidated Net Worth, in accordance with clause (3) of this Section 801, of Parent or, if applicable, of the successor entity as required pursuant to the foregoing.

SECTION 802. *Successor Parent Substituted.*

Upon any consolidation of Parent with or merger of Parent with or into any other Person or any transfer, sale, lease, conveyance or other disposition of all or substantially all the assets of Parent to any Person or Persons in accordance with Section 801, the successor Person formed by such consolidation or into which Parent is merged or to which such transfer, sale, lease, conveyance or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, Parent under this Indenture with the same effect as if such successor Person had been named as Parent herein, and the predecessor Parent (which term shall for this purpose mean the Person named as "Parent" in the first paragraph of this Indenture or any successor Person which shall have become such in the manner described in Section 801), except in the case of a lease, shall be released from all its obligations and covenants under this Indenture and the Securities and may be dissolved and liquidated.

SECTION 803. *Issuer May Consolidate, etc., Only on Certain Terms.*

The Issuer shall not, in a single transaction or a series of related transactions, (i) consolidate or merge into Parent or permit Parent to consolidate with or merge into the Issuer or (ii) except to the extent permitted under Section 1012, directly or indirectly, transfer, sell, lease, convey or otherwise dispose of all or substantially all its assets to Parent. Additionally, the Issuer shall not, in a single transaction or a series of related transactions, (i) consolidate with or merge into any other Person or Persons or permit any other Person to consolidate with or merge into the Issuer or (ii) (other than, to the extent permitted under Section 1012, to a Restricted Subsidiary that is or becomes a Guarantor and an Offering Proceeds Note Guarantor or to Parent so long as Parent is a Guarantor) directly or indirectly, transfer, sell, lease, convey or otherwise dispose of all or substantially all its assets to any other Person or Persons, unless:

(1) in a transaction in which the Issuer is not the surviving Person or in which the Issuer transfers, sells, leases, conveys or otherwise disposes of all or substantially all of its assets to any other Person, the successor entity is organized under the laws of the United States of America or any State thereof or the District of Columbia and shall expressly assume, by a supplemental indenture executed and delivered to the Trustee in form satisfactory to the Trustee, all of the Issuer's obligations under this Indenture;

(2) immediately before and after giving effect to such transaction and treating any Debt which becomes an obligation of the Issuer

Restricted Subsidiary at the time of the transaction, no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction, the Consolidated Net Worth of the Issuer (or the successor entity) is equal to or greater than that of the Issuer immediately prior to the transaction;

(4) immediately after giving effect to such transaction and treating any Debt which becomes an obligation of the Issuer (or the successor entity) or an Issuer Restricted Subsidiary as a result of such transaction as having been Incurred by the Issuer or such Issuer Restricted Subsidiary at the time of the transaction, the Issuer (or the successor entity) could Incur at least \$1.00 of additional Debt pursuant to paragraph (a) of Section 1011;

(5) if, as a result of any such transaction, Property of the Issuer (or the successor entity) or any Issuer Restricted Subsidiary would become subject to a Lien prohibited by the provisions of Section 1014, the Issuer or the successor entity to the Issuer shall have secured the Securities as required by said covenant;

(6) in the case of a transfer, sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer, such assets shall have been transferred as an entirety or virtually as an entirety to one Person and such Person shall have complied with all the provisions of this paragraph; and

(7) Parent and the Issuer have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each in form and substance reasonably satisfactory to the Trustee, stating that such consolidation, merger, transfer, sale, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with, and, with respect to such Officers' Certificate, setting forth the manner of determination of the Consolidated Net Worth, in accordance with clause (3) of this Section 803, of the Issuer or, if applicable, of the successor entity as required pursuant to the foregoing.

SECTION 804. *Successor Issuer Substituted.*

Upon any consolidation of the Issuer with or merger of the Issuer with or into any other Person or any transfer, sale, lease, conveyance or other disposition of all or substantially all the assets of the Issuer to any Person or Persons in accordance with Section 803, the successor Person formed by such consolidation or into which the Issuer is merged or to which such transfer, sale, lease, conveyance or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor Person had been named as the Issuer herein, and the predecessor Issuer (which term shall for this purpose mean the Person named as the "Issuer" in the first paragraph of this Indenture or any successor Person which shall have become such in the manner described in Section 803), except in the case of a lease, shall be released from all its obligations and covenants under this Indenture and the Securities and may be dissolved and liquidated.

SECTION 805. *Guarantor (other than Parent) May Consolidate, etc., Only on Certain Terms.*

A Guarantor (other than Parent) shall not, in a single transaction or a series of related transactions, (i) consolidate with or merge into any other Person or Persons (other than, with respect to a Guarantor that is an Issuer Restricted Subsidiary, the Issuer or another Guarantor that is an Issuer Restricted Subsidiary, and with respect to a Guarantor that is a Sister Restricted Subsidiary, another Guarantor that is a Sister Restricted Subsidiary or Parent) or permit any other Person (other than, with respect to a Guarantor that is an Issuer Restricted Subsidiary, another Guarantor that is an Issuer

Restricted Subsidiary, and with respect to a Guarantor that is a Sister Restricted Subsidiary, Parent or another Guarantor that is a Sister Restricted Subsidiary) to consolidate with or merge into such Guarantor or (ii) except to another Guarantor to the extent permitted under Section 1012, directly or indirectly, transfer, sell, lease, convey or otherwise dispose of all or substantially all its assets to any other Person or Persons (other than, with respect to a Guarantor that is an Issuer Restricted Subsidiary, the Issuer or another Guarantor that is an Issuer Restricted Subsidiary, and with respect to a Guarantor that is a Sister Restricted Subsidiary, another Guarantor that is a Sister Restricted Subsidiary or Parent), unless:

(1) immediately before and after giving effect to such transaction and treating any Debt which becomes an obligation of such

Guarantor as a result of such transaction as having been Incurred by such Guarantor at the time of the transaction, no Default or Event of Default shall have occurred and be continuing;

(2) either (A) in a transaction in which such Guarantor is not the surviving Person or in which such Guarantor transfers, sells, leases, conveys or otherwise disposes of all or substantially all of its assets to any other Person, the resulting surviving or transferee Person is organized under the laws of the United States of America or any State thereof or the District of Columbia and shall expressly assume, by a supplemental indenture executed and delivered to the Trustee in form satisfactory to the Trustee, all of such Guarantor's obligations under the Indenture and its Note Guarantee; or (B) such transaction complies with Section 1016 (or Parent certifies in an Officers' Certificate to the Trustee that it will comply with the requirements of such covenant relating to application of the proceeds of such transaction); and

(3) Parent and the Issuer have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each in form and substance reasonably satisfactory to the Trustee, stating that such consolidation, merger, transfer, sale, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 806. *Successor Guarantor Substituted.*

Upon any consolidation of a Guarantor with or merger of a Guarantor with or into any other Person or any transfer, sale, lease, conveyance or other disposition of all or substantially all the assets of a Guarantor to any Person or Persons in accordance with Section 805, the successor Person formed by such consolidation or into which such Guarantor is merged or to which such transfer, sale, lease, conveyance or other disposition is made (other than any such transaction made in accordance with Section 8.05(2)(B)) shall succeed to, and be substituted for, and may exercise every right and power of, such Guarantor under this Indenture with the same effect as if such successor Person had been named as a Guarantor herein, and the predecessor Guarantor (which term shall for this purpose mean the Person named as the "New Guarantor" in the first paragraph of the applicable supplemental indenture or any successor Person which shall have become such in the manner described in Section 805), except in the case of a lease, shall be released from all its obligations and covenants under its Note Guarantee and the Securities and may be dissolved and liquidated.

SECTION 807. *Offering Proceeds Note Guarantor May Consolidate, etc., Only on Certain Terms.*

An Offering Proceeds Note Guarantor shall not, in a single transaction or a series of related transactions, (i) consolidate with or merge into any other Person or Persons (other than, with respect to an Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, the Issuer or another Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, and with respect to an Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary, another Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary or Parent) or permit any other Person (other

than, with respect to an Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, another Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, and with respect to an Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary, Parent or another Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary) to consolidate with or merge into such Offering Proceeds Note Guarantor or (ii) except to another Offering Proceeds Note Guarantor to the extent permitted under Section 1012, directly or indirectly, transfer, sell, lease, convey or otherwise dispose of all or substantially all its assets to any other Person or Persons (other than, with respect to an Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, the Issuer or another Offering Proceeds Note Guarantor that is an Issuer Restricted Subsidiary, and with respect to an Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary, another Offering Proceeds Note Guarantor that is a Sister Restricted Subsidiary or Parent), unless:

(1) immediately before and after giving effect to such transaction and treating any Debt which becomes an obligation of such Offering Proceeds Note Guarantor as a result of such transaction as having been Incurred by such Offering Proceeds Note Guarantor at the time of the transaction, no Default or Event of Default shall have occurred and be continuing;

(2) either (a) in a transaction in which such Offering Proceeds Note Guarantor is not the surviving Person or in which such Offering Proceeds Note Guarantor transfers, sells, leases, conveys or otherwise disposes of all or substantially all of its assets to any other Person, the resulting surviving or transferee Person is organized under the laws of the United States of America or any State thereof or the district of Columbia and shall expressly assume all of such Offering Proceed Note Guarantor's obligations under the Offering Proceeds Note Guarantee and any subordination agreement between the Issuer and such Offering Proceed Note Guarantor relating to the Offering Proceeds Note; or (b) such transaction complies with Section 1016 (or Parent certifies in an Officers' Certificate to the Trustee that it will comply with the requirements of such covenant relating to application of the proceeds of such transaction); and

(3) Parent and the Issuer have delivered to the Trustee and Officers' Certificate and an Opinion of Counsel, each in form and substance reasonably satisfactory to the Trustee, stating that such consolidation, merger, transfer, sale, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 901. *Supplemental Indentures Without Consent of Holders.*

The Issuer, the Guarantors and the Trustee may, at any time and from time to time, without notice to or consent of any Holders of Securities, enter into one or more indentures supplemental hereto:

- (1) to evidence the succession of another Person to the Issuer, Parent or any other Guarantor and the assumption by such successor of the covenants of the Issuer, Parent or such other Guarantor, respectively, herein, in the Securities and the applicable Note Guarantee, as applicable; or
- (2) to add to the covenants of Parent, the Issuer or any of their respective Subsidiaries, for the benefit of the Holders, or to surrender any right or power conferred upon Parent, the Issuer or any other Guarantor hereby; or
- (3) to add any additional Events of Default; or

45

- (4) to provide for uncertificated Securities in addition to or in place of certificated Securities; or
- (5) to evidence and provide for the acceptance of appointment hereunder of a successor Trustee pursuant to the requirements of Section 610; or
- (6) to secure the Securities; or
- (7) to comply with the Trust Indenture Act or the Securities Act (including Regulation S promulgated thereunder); or
- (8) to add additional Note Guarantees or to release any Guarantors from Note Guarantees as provided by the terms of this Indenture; or
- (9) as set forth in Section 1308; or
- (10) to cure any ambiguity herein, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to add any other provision with respect to matters or questions arising under this Indenture; *provided* such actions shall not adversely affect the interests of the Holders in any material respect.

SECTION 902. *Supplemental Indentures With Consent of Holders.*

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities, by Act of such Holders delivered to the Issuer and the Trustee, the Issuer, the Guarantors and the Trustee may enter into one or more indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or waiving or otherwise modifying in any manner the rights of the Holders, including the waiver of certain past defaults under the Indenture pursuant to Section 513; *provided, however*, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security (or, in the case of clause (10) below, two-thirds in principal amount of the Outstanding Securities) affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Security, or reduce the principal amount thereof or the interest thereon that would be due and payable upon the Stated Maturity thereof, or change the place of payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof; or
- (2) modify any provision of Section 508 or Section 513; or
- (3) subordinate in right of payment, or otherwise subordinate, the Securities or any Note Guarantee to any other Debt (other than as set forth in Section 1308); or
- (4) except as otherwise required herein, release any security interest that may have been granted in favor of the Holders of the Securities; or

(5) reduce the premium payable upon the redemption of any Security nor change the time at which any Security may be redeemed, as described in Exhibit A; or

(6) reduce the premium payable upon a Change of Control Triggering Event or, at any time after a Change of Control Triggering Event has occurred, change the time at which the Offer to Purchase relating thereto must be made or at which the Securities must be repurchased pursuant to such Offer to Purchase; or

46

(7) at any time after the Issuer is obligated to make an Offer to Purchase with the Net Available Proceeds from Asset Dispositions, change the time at which such Offer to Purchase must be made or at which the Securities must be repurchased pursuant thereto; or

(8) make any change in any Note Guarantee that would adversely affect the Holders of the Securities (other than as set forth in Section 1308);

(9) modify any provision of this Section 902 (except to increase any percentage set forth herein); or

(10) modify or amend Section 1020.

It shall not be necessary for any Act of Holders under this Section 902 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Nine or the modifications thereby of the trusts created by this Indenture, the Trustee shall receive, and shall be fully protected in relying upon, an Opinion of Counsel of the Issuer stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and an Officers' Certificate of the Issuer stating that all conditions precedent to the execution of such supplemental indenture have been fulfilled. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. *Effect of Supplemental Indentures.*

Upon the execution of any supplemental indenture under this Article Nine, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. *Conformity with Trust Indenture Act.*

Every supplemental indenture executed pursuant to this Article Nine shall conform as a matter of contract or law to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. *Reference in Securities to Supplemental Indentures.*

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Nine may bear a notation in form approved by the Trustee and the Issuer as to any matter provided for in such supplemental indenture. If the Issuer and shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

SECTION 907. *Notice of Supplemental Indentures.*

Promptly after the execution by the Issuer, the Guarantors and the Trustee of any supplemental indenture pursuant to this Article Nine, the Issuer shall give notice thereof to the Holders of each Outstanding Security affected, in the manner provided for in Section 106, setting forth in general terms the substance of such supplemental indenture.

47

ARTICLE TEN

COVENANTS

SECTION 1001. *Payment of Principal, Premium, if Any, and Interest.*

The Issuer covenants and agrees for the benefit of the Holders that it shall duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and this Indenture.

SECTION 1002. *Maintenance of Office or Agency.*

The Issuer shall maintain in The City of New York an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Issuer in respect of the Securities and this Indenture may be served. The Corporate Trust Office of the Trustee shall be such office or agency of the Issuer, unless the Issuer shall designate and maintain some other office or agency for one or more of such purposes. The Issuer shall give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Issuer hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Issuer may also from time to time designate one or more other offices or agencies (in or outside of The City of New York) where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; *provided*, *however*, that no such designation or rescission shall in any manner relieve the Issuer of its obligation to maintain an office or agency in The City of New York for such purposes. The Issuer shall give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

SECTION 1003. *Money for Security Payments to Be Held in Trust.*

If the Issuer shall at any time act as its own Paying Agent, it shall, on or before each due date of the principal of (or premium, if any) or interest on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal of (or premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and shall promptly notify the Trustee of its action or failure so to act.

Whenever the Issuer shall have one or more Paying Agents for the Securities, it shall, on or before each due date of the principal of (or premium, if any) or interest on any Securities, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Issuer will promptly notify the Trustee of such action or any failure so to act.

The Issuer shall cause each Paying Agent (other than the Trustee) to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section 1003, that such Paying Agent shall:

- (1) hold all sums held by it for the payment of the principal of, premium, if any, or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Securities) in the making of any payment of principal, premium, if any, or interest;

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- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent; and

- (4) indemnify the Trustee and its officers, directors, employees and agents against any loss, cost or liability caused by, or incurred as a result of, such Paying Agent's acts or omissions.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Issuer Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Issuer or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Issuer or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Any money deposited with the Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal of, premium, if any, or interest on any Security and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Issuer on Issuer Request or (if then held by the Issuer) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense of the Issuer cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer.

SECTION 1004. *Corporate Existence.*

Subject to Article Eight, Parent and the Issuer shall do or cause to be done all things necessary to preserve and keep in full force and effect the corporate existence, rights (charter and statutory) and franchises of Parent, the Issuer and each Subsidiary of the Issuer; *provided, however*, that Parent and the Issuer shall not be required to preserve, with respect to Parent or the Issuer, respectively, any such right or franchise or, with respect to any such Subsidiary (subject to all the other covenants in this Indenture), any such corporate existence, right or franchise, if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of Parent and its Subsidiaries taken as a whole or the Issuer and its Subsidiaries taken as a whole, respectively and that, in each case, the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1005. *Maintenance of Properties.*

The Issuer shall cause all properties owned by the Issuer or any Issuer Restricted Subsidiary or used or held for use in the conduct of its business or the business of any Issuer Restricted Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Issuer may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; *provided, however*, that nothing in this Section 1005 shall prevent the Issuer from discontinuing the maintenance of any of such properties if such discontinuance is, in the judgment of the Issuer, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

49

SECTION 1006. *Insurance.*

The Issuer shall at all times keep all of its and each Issuer Restricted Subsidiary's properties which are of an insurable nature insured with insurers, believed by the Issuer to be responsible, against loss or damage to the extent that property of similar character is usually so insured by companies similarly situated and owning like properties.

SECTION 1007. *Reports.*

Whether or not Parent is subject to Section 13(a) or 15(d) of the Exchange Act, or any successor provision thereto, Parent shall file with the Commission the annual reports, quarterly reports and other documents which Parent would have been required to file with the Commission pursuant to such Section 13(a) or 15(d) or any successor provision thereto if Parent were subject thereto, such documents to be filed with the Commission on or prior to the respective dates (the "Required Filing Dates") by which Parent would have been required to file them. Parent or the Issuer shall also in any event (a) within 15 days of each Required Filing Date (i) transmit by mail to all Holders, as their names and addresses appear in the Security Register, without cost to such Holders, and (ii) file with the Trustee copies of the annual reports, quarterly reports and other documents (without exhibits) which Parent would have been required to file with the Commission pursuant to Section 13(a) or 15(d) of the Exchange Act or any successor provisions thereto if Parent were subject thereto and (b) if filing such documents by Parent with the Commission is not permitted under the Exchange Act, promptly upon written request, supply copies of such documents (without exhibits) to any prospective Holder.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 1008. *Statement by Officers as to Default.*

(a) The Issuer shall deliver to the Trustee, on the date of delivery of each annual report to be delivered pursuant to Section 1007, a brief certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Issuer's compliance during the period covered by such report with all conditions and covenants under this Indenture. If the signer has knowledge of any noncompliance that occurred during such period, the certificate shall describe its status and what action the Issuer has taken or is taking or proposes to take with respect thereto. For purposes of this Section 1008(a), such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

(b) When any Default has occurred and is continuing under this Indenture, or if the trustee for or the holder of any other evidence of Debt of the Issuer or any Issuer Restricted Subsidiary gives any notice or takes any other action with respect to a claimed default (other than with respect to Debt in the principal amount of less than \$25,000,000 or its foreign currency equivalent at the time), the Issuer shall, within 30 days of such occurrence, notice or other action, deliver to the Trustee by registered or certified mail or by facsimile transmission an Officers' Certificate specifying such event, notice or other action, its status and what action the Issuer is taking or purposes to take with respect thereto.

SECTION 1009. *Change of Control Triggering Event.*

(a) Upon the occurrence of a Change of Control Triggering Event, each Holder shall have the right to require that the Issuer repurchase such Holder's Securities in whole or in part in integral multiples of \$1,000, in accordance with the procedures set forth in this Section 1009 and this Indenture.

50

(b) Within 30 days of the occurrence of both a Change of Control and a Rating Decline with respect to the Securities (a "Change of Control Triggering Event"), the Issuer will be required to make an Offer to Purchase all Outstanding Securities at a price in cash equal to 101% of the principal amount of the Securities on the purchase date, plus accrued and unpaid interest (if any) to such purchase date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

(c) The Issuer and the Trustee shall perform their respective obligations for the Offer to Purchase as specified in the Offer. Prior to the Purchase Date, the Issuer shall (i) accept for payment Securities or portions thereof tendered pursuant to the Offer, (ii) irrevocably deposit with the Paying Agent (or, if the Issuer is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) money sufficient to pay the Purchase Price of all Securities or portions thereof so accepted (provided that such deposit may be made no later than 11:00 A.M. New York City time on the Purchase Date if the Issuer elects) and (iii) deliver or cause to be delivered to the Trustee all Securities so accepted together with an Officers' Certificate stating the Securities or portions thereof accepted for payment by the Issuer. The Paying Agent shall promptly mail or deliver to Holders of Securities so accepted payment in an amount equal to the Purchase Price, and the Trustee shall promptly authenticate and mail or deliver to such Holders a new Security or Securities equal in principal amount to any unpurchased portion of the Security surrendered as requested by the Holder. Any Security not accepted for payment shall be promptly mailed or delivered by the Issuer to the Holder thereof. In the event that the aggregate Purchase Price is less than the amount delivered by the Issuer to the Trustee or the Paying Agent, the Trustee or the Paying Agent, as the case may be, shall deliver the excess to the Issuer immediately after the Purchase Date.

(d) A "Change of Control" means the occurrence of any of the following events:

(i) if any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act or any successor provisions to either of the foregoing), including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, other than any one or more of the Permitted Holders, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the total voting power of the Voting Stock of Parent; *provided, however*, that the Permitted Holders are the "beneficial owners" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, in the aggregate of a lesser percentage of the total voting power of the Voting Stock of Parent than such other person or group (for purposes of this clause (i), such person or group shall be deemed to beneficially own any Voting Stock of a corporation (the "specified corporation") held by any other corporation (the "parent corporation") so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the total voting power of the Voting Stock of such parent corporation); or

(ii) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of (A) Parent and the Restricted Subsidiaries, or (B) the Issuer and the Issuer Restricted Subsidiaries, in each case considered as a whole (other than a disposition of such assets as an entirety or virtually as an entirety to a Wholly Owned Restricted Subsidiary or Parent or the Issuer, respectively, or one or more Permitted Holders) shall have occurred; or

(iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Parent (together with any new directors whose

51

election or appointment by such board or whose nomination for election by the shareholders of Parent was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Parent then in office; or

(iv) the shareholders of Parent or the Issuer shall have approved any plan of liquidation or dissolution of Parent or the Issuer, respectively.

(e) The Issuer shall not be required to make an Offer to Purchase upon a Change of Control Triggering Event if a third party makes the Offer to Purchase in the manner, at the times and otherwise in compliance with the requirements set forth in this Indenture applicable to an Offer to Purchase made by the Issuer and purchases all Securities validly tendered and not withdrawn under such Offer to Purchase.

(f) In the event that the Issuer makes an Offer to Purchase the Securities, the Issuer shall comply with any applicable securities laws and regulations, including any applicable requirements of Section 14(e) of, and Rule 14e-1 under, the Exchange Act. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section by virtue thereof.

SECTION 1010. *Limitation on Consolidated Debt.*

(a) Parent shall not, and shall not permit any Restricted Subsidiary (other than to the extent permitted by paragraph (b) of Section 1011) to, directly or indirectly, Incur any Debt; *provided, however*, that Parent or any Restricted Subsidiary (subject, in the case of the Issuer and any Issuer Restricted Subsidiary, to Section 1011) may Incur any Debt if, after giving pro forma effect to such Incurrence and the receipt and application of the net proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence and either (i) the ratio of (A) the aggregate consolidated principal amount (or, in the case of Debt issued at a discount, the then-Accreted Value) of Debt of Parent and its Restricted Subsidiaries outstanding as of the most recent available quarterly or annual balance sheet, after giving pro forma effect to the Incurrence of such Debt and any other Debt Incurred or repaid since such balance sheet date and the receipt and application of the net proceeds thereof, to (B) Consolidated Cash Flow Available for Fixed Charges for Parent and its Restricted Subsidiaries for the four full fiscal quarters next preceding the Incurrence of such Debt for which consolidated financial statements are available, would be less than 5.0 to 1.0, or (ii) Parent's Consolidated Capital Ratio as of the most recent available quarterly or annual balance sheet, after giving pro forma effect to (x) the Incurrence of such Debt and any other Debt Incurred or repaid since such balance sheet date, (y) the issuance of any Capital Stock (other than Disqualified Stock) of Parent since such balance sheet date, including the issuance of any Capital Stock to be issued concurrently with the Incurrence of such Debt, and (z) the receipt and application of the net proceeds of such Debt or Capital Stock, as the case may be, is less than 2.25 to 1.0.

(b) Notwithstanding the foregoing limitation, Parent or any Restricted Subsidiary (other than the Issuer or any Issuer Restricted Subsidiary, except to the extent permitted by Section 1011) may Incur any and all of the following (each of which shall be given independent effect):

(i) Debt under the Original Securities (including any Exchange Securities issued in exchange for such Original Securities), any Note Guarantee in respect of the Original Securities (including any Exchange Securities issued in exchange for such Original Securities) or any Offering Proceeds Note Guarantee in respect of the Offering Proceeds Note;

(ii) Debt under Credit Facilities in an aggregate principal amount outstanding or available (together with the sum of (A) the amount of any outstanding Debt Incurred pursuant to

clause (ii) of paragraph (b) of Section 1011, plus (B) the amount of all refinancing Debt outstanding or available pursuant to clause (vi) of paragraph (b) of Section 1011 in respect of Debt previously Incurred pursuant to clause (ii) of paragraph (b) of Section 1011, plus (C) the amount of all refinancing Debt outstanding or available pursuant to clause (viii) below in respect of Debt previously Incurred pursuant to this clause (ii)) at any one time not to exceed the greater of (x) \$500,000,000 and (y) 1.5 times Consolidated Cash Flow Available for Fixed Charges of Parent and its Restricted Subsidiaries for the four full fiscal quarters next preceding the Incurrence of such Debt for which consolidated financial statements are available, which amount shall be permanently reduced by the amount of Net Available Proceeds used to repay Debt under the Credit Facilities or any refinancing Debt in respect of the Credit Facilities Incurred pursuant to clause (vi) of paragraph (b) of Section 1011 or clause (viii) below), and not reinvested in Telecommunications/IS Assets or used to purchase Securities or repay other Debt, pursuant to and as permitted by Section 1016;

(iii) Purchase Money Debt; *provided, however*, that the amount of such Purchase Money Debt does not exceed 100% of the cost of the construction, installation, acquisition, lease, development or improvement of the applicable Telecommunications/IS Assets;

(iv) Subordinated Debt of Parent; *provided, however*, that the aggregate principal amount (or, in the case of Debt issued at a discount, the Accreted Value) of such Debt, together with any other outstanding Debt Incurred pursuant to this clause (iv), shall not exceed \$500,000,000 at any one time (which amount shall be permanently reduced by the amount of Net Available Proceeds used to repay Subordinated Debt of Parent, and not reinvested in Telecommunications/IS Assets or used to purchase Securities or repay other Debt, pursuant to and as permitted by Section 1016), except to the extent such Debt in excess of \$500,000,000 (A) is subordinated to all other Debt of Parent other than Debt Incurred pursuant to this clause (iv) in excess of such \$500,000,000 limitation, (B) does not provide for the payment of cash interest on such Debt prior to the Stated Maturity of the Securities and (C) (1) does not provide for payments of

principal of such Debt at stated maturity or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by Parent (including any redemption, retirement or repurchase which is contingent upon events or circumstances, but excluding any retirement required by virtue of the acceleration of any payment with respect to such Debt upon any event of default thereunder), in each case on or prior to the Stated Maturity of the Securities, and (2) does not permit redemption or other retirement (including pursuant to an offer to purchase made by Parent but excluding through conversion into capital stock of Parent, other than Disqualified Stock, without any payment by Parent or its Restricted Subsidiaries to the holders thereof) of such Debt at the option of the holder thereof on or prior to the Stated Maturity of the Securities;

(v) Debt outstanding on the Measurement Date;

(vi) Debt owed by Parent to any Restricted Subsidiary or Debt owed by a Restricted Subsidiary to Parent or a Restricted Subsidiary; *provided, however*, that (A) any Person that Incurs Debt owed to Parent or a Sister Restricted Subsidiary pursuant to this clause (vi) is a Guarantor and an Offering Proceeds Note Guarantor, (B) (x) upon the transfer, conveyance or other disposition by such Restricted Subsidiary or Parent of any Debt so permitted to a Person other than Parent or another Restricted Subsidiary of Parent or (y) if for any reason such Restricted Subsidiary ceases to be a Restricted Subsidiary, the provisions of this clause (vi) shall no longer be applicable to such Debt and such Debt shall be deemed to have been Incurred by the issuer thereof at the time of such transfer, conveyance or other disposition or when such Restricted Subsidiary ceases to be a Restricted Subsidiary; and (C) the payment obligation of such Debt (if clause (A) above applies) is expressly subordinated in any bankruptcy, liquidation or winding up proceeding of the obligor to the prior payment in full in cash of all obligations with respect to the

53

Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor; and *provided further, however*, that a Foreign Restricted Subsidiary need not become a Guarantor or an Offering Proceeds Note Guarantor pursuant to clause (A) above until such time and only so long as such Foreign Restricted Subsidiary Guarantees any other Debt of Parent or any Domestic Restricted Subsidiary;

(vii) Debt Incurred by a Person prior to the time (A) such Person became a Restricted Subsidiary, (B) such Person merges into or consolidates with a Restricted Subsidiary or (C) another Restricted Subsidiary merges into or consolidates with such Person (in a transaction in which such Person becomes a Restricted Subsidiary), which Debt was not Incurred in anticipation of such transaction and was outstanding prior to such transaction;

(viii) Debt Incurred to renew, extend, refinance, defease, repay, prepay, repurchase, redeem, retire, exchange or refund (each, a "refinancing") Debt Incurred pursuant to clause (i), (ii), (iii), (v), (vii) or (xii) of this paragraph (b) or this clause (viii), in an aggregate principal amount (or if issued at a discount, the then-Accreted Value) not to exceed the aggregate principal amount (or if issued at a discount, the then-Accreted Value) of and accrued interest on the Debt so refinanced plus the amount of any premium required to be paid in connection with such refinancing pursuant to the terms of the Debt so refinanced or the amount of any premium reasonably determined by the Board of Directors of Parent as necessary to accomplish such refinancing by means of a tender offer or privately negotiated repurchase, plus the expenses of Parent Incurred in connection with such refinancing; *provided, however*, that (A) if the Person that originally Incurred the Debt to be refinanced became, or would have been required to become if not already, a Guarantor or an Offering Proceeds Note Guarantor as a result of the Incurrence of the Debt being refinanced in accordance with this covenant, (1) the Person that Incurs the refinancing Debt pursuant to this clause (viii) shall be a Guarantor and an Offering Proceeds Note Guarantor and (2) if the Debt to be refinanced is subordinated to the Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor, the refinancing Debt shall be subordinated to the same extent to the Offering Proceeds Note Guarantee of the Offering Proceeds Note Guarantor Incurring such refinancing Debt, (B) the refinancing Debt shall not be senior in right of payment to the Debt that is being refinanced and (C) in the case of any refinancing of Debt Incurred pursuant to clause (i), (v), (vii) or (xii) or, if such Debt previously refinanced Debt Incurred pursuant to any such clause, this clause (viii), the refinancing Debt by its terms, or by the terms of any agreement or instrument pursuant to which such Debt is issued, (x) does not provide for payments of principal of such Debt at stated maturity or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by Parent or any Restricted Subsidiary (including any redemption, retirement or repurchase which is contingent upon events or circumstances, but excluding any retirement required by virtue of the acceleration of any payment with respect to such Debt upon any event of default thereunder), in each case prior to the time the same are required by the terms of the Debt being refinanced and (y) does not permit redemption or other retirement (including pursuant to an offer to purchase made by Parent or any Restricted Subsidiary) of such Debt at the option of the holder thereof prior to the time the same are required by the terms of the Debt being refinanced, other than, in the case of clause (x) or (y), any such payment, redemption or other retirement (including pursuant to an offer to purchase made by Parent) which is conditioned upon a change of control pursuant to provisions substantially similar to those described under Section 1009;

(ix) Debt (A) in respect of performance, surety or appeal bonds, Guarantees, letters of credit or reimbursement obligations Incurred or provided in the ordinary course of business securing the performance of contractual, franchise, lease, self-insurance or license obligations and not in connection with the Incurrence of Debt or (B) in respect of customary agreements providing for indemnification, adjustment of purchase price after closing, or similar obligations, or from

Guarantees or letters of credit, surety bonds or performance bonds securing any such obligations of Parent or any of its Restricted Subsidiaries pursuant to such agreements, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary of Parent (other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary of Parent for the purpose of financing such acquisition) and in an aggregate principal amount not to exceed the gross proceeds actually received by Parent or any Restricted Subsidiary in connection with such disposition;

(x) Debt consisting of Permitted Interest Rate or Currency Protection Agreements;

(xi) Debt not otherwise permitted to be Incurred pursuant to clauses (i) through (x) above or clause (xii) below, which, together with any other outstanding Debt Incurred pursuant to this clause (xi), has an aggregate principal amount not in excess of \$50,000,000 at any time outstanding; and

(xii) Issue Date Purchase Money Debt and Debt under the Existing Notes and the related indentures and any restricted subsidiary guarantees issued prior to the Issue Date in accordance with such related indentures.

(c) Notwithstanding any other provision of this Section 1010, the maximum amount of Debt that Parent or any Restricted Subsidiary may incur pursuant to this Section 1010 shall not be deemed to be exceeded due solely to the result of fluctuations in the exchange rates of currencies.

(d) For purposes of determining any particular amount of Debt under this Section 1010, (i) Guarantees, Liens or obligations with respect to letters of credit supporting Debt otherwise included in the determination of such particular amount shall not be included and (ii) any Liens granted for the benefit of the Securities pursuant to the provisions referred to in Section 1014 shall not be treated as Debt. For purposes of determining compliance with this Section 1010, in the event that an item of Debt meets the criteria of more than one of the types of Debt described in the above clauses, Parent, in its sole discretion, shall classify such item of Debt and only be required to include the amount and type of such Debt in one of such clauses.

SECTION 1011. *Limitation on Debt of the Issuer and Issuer Restricted Subsidiaries.* (a) The Issuer shall not, and shall not permit any Issuer Restricted Subsidiary to, directly or indirectly, incur any Debt; *provided, however*, that (i) the Issuer or (ii) any Issuer Restricted Subsidiary may incur any Debt if, after giving pro forma effect to such Incurrence and the receipt and application of the net proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence and the Issuer Debt Ratio would be less than 4.0 to 1.0; *provided, however*, that any Issuer Restricted Subsidiary that Incurs Debt pursuant to this paragraph (a) is a Guarantor and an Offering Proceeds Note Guarantor.

(b) Notwithstanding the foregoing limitation, the Issuer or any Issuer Restricted Subsidiary may incur any and all of the following (each of which shall be given independent effect):

(i) Debt of the Issuer or any Issuer Restricted Subsidiary under the Original Securities (including any Exchange Securities issued in exchange for such Original Securities), any Note Guarantee in respect of the Original Securities (including any Exchange Securities issued in exchange for such Original Securities) or any Offering Proceeds Note Guarantee in respect of the Offering Proceeds Note;

55

(ii) Debt of the Issuer or any Issuer Restricted Subsidiary under Credit Facilities in an aggregate principal amount outstanding or available (together with the sum of (A) the amount of any outstanding Debt Incurred pursuant to clause (ii) of paragraph (b) of Section 1010, plus (B) the amount of all refinancing Debt outstanding or available pursuant to clause (viii) of paragraph (b) of Section 1010, plus (C) the amount of all refinancing Debt outstanding or available pursuant to clause (vi) below in respect of Debt previously Incurred pursuant to this clause (ii)) at any one time not to exceed the greater of (x) \$500,000,000 and (y) 1.5 times Consolidated Cash Flow Available for Fixed Charges of Parent and its Restricted Subsidiaries for the four full fiscal quarters next preceding the Incurrence of such Debt for which consolidated financial statements are available, which amount shall be permanently reduced by the amount of Net Available Proceeds used to repay Debt under the Credit Facilities (or any refinancing Debt in respect of the Credit Facilities Incurred pursuant to clause (viii) of paragraph (b) of Section 1010 or clause (vi) below), and not reinvested in Telecommunications/IS Assets or used to purchase Securities or repay other Debt, pursuant to and as permitted by Section 1016;

(iii) Debt of the Issuer or any Issuer Restricted Subsidiary outstanding on the Measurement Date;

(iv) Debt owed by the Issuer to a Restricted Subsidiary, Debt owed by an Issuer Restricted Subsidiary to Parent or a Restricted Subsidiary (including Debt owed by an Issuer Restricted Subsidiary to another Issuer Restricted Subsidiary), and Debt with an aggregate principal amount not in excess of \$10,000,000 at any time outstanding owed by the Issuer to Parent or any Sister Restricted Subsidiary; *provided, however*, that (A) any Issuer Restricted Subsidiary that Incurs Debt owed to Parent or a Sister Restricted Subsidiary pursuant to this clause (iv) is a Guarantor and an Offering Proceeds Note Guarantor, (B)(x) upon the transfer, conveyance or other disposition by

such Issuer Restricted Subsidiary or the Issuer of any Debt so permitted to a Person other than the Issuer or another Issuer Restricted Subsidiary or (y) if for any reason such Issuer Restricted Subsidiary ceases to be an Issuer Restricted Subsidiary, the provisions of this clause (iv) shall no longer be applicable to such Debt and such Debt shall be deemed to have been Incurred by the issuer thereof at the time of such transfer, conveyance or other disposition or when such Issuer Restricted Subsidiary ceases to be an Issuer Restricted Subsidiary and (C) the payment obligation of such Debt (if clause (A) above applies) is expressly subordinated in any bankruptcy, liquidation or winding up proceeding of the obligor to the prior payment in full in cash of all obligations with respect to the Securities or the Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor, respectively; and *provided further, however*, that a Foreign Restricted Subsidiary need not become a Guarantor or an Offering Proceeds Note Guarantor pursuant to clause (A) above until such time and only so long as such Foreign Restricted Subsidiary Guarantees any other Debt of Parent or any Domestic Restricted Subsidiary;

(v) Debt Incurred by a Person (other than Parent or any Sister Restricted Subsidiary) prior to the time (A) such Person became an Issuer Restricted Subsidiary, (B) such Person merges into or consolidates with an Issuer Restricted Subsidiary or (C) an Issuer Restricted Subsidiary merges into or consolidates with such Person (in a transaction in which such Person becomes an Issuer Restricted Subsidiary), which Debt was not Incurred in anticipation of such transaction and was outstanding prior to such transaction; *provided, however*, that after giving effect to the Incurrence of any Debt pursuant to this clause (v), the Issuer could Incur at least \$1.00 of additional Debt pursuant to paragraph (a) above computed using "5.0 to 1.0" rather than "4.0 to 1.0" as it appears therein and such Person or the Issuer Restricted Subsidiary into which such Person merges or consolidates is a Guarantor and an Offering Proceeds Note Guarantor;

(vi) Debt of the Issuer or any Issuer Restricted Subsidiary Incurred to renew, extend, refinance, defease, repay, prepay, repurchase, redeem, retire, exchange or refund (each, a "refinancing") Debt of the Issuer or any Issuer Restricted Subsidiary Incurred pursuant to

56

clause (i), (ii), (iii), (v) or (x) of this paragraph (b) or this clause (vi), in an aggregate principal amount (or if issued at a discount, the then-Accreted Value) not to exceed the aggregate principal amount (or if issued at a discount, the then-Accreted Value) of and accrued interest on the Debt so refinanced plus the amount of any premium required to be paid in connection with such refinancing pursuant to the terms of the Debt so refinanced or the amount of any premium reasonably determined by the Board of Directors of Parent as necessary to accomplish such refinancing by means of a tender offer or privately negotiated repurchase, plus the expenses of the Issuer Incurred in connection with such refinancing; *provided, however*, that (A) if the Person that originally Incurred the Debt to be refinanced became, or would have been required to become if not already, a Guarantor or an Offering Proceeds Note Guarantor as a result of the Incurrence of the Debt being refinanced in accordance with this covenant, (1) the Person that Incurs the refinancing Debt pursuant to this clause (vi) (if not the Issuer) shall be a Guarantor and an Offering Proceeds Note Guarantor and (2) if the Debt to be refinanced is subordinated to the Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor, the refinancing Debt shall be subordinated to the same extent to the Offering Proceeds Note Guarantee of the Offering Proceeds Note Guarantor Incurring such refinancing Debt, (B) the refinancing Debt shall not be senior in right of payment to the Debt that is being refinanced and (C) in the case of any refinancing of Debt Incurred pursuant to clause (i), (v) or (x) or, if such Debt previously refinanced Debt Incurred pursuant to any such clause, this clause (vi), the refinancing Debt by its terms, or by the terms of any agreement or instrument pursuant to which such Debt is issued, (x) does not provide for payments of principal of such Debt at stated maturity or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by the Issuer or any Issuer Restricted Subsidiary (including any redemption, retirement or repurchase which is contingent upon events or circumstances, but excluding any retirement required by virtue of the acceleration of any payment with respect to such Debt upon any event of default thereunder), in each case prior to the time the same are required by the terms of the Debt being refinanced and (y) does not permit redemption or other retirement (including pursuant to an offer to purchase made by the Issuer or an Issuer Restricted Subsidiary) of such Debt at the option of the holder thereof prior to the time the same are required by the terms of the Debt being refinanced, other than, in the case of clause (x) or (y), any such payment, redemption or other retirement (including pursuant to an offer to purchase made by the Issuer) which is conditioned upon a change of control pursuant to provisions substantially similar to those described under Section 1009;

(vii) Debt of the Issuer or any Issuer Restricted Subsidiary (A) in respect of performance, surety or appeal bonds, Guarantees, letters of credit or reimbursement obligations Incurred or provided in the ordinary course of business securing the performance of contractual, franchise, lease, self-insurance or license obligations and not in connection with the Incurrence of Debt or (B) in respect of customary agreements providing for indemnification, adjustment of purchase price after closing, or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any such obligations of the Issuer or any Issuer Restricted Subsidiary pursuant to such agreements, Incurred in connection with the disposition of any business, assets or Issuer Restricted Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Issuer Restricted Subsidiary for the purpose of financing such acquisition) and in an aggregate principal amount not to exceed the gross proceeds actually received by the Issuer or any Issuer Restricted Subsidiary in connection with such disposition;

(viii) Debt of the Issuer or any Issuer Restricted Subsidiary consisting of Permitted Interest Rate or Currency Protection Agreements;

57

(ix) Debt of any Foreign Restricted Subsidiary of the Issuer not otherwise permitted to be Incurred pursuant to clause (i) through (viii) above or clause (x) below, which, together with any other outstanding Debt Incurred pursuant to this clause (ix) has an aggregate principal amount not in excess of \$100,000,000 at any time outstanding; and

(x) Issue Date Purchase Money Debt initially Incurred by the Issuer or any Issuer Restricted Subsidiary or another Person that became an Issuer Restricted Subsidiary on or before the Issue Date.

(c) Notwithstanding any other provision of this Section 1011, the maximum amount of Debt the Issuer or any Issuer Restricted Subsidiary may Incur pursuant to this Section 1011 shall not be deemed to be exceeded due solely to the result of fluctuations in the exchange rates of currencies.

(d) For purposes of determining any particular amount of Debt under this Section 1011, (1) Guarantees (other than Guarantees of Debt of Parent or any Sister Restricted Subsidiary that are not Guarantees of Debt Incurred by Parent or any Sister Restricted Subsidiary pursuant to clause (ii) of paragraph (b) of Section 1010), Liens or obligations with respect to letters of credit supporting Debt otherwise included in the determination of such particular amount shall not be included and (2) any Liens granted for the benefit of the Securities pursuant to the provisions referred to in Section 1014 described below shall not be treated as Debt. For purposes of determining compliance with this Section 1011, in the event that an item of Debt meets the criteria of more than one of the types of Debt described in the above clauses, the Issuer, in its sole discretion, shall classify such item of Debt and only be required to include the amount and type of such Debt in one of such clauses.

SECTION 1012. *Limitation on Restricted Payments.* (a) Parent (i) shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, declare or pay any dividend, or make any distribution, in respect of its Capital Stock or to the holders thereof, excluding any dividends or distributions which are made solely to Parent or a Restricted Subsidiary (and, if such Restricted Subsidiary is not a Wholly Owned Subsidiary, to the other stockholders of such Restricted Subsidiary on a pro rata basis or on a basis that results in the receipt by Parent or a Restricted Subsidiary of dividends or distributions of greater value than it would receive on a pro rata basis) or any dividends or distributions payable solely in shares of Capital Stock of Parent (other than Disqualified Stock) or in options, warrants or other rights to acquire Capital Stock of Parent (other than Disqualified Stock); (ii) shall not, and shall not permit any Restricted Subsidiary to, purchase, redeem, or otherwise retire or acquire for value (x) any Capital Stock of Parent or any Restricted Subsidiary of Parent or (y) any options, warrants or rights to purchase or acquire shares of Capital Stock of Parent or any Restricted Subsidiary or any securities convertible or exchangeable into shares of Capital Stock of Parent or any Restricted Subsidiary, except, in any such case, any such purchase, redemption or retirement or acquisition for value (A) paid to Parent or a Restricted Subsidiary (or, in the case of any such purchase, redemption or other retirement or acquisition for value with respect to a Restricted Subsidiary that is not a Wholly Owned Subsidiary, to the other stockholders of such Restricted Subsidiary on a pro rata basis or on a basis that results in the receipt by Parent or a Restricted Subsidiary of payments of greater value than it would receive on a pro rata basis) or (B) paid solely in shares of Capital Stock (other than Disqualified Stock) of Parent; (iii) shall not make, or permit any Restricted Subsidiary to make, any Investment (other than an Investment in Parent or a Restricted Subsidiary or a Permitted Investment) in any Person, including the Designation of any Restricted Subsidiary as an Unrestricted Subsidiary, or the Revocation of any such Designation, according to Section 1019; (iv) shall not, and shall not permit any Restricted Subsidiary to, redeem, defease, repurchase, retire or otherwise acquire or retire for value, prior to any scheduled maturity, repayment or sinking fund payment, Debt of Parent which is subordinate in right of payment to the Parent Guarantee or Debt of any Restricted Subsidiary which is subordinate in right of payment to the Securities (in the case of the Issuer) or the Note Guarantee (in the case of Restricted Subsidiaries

other than the Issuer) of such Restricted Subsidiary (other than any redemption, defeasance, repurchase, retirement or other acquisition or retirement for value made in anticipation of satisfying a scheduled maturity, repayment or sinking fund obligation due within one year thereof); and (v) shall not, and shall not permit any Restricted Subsidiary to, issue, transfer, convey, sell or otherwise dispose of Capital Stock of any Restricted Subsidiary to a Person other than Parent or another Restricted Subsidiary if the result thereof is that such Restricted Subsidiary shall cease to be a Restricted Subsidiary, in which event the amount of such "Restricted Payment" shall be the Fair Market Value of the remaining interest, if any, in such former Restricted Subsidiary held by Parent and the other Restricted Subsidiaries (each of clauses (i) through (v) being a "Restricted Payment") if: (1) an Event of Default, or an event that with the passing of time or the giving of notice, or both, would constitute an Event of Default, shall have occurred and be continuing, or (2) upon giving effect to such Restricted Payment, Parent could not Incur at least \$1.00 of additional Debt pursuant to paragraph (a) of Section 1010, or (3) upon giving effect to such Restricted Payment, the aggregate of all Restricted Payments made on or after the Measurement Date, including Restricted Payments made pursuant to clause (A) or (B) of the proviso at the end of this sentence, and Permitted Investments made on or after the Measurement Date pursuant to clause (i) or (j) of the definition thereof (the amount of any such Restricted Payment or Permitted Investment, if made other than in cash, to be based upon Fair Market Value) exceeds the sum of: (a) 50% of cumulative Consolidated Net Income of Parent and its Restricted Subsidiaries (or, in the case that Consolidated Net Income of Parent and its Restricted Subsidiaries shall be negative, 100% of such negative amount) since the end of the last full fiscal quarter prior to the Measurement Date through the last day of the last full fiscal quarter ending at least 45 days prior to the date of such Restricted Payment and (b) plus, in the case of any Revocation made after the Measurement Date, an amount equal to the lesser of the portion (proportionate to Parent's equity interest in the Subsidiary to which such Revocation relates) of the Fair Market Value of the net assets of such Subsidiary at the time of Revocation and the amount of Investments previously made (and treated as a Restricted Payment) by Parent or any Restricted Subsidiary in such Subsidiary; *provided, however*, that Parent or a Restricted Subsidiary of Parent may, without regard to the

limitations in clause (3) but subject to clauses (1) and (2), make (A) Restricted Payments in an aggregate amount not to exceed the sum of \$50,000,000 and the aggregate net cash proceeds received after the Measurement Date (i) as capital contributions to Parent, from the issuance (other than to a Subsidiary or an employee stock ownership plan or trust established by Parent or any such Subsidiary for the benefit of their employees) of Capital Stock (other than Disqualified Stock) of Parent, and (ii) from the issuance or sale of Debt of Parent or any Restricted Subsidiary (other than to a Subsidiary, Parent or an employee stock ownership plan or trust established by Parent or any such Subsidiary for the benefit of their employees) that after the Measurement Date has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of Parent and (B) Investments in Persons engaged in the Telecommunications/IS Business in an aggregate amount not to exceed the after-tax gain on the sale, after the Measurement Date, of Special Assets to the extent sold for cash, Cash Equivalents, Telecommunications/IS Assets or the assumption of Debt of Parent or any Restricted Subsidiary (other than Debt that is subordinated to the Securities, the Offering Proceeds Note or any applicable Note Guarantee or Offering Proceeds Note Guarantee) and release of Parent and all Restricted Subsidiaries from all liability on the Debt assumed. The aggregate net cash proceeds referred to in the immediately preceding clauses (A)(i) and (A)(ii) shall not be utilized to make Restricted Payments pursuant to such clauses to the extent such proceeds have been utilized to make Permitted Investments under clause (i) of the definition of "Permitted Investments."

(b) Notwithstanding the foregoing limitation, (i) Parent may pay any dividend on Capital Stock of any class of Parent within 60 days after the declaration thereof if, on the date when the dividend was declared, Parent could have paid such dividend in accordance with the foregoing provisions; *provided, however*, that at the time of such payment of such dividend, no other Event of Default shall have occurred and be continuing (or result therefrom); (ii) Parent may repurchase any shares of its Common

59

Stock or options to acquire its Common Stock from Persons who were formerly directors, officers or employees of Parent or any of its Subsidiaries or other Affiliates in an amount not to exceed \$3,000,000 in any 12-month period; (iii) Parent and any Restricted Subsidiary may refinance any Debt otherwise permitted by clause (viii) of paragraph (b) of Section 1010 or clause (vi) of paragraph (b) of Section 1011; (iv) Parent and any Restricted Subsidiary may retire or repurchase any Capital Stock of Parent or of any Restricted Subsidiary or any Subordinated Debt of Parent in exchange for, or out of the proceeds of substantially concurrent sale (other than to a Subsidiary of Parent or an employee stock ownership plan or trust established by Parent or any such Subsidiary for the benefit of their employees) of, Capital Stock (other than Disqualified Stock) of Parent; *provided, however*, that the proceeds from any such exchange or sale of Capital Stock shall be excluded from any calculation pursuant to clause (A)(i) in the proviso at the end of paragraph (a) above or pursuant to clause (b) of the definition of "Invested Capital"; and (v) Parent may pay cash dividends in any amount not in excess of \$50,000,000 in any 12-month period in respect of Preferred Stock of Parent (other than Disqualified Stock). The Restricted Payments described in the foregoing clauses (i), (ii) and (v) shall be included in the calculation of Restricted Payments; the Restricted Payments described in clauses (iii) and (iv) shall be excluded in the calculation of Restricted Payments.

(c) The Issuer may not, and may not permit any Issuer Restricted Subsidiary to, pay any dividend or make any distribution in respect of shares of its Capital Stock held by Parent or a Sister Restricted Subsidiary (whether in cash, securities or other Property) or any payment (whether in cash, securities or other Property) on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of Capital Stock (all such dividends, distributions and payments being referred to herein as "Parent Transfers"), other than (i) Parent Transfers at such times and in such amounts as shall be necessary to permit Parent to pay administrative expenses attributable to the operations of its Restricted Subsidiaries, (ii) Parent Transfers at such times and in such amounts as are sufficient for Parent to make the timely payment of interest, premium (if any) and principal (whether at stated maturity, by way of a sinking fund applicable thereto, by way of any mandatory redemption, defeasance, retirement or repurchase thereof, including upon the occurrence of designated events or circumstances or by virtue of acceleration upon an event of default, or by way of redemption or retirement at the option of the holder of the Debt of Parent, including pursuant to offers to purchase) according to the terms of any Debt of Parent, (iii) Parent Transfers (A) to permit Parent to satisfy its obligations in respect of stock option plans or other benefit plans for management or employees of Parent and its Subsidiaries, (B) to permit Parent to pay dividends on Preferred Stock of Parent in an amount not to exceed the aggregate net cash proceeds received by Parent (1) after September 30, 1999, from the issuance of Capital Stock, and (2) from the issuance or sale of Debt of Parent or any Restricted Subsidiary that after September 30, 1999, has been converted into or exchanged for Capital Stock of Parent, (C) in an annual amount not to exceed 50% of Parent's Consolidated Net Income for the prior fiscal year and (D) Parent Transfers in amounts not to exceed the amount required by Parent to pay accrued and unpaid interest on any Debt of Parent due upon the conversion, exchange or purchase of such Debt into, for or with Capital Stock of Parent and (iv) additional Parent Transfers in an aggregate amount not to exceed \$50,000,000 in the aggregate.

SECTION 1013. *Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.*

(a) Parent shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction (other than pursuant to law or regulation) on the ability of any Restricted Subsidiary (i) to pay dividends (in cash or otherwise) or make any other distributions in respect of its Capital Stock owned by Parent or any other Restricted Subsidiary or pay any Debt or other obligation owed to Parent or any other Restricted Subsidiary, (ii) to make loans or advances to Parent or any other Restricted Subsidiary or (iii) to transfer any of its Property to Parent or any other Restricted Subsidiary.

(b) Notwithstanding the foregoing limitation, Parent may, and may permit any Restricted Subsidiary to, create or otherwise cause or suffer to exist (i) any encumbrance or restriction pursuant to any agreement in effect on the Measurement Date, (ii) any customary (as conclusively determined in good faith by the Chief Financial Officer of Parent) encumbrance or restriction applicable to a Restricted Subsidiary that is contained in an agreement or instrument governing or relating to Debt contained in any Qualified Credit Facility or Purchase Money Debt; *provided, however*, that such encumbrances and restrictions permit the distribution of funds to the Issuer in an amount sufficient for the Issuer to make the timely payment of interest, premium (if any) and principal (whether at stated maturity, by way of a sinking fund applicable thereto, by way of any mandatory redemption, defeasance, retirement or repurchase thereof, including upon the occurrence of designated events or circumstances or by virtue of acceleration upon an event of default, or by way of redemption or retirement at the option of the holder of the Debt, including pursuant to offers to purchase) according to the terms of this Indenture and the Securities and other Debt that is solely an obligation of the Issuer, but *provided further, however*, that such agreement may nevertheless contain customary (as so determined) net worth, leverage, invested capital and other financial covenants, customary (as so determined) covenants regarding the merger of or sale of all or any substantial part of the assets of Parent or any Restricted Subsidiary, customary (as so determined) restrictions on transactions with affiliates and customary (as so determined) subordination provisions governing Debt owed to Parent or any Restricted Subsidiary, (iii) any encumbrance or restriction pursuant to an agreement relating to any Acquired Debt, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person so acquired, (iv) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Debt Incurred pursuant to an agreement referred to in clause (i), (ii) or (iii) of this paragraph (b); *provided, however*, that the provisions contained in such agreement relating to such encumbrance or restriction are no more restrictive (as so determined) in any material respect than the provisions contained in the agreement the subject thereof, (v) in the case of clause (iii) of paragraph (a) above, any encumbrance or restriction contained in any security agreement (including a Capital Lease Obligation) securing Debt of Parent or a Restricted Subsidiary otherwise permitted under this Indenture, but only to the extent such restrictions restrict the transfer of the Property subject to such security agreement, (vi) in the case of clause (iii) of paragraph (a) above, customary provisions (A) that restrict the subletting, assignment or transfer of any Property that is a lease, license, conveyance or similar contract, (B) contained in asset sale or other asset disposition agreements limiting the transfer of the Property being sold or disposed of pending the closing of such sale or disposition or (C) arising or agreed to in the ordinary course of business, not relating to any Debt, and that do not, individually or in the aggregate, detract from the value of Property of Parent or any Restricted Subsidiary in any manner material to Parent or any Restricted Subsidiary, (vii) any encumbrance or restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement which has been entered into for the sale or disposition of all or substantially all of the Capital Stock or Property of such Restricted Subsidiary; *provided, however*, that the consummation of such transaction would not result in a Default or an Event of Default, that such restriction terminates if such transaction is abandoned and that the consummation or abandonment of such transaction occurs within one year of the date such agreement was entered into, and (viii) any encumbrance or restriction pursuant to this Indenture and the Securities.

SECTION 1014. *Limitation on Liens.*

Parent shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, Incur or suffer to exist any Lien on or with respect to any Property now owned or acquired after the Issue Date to secure any Debt without making, or causing such Restricted Subsidiary to make, effective provision for securing the Securities (x) equally and ratably with such Debt as to such Property for so long as such Debt will be so secured or (y) in the event such Debt is Debt of the Issuer, Parent or a Restricted Subsidiary that is a Guarantor and such Debt is subordinate in right of payment to the Securities, the Parent Guarantee or the applicable Note Guarantee, prior to such Debt as to such Property for so long

as such Debt will be so secured. The holders of such other secured Debt may exclusively control the disposition of the property subject to the Lien.

The foregoing restrictions shall not apply to: (i) Liens existing on the Issue Date and securing Debt outstanding on the Issue Date or Liens Incurred on or after the Issue Date pursuant to any Credit Facility to secure Debt permitted to be Incurred pursuant to clause (ii) of paragraph (b) under Section 1010 or clause (ii) of paragraph (b) under Section 1011; (ii) Liens Incurred on or after the Measurement Date securing Debt of Parent or any Restricted Subsidiary (other than the Issuer or any Issuer Restricted Subsidiary) in an amount which, together with the aggregate amount of Debt then outstanding or available under all Credit Facilities (together with all refinancing Debt then outstanding or available pursuant to clause (viii) of paragraph (b) of Section 1010 or clause (vi) of paragraph (b) under Section 1011 in respect of Debt previously Incurred under Credit Facilities), does not exceed 1.5 times Consolidated Cash Flow Available for Fixed Charges of Parent and its Restricted Subsidiaries for the four full fiscal quarters preceding the Incurrence of such Lien for which Parent's consolidated financial statements are available, determined on a pro forma basis as if such Debt had been Incurred and the proceeds thereof had been applied at the beginning of such four fiscal quarters; (iii) Liens in favor of Parent or any Restricted Subsidiary; *provided, however*, that any subsequent issue or transfer of Capital Stock or other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of the Debt secured by any such Lien (except to Parent or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Lien by the issuer thereof; (iv) Liens outstanding on the Issue Date securing Purchase Money Debt and Liens to secure Purchase Money Debt Incurred after the Issue Date pursuant to clause (iii) of paragraph (b) under Section 1010, *provided* that any such Lien may not extend to any Property other than the Telecommunications/IS Assets installed, constructed, acquired, leased, developed or improved with the proceeds of such Purchase Money Debt and any improvements or accessions thereto (it being understood that all Debt to any single lender or group of related lenders or outstanding under any single credit facility, and in any case relating to the same group or collection of Telecommunications/IS Assets financed thereby, shall be considered a single Purchase Money Debt, whether drawn at one time or from time to time); (v) Liens to secure Acquired Debt, *provided* that (a) such Lien attaches to the acquired Property prior to the time of the acquisition of such Property and (b) such Lien does not extend to or cover any other Property; (vi) Liens to secure Debt Incurred to refinance, in whole or in part, Debt secured by any Lien referred to in the foregoing clauses (i), (iv) and (v) or this clause (vi) so long as such Lien does not extend to any other Property (other than

improvements and accessions to the original Property) and the principal amount of Debt so secured is not increased except as otherwise permitted under clause (viii) of paragraph (b) of Section 1010 or clause (vi) of paragraph (b) of Section 1011; (vii) Liens Incurred on or after the Measurement Date not otherwise permitted by the foregoing clauses (i) through (vi) (but including in the computations of Liens permitted under this clause (vii) Liens existing on the Issue Date which remain existing at the time of computation which are otherwise permitted under clause (i) securing Debt of Parent or any Restricted Subsidiary (other than the Issuer or any Issuer Restricted Subsidiary) in an aggregate amount not to exceed 5% of Parent's Consolidated Tangible Assets; (viii) Liens on Property of any Non-Telecommunications Subsidiary; *provided, however*, that the Incurrence of such Lien does not require the Person Incurring such Lien to secure any Debt of any Person other than a Non-Telecommunications Subsidiary; (ix) Liens granted after the Issue Date pursuant to this Section 1014 to secure the Securities; (x) Liens to secure Debt Incurred pursuant to clause (viii) of paragraph (b) of Section 1011; and (xi) Permitted Liens.

SECTION 1015. *Limitation on Sale and Leaseback Transactions.*

Parent shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, enter into, assume, Guarantee or otherwise become liable with respect to any Sale and Leaseback Transaction, unless (i) Parent or such Restricted Subsidiary would be entitled to Incur (a) Debt in an amount equal

62

to the Attributable Value of the Sale and Leaseback Transaction pursuant to Section 1010 or Section 1011 and (b) a Lien pursuant to Section 1014, equal in amount to the Attributable Value of the Sale and Leaseback Transaction, without also securing the Securities, and (ii) the Sale and Leaseback Transaction is treated as an Asset Disposition and all of the conditions of Section 1016 (including the provisions concerning the application of Net Available Proceeds) are satisfied with respect to such Sale and Leaseback Transaction, treating all of the consideration received in such Sale and Leaseback Transaction as Net Available Proceeds for purposes of such Section 1016.

SECTION 1016. *Limitation on Asset Dispositions.*

Parent shall not, and shall not permit any Restricted Subsidiary to, make any Asset Disposition unless: (i) Parent or the Restricted Subsidiary, as the case may be, receives consideration for such disposition at least equal to the Fair Market Value for the Property sold or disposed of as determined by the Board of Directors of Parent in good faith and evidenced by a Board Resolution of Parent filed with the Trustee; and (ii) at least 75% of the consideration for such disposition consists of cash or Cash Equivalents or the assumption of Debt of the Issuer or any Issuer Restricted Subsidiary (other than Debt of the Issuer that is subordinated to the Securities or Debt of any Issuer Restricted Subsidiary that is subordinated to the Note Guarantee or Offering Proceeds Note Guarantee of such Issuer Restricted Subsidiary) and release of the Issuer and all Issuer Restricted Subsidiaries from all liability on the Debt assumed (or if less than 75%, the remainder of such consideration consists of Telecommunications/IS Assets); *provided, however*, that, to the extent such disposition involves Special Assets, all or any portion of the consideration may, at Parent's election, consist of Property other than cash, Cash Equivalents or the assumption of Debt or Telecommunications/IS Assets.

The Net Available Proceeds (or any portion thereof) from Asset Dispositions may be applied by Parent or a Restricted Subsidiary, to the extent Parent or such Restricted Subsidiary elects (or is required by the terms of any Debt): (1) to the permanent repayment or reduction of Debt then outstanding under any Qualified Credit Facility, to the extent such Qualified Credit Facility would require such application or prohibit payments pursuant to the Offer to Purchase described in the following paragraph (other than Debt owed to Parent or any Affiliate of Parent); or (2) to reinvest in Telecommunications/IS Assets (including by means of an Investment in Telecommunications/IS Assets by a Restricted Subsidiary with Net Available Proceeds received by Parent or another Restricted Subsidiary).

Any Net Available Proceeds from an Asset Disposition not applied in accordance with the preceding paragraph within 360 days (or, in the case of a disposition of Special Assets identified in clause (a) of the definition thereof in which the Net Available Proceeds exceed \$500,000,000, 540 days) from the date of the receipt of such Net Available Proceeds shall constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$10,000,000, the Issuer (or, in the case of Debt of Parent required or permitted to be repurchased by Parent, Parent) will be required to make an Offer to Purchase with such Excess Proceeds on a pro rata basis according to principal amount (or, in the case of Debt issued at a discount, the then-Accreted Value) for (x) Outstanding Securities at a price in cash equal to 100% of the principal amount of the Securities on the purchase date plus accrued and unpaid interest (if any) thereon (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and (y) any other Debt of the Issuer that is *pari passu* with the Securities, any Debt of a Guarantor that is *pari passu* with such Guarantor's Note Guarantee or any Debt of a Restricted Subsidiary that is a subsidiary of the Issuer but not a Guarantor, at a price no greater than 100% of the principal amount thereof plus accrued and unpaid interest (if any) to the purchase date (or 100% of the then-Accreted Value plus accrued and unpaid interest (if any) to the purchase date in the case of original issue discount Debt), to the extent, in the case of this clause (y), required under the terms thereof (other than Debt owed to Parent or any Affiliate of Parent). To the extent there are any remaining Excess Proceeds following the completion of the Offer to Purchase, the Issuer shall apply such Excess Proceeds to the repayment of other Debt of

63

the Issuer or any Restricted Subsidiary that is a subsidiary of the Issuer, to the extent permitted or required under the terms thereof. Any other remaining Excess Proceeds may be applied to any use as determined by Parent which is not otherwise prohibited by this Indenture, and the amount of Excess Proceeds shall be reset to zero.

The Issuer, Parent and the Trustee shall perform their respective obligations for the Offer to Purchase as specified in the Offer. Prior to the Purchase Date, the Issuer, or Parent, as applicable, shall (i) accept for payment Securities or portions thereof tendered pursuant to the Offer, (ii) irrevocably deposit with the Paying Agent (or, if the Issuer, or Parent, as applicable, are acting as their own Paying Agent, segregate and hold in trust as provided in Section 1003) money sufficient to pay the Purchase Price of all Securities or portions thereof so accepted (provided that such deposit may be made no later than 11:00 A.M. New York City time on the Purchase Date if the Issuer, or Parent, as applicable elect) and (iii) deliver or cause to be delivered to the Trustee all Securities so accepted together with an Officers' Certificate stating the Securities or portions thereof accepted for payment. The Paying Agent shall promptly mail or deliver to Holders of Securities so accepted payment in an amount equal to the Purchase Price, and the Trustee shall promptly authenticate and mail or deliver to such Holders a new Security or Securities equal in principal amount to any unpurchased portion of the Security surrendered as requested by the Holder. Any Security not accepted for payment shall be promptly mailed or delivered by the Issuer or Parent, as applicable, to the Holder thereof. In the event that the aggregate Purchase Price is less than the amount delivered by the Issuer or Parent, as applicable, to the Trustee or the Paying Agent, the Trustee or the Paying Agent, as the case may be, shall deliver the excess to the Issuer or Parent, as applicable, immediately after the Purchase Date.

Not later than the date upon which written notice of an Offer to Purchase is delivered to the Trustee, Issuer or Parent, as applicable, shall deliver to the Trustee an Officers' Certificate as to (i) the amount of the Offer, (ii) the allocation of the Net Available Proceeds from the Asset Disposition pursuant to which such Offer is being made and (iii) the compliance of such allocation with the provisions of this Section 1016.

In the event that the Issuer or Parent, as applicable, make an Offer to Purchase the Securities, the Issuer or Parent, as applicable, shall comply with any applicable securities laws and regulations, including any applicable requirements of Section 14(e) of, and Rule 14e-1 under, the Exchange Act. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section, the Issuer or Parent, as applicable, shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section by virtue thereof.

The Issuer shall not, and shall not permit any Issuer Restricted Subsidiary to, sell, transfer, lease or otherwise dispose of any Property to Parent or any Sister Restricted Subsidiary unless (i) the Issuer or such Issuer Restricted Subsidiary receives consideration for such sale, transfer, lease or other disposition at least equal to the Fair Market Value of such Property (which, in the case of the Offering Proceeds Note, is the principal amount of the Offering Proceeds Note and any accrued and unpaid interest thereon) and (ii) the consideration consists of either (A) 100% in cash or Cash Equivalents or (B) Debt of Parent or the Restricted Subsidiary to which Property was transferred that is secured by a Lien on such transferred Property. Parent or the Restricted Subsidiary to which Property was transferred for consideration consisting of Debt that is secured by a Lien on such Property in accordance with clause (ii)(B) of the prior sentence may substitute the Lien on such Property with a Lien on other Property (including any Property owned by the Issuer or an Issuer Restricted Subsidiary) that, as determined by the Board of Directors of Parent in good faith and evidenced by a Board Resolution of Parent filed with the Trustee upon request of the Trustee, has a Fair Market Value of no less than the Fair Market Value of the Property for which the substitution is made at the time of the substitution. Any such Lien may be second in priority to any Lien on such Property in favor of the lenders under a Qualified Credit Facility. The provisions of this paragraph do not apply to (a) dividends and distributions (other than any dividend or distribution of the Offering Proceeds Note), (b) loans or advances and (c) purchases of services or goods.

SECTION 1017. *Limitation on Issuance and Sales of Capital Stock of Restricted Subsidiaries.*

Parent shall at all times own all the issued and outstanding Capital Stock of the Issuer. The Issuer shall at all times own all the issued and outstanding Capital Stock of Level 3 LLC. Parent shall not, and shall not permit any Restricted Subsidiary to, issue, transfer, convey, sell or otherwise dispose of any shares of Capital Stock of a Restricted Subsidiary or securities convertible or exchangeable into, or options, warrants, rights or any other interest with respect to, Capital Stock of a Restricted Subsidiary to any Person other than Parent or a Restricted Subsidiary except (i) a sale of all of the Capital Stock of such Restricted Subsidiary owned by Parent and any Restricted Subsidiary that complies with the provisions of Section 1016 to the extent such provisions apply, (ii) in a transaction that results in such Restricted Subsidiary becoming a Joint Venture, *provided* (x) such transaction complies with the provisions of Section 1016 to the extent such provisions apply and (y) the remaining interest of Parent or any other Restricted Subsidiary in such Joint Venture would have been permitted as a new Restricted Payment or Permitted Investment under the provisions of Section 1012, (iii) the issuance, transfer, conveyance, sale or other disposition of shares of such Restricted Subsidiary so long as after giving effect to such transaction such Restricted Subsidiary remains a Restricted Subsidiary and such transaction complies with the provisions of Section 1016 to the extent such provisions apply, (iv) the transfer, conveyance, sale or other disposition of shares required by applicable law or regulation, (v) if required, the issuance, transfer, conveyance, sale or other disposition of directors' qualifying shares, (vi) Disqualified Stock issued in exchange for, or upon conversion of, or the proceeds of the issuance of which are used to refinance, shares of Disqualified Stock of such Restricted Subsidiary, *provided* that the amounts of the redemption obligations of such Disqualified Stock shall not exceed the amounts of the redemption obligations of, and such Disqualified Stock shall have redemption obligations no earlier than those required by, the Disqualified Stock being exchanged, converted or refinanced, (vii) in a transaction where Parent or a Restricted Subsidiary acquires at the same time not less than its Proportionate Interest in such issuance of Capital Stock, (viii) Capital Stock issued and outstanding on the Measurement Date, (ix) Capital Stock of a Restricted Subsidiary issued and outstanding prior to the time that such Person becomes a Restricted Subsidiary so long as such Capital Stock was not issued in contemplation of such Person's becoming a Restricted Subsidiary or

otherwise being acquired by Parent and (x) an issuance of Preferred Stock of a Restricted Subsidiary (other than Preferred Stock convertible or exchangeable into Common Stock of any Restricted Subsidiary) otherwise permitted by this Indenture. In the event of (a) the consummation of a transaction referred to in any of the foregoing clauses that results in a Restricted Subsidiary that is a Guarantor no longer being a Restricted Subsidiary and (b) the execution and delivery of a supplemental indenture providing for such release in form satisfactory to the Trustee, any such Guarantor shall be released from all its obligations under its Note Guarantee.

SECTION 1018. *Transactions with Affiliates.*

Parent shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, sell, lease, transfer, or otherwise dispose of any of its Property to, or purchase any Property from, or enter into any contract, agreement, understanding, loan, advance, Guarantee or transaction (including the rendering of services) with or for the benefit of, any Affiliate (each of the foregoing, an "Affiliate Transaction"), unless (a) such Affiliate Transaction or series of Affiliate Transactions is (i) in the best interest of Parent or such Restricted Subsidiary and (ii) on terms that are no less favorable to Parent or such Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by Parent or such Restricted Subsidiary with a Person that is not an Affiliate (or, in the event that there are no comparable transactions involving Persons who are not Affiliates of Parent or the relevant Restricted Subsidiary to apply for comparative purposes, is otherwise on terms that, taken as a whole, Parent has determined to be fair to Parent or the relevant Restricted Subsidiary) and (b) Parent delivers to the Trustee (i) with respect to any Affiliate Transaction or series of Affiliate Transactions involving aggregate payments in excess of \$10,000,000 but less than \$15,000,000, a

65

certificate of the chief executive, operating or financial officer of Parent evidencing such officer's determination that such Affiliate Transaction or series of Affiliate Transactions complies with clause (a) above and (ii) with respect to any Affiliate Transaction or series of Affiliate Transactions involving aggregate payments equal to or in excess of \$15,000,000, a Board Resolution of Parent certifying that such Affiliate Transaction or series of Affiliate Transactions complies with clause (a) above and that such Affiliate Transaction or series of Affiliate Transactions has been approved by the Board of Directors of Parent, including a majority of the disinterested members of the Board of Directors of Parent; *provided, however*, that, in the event that there shall not be at least two disinterested members of the Board of Directors of Parent with respect to the Affiliate Transaction, Parent shall, in addition to such Board Resolution, file with the Trustee a written opinion from an investment banking firm of national standing in the United States which, in the good faith judgment of the Board of Directors of Parent, is independent with respect to Parent and its Affiliates and qualified to perform such task, which opinion shall be to the effect that the consideration to be paid or received in connection with such Affiliate Transaction is fair, from a financial point of view, to Parent or such Restricted Subsidiary.

Notwithstanding the foregoing, the following shall not be deemed Affiliate Transactions: (i) any employment agreement entered into by Parent or any of its Restricted Subsidiaries in the ordinary course of business and consistent with industry practice; (ii) any agreement or arrangement with respect to the compensation of a director or officer of Parent or any Restricted Subsidiary approved by a majority of the disinterested members of the Board of Directors of Parent and consistent with industry practice; (iii) transactions between or among Parent and its Restricted Subsidiaries; *provided, however*, that no more than 5% of the Voting Stock (on a fully diluted basis) of any such Restricted Subsidiary is owned by an Affiliate of Parent (other than a Restricted Subsidiary); (iv) Restricted Payments and Permitted Investments permitted by Section 1012 (other than Investments in Affiliates that are not Parent or Restricted Subsidiaries); (v) transactions pursuant to the terms of any agreement or arrangement as in effect on the Measurement Date; and (vi) transactions with respect to wireline or wireless transmission capacity, the lease or sharing or other use of cable or fiber optic lines, equipment, rights-of-way or other access rights, between Parent (or any Restricted Subsidiary) and any other Person; *provided, however*, that, in the case of this clause (vi), such transaction complies with clause (a) in the immediately preceding paragraph.

SECTION 1019. *Limitation on Designations of Unrestricted Subsidiaries.*

Parent shall not designate (1) the Issuer or Level 3 LLC as an Unrestricted Subsidiary or (2) any other Subsidiary of Parent (other than a newly created Subsidiary in which no Investment has previously been made) as an "Unrestricted Subsidiary" under this Indenture (a "Designation") unless:

- (a) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Designation;
- (b) immediately after giving effect to such Designation, Parent would be able to Incur \$1.00 of Debt under paragraph (a) of Section 1010; and
- (c) Parent would not be prohibited under any provision of this Indenture from making an Investment at the time of Designation (assuming the effectiveness of such Designation) in an amount (the "Designation Amount") equal to the portion (proportionate to Parent's equity interest in such Restricted Subsidiary) of the Fair Market Value of the net assets of such Restricted Subsidiary on such date.

In the event of any such Designation, Parent shall be deemed to have made an Investment constituting a Restricted Payment pursuant to Section 1012 for all purposes of this Indenture in the Designation Amount; *provided, however*, that, upon a Revocation of any such Designation of a Subsidiary, Parent shall be deemed to continue to have a permanent "Investment" in an Unrestricted

Subsidiary of an amount (if positive) equal to (i) Parent's "Investment" in such Subsidiary at the time of such Revocation less (ii) the portion (proportionate to Parent's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such Revocation. At the time of any Designation of any Subsidiary as an Unrestricted Subsidiary, such Subsidiary shall not own any Capital Stock of Parent or any Restricted Subsidiary. In addition, neither Parent nor any Restricted Subsidiary shall at any time (x) provide credit support for, or a Guarantee of, any Debt of any Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Debt); *provided, however*, that Parent or a Restricted Subsidiary may pledge Capital Stock or Debt of any Unrestricted Subsidiary on a nonrecourse basis such that the pledgee has no claim whatsoever against Parent other than to obtain such pledged Capital Stock or Debt, (y) be directly or indirectly liable for any Debt of any Unrestricted Subsidiary or (z) be directly or indirectly liable for any Debt which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Debt, Lien or other obligation of any Unrestricted Subsidiary (including any right to take enforcement action against such Unrestricted Subsidiary), except in the case of clause (x) or (y) to the extent permitted under Sections 1012 and 1018.

Unless Designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of Parent will be classified as a Restricted Subsidiary; *provided, however*, that such Subsidiary shall not be designated as a Restricted Subsidiary and shall be automatically classified as an Unrestricted Subsidiary if either of the requirements set forth in clauses (a) and (b) of the immediately following paragraph will not be satisfied immediately following such classification. Except as provided in the first sentence of this Section 1019, no Restricted Subsidiary may be redesignated as an Unrestricted Subsidiary.

A Designation may be revoked (a "Revocation") by a Board Resolution of Parent delivered to the Trustee, *provided* that Parent will not make any Revocation unless:

- (a) no Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation; and
- (b) all Liens and Debt of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred at such time for all purposes of this Indenture.

All Designations and Revocations must be evidenced by Board Resolutions of Parent delivered to the Trustee (i) certifying compliance with the foregoing provisions and (ii) giving the effective date of such Designation or Revocation, such delivery to the Trustee to occur within 45 days after the end of the fiscal quarter of Parent in which such Designation or Revocation is made (or, in the case of a Designation or Revocation made during the last fiscal quarter of Parent's fiscal year, within 90 days after the end of such fiscal year). Upon Designation of a Restricted Subsidiary as an Unrestricted Subsidiary in compliance with this Section 1019, such Restricted Subsidiary shall, by delivery of a supplemental indenture providing for such release in form satisfactory to the Trustee, be released from any Note Guarantee previously made by such Subsidiary.

SECTION 1020. *Limitation on Actions with respect to Existing Intercompany Obligations.* Without the consent of the holders of at least two-thirds in principal amount of the Outstanding Securities:

- (a) the Issuer shall not forgive or waive or fail to enforce any of its rights under the Offering Proceeds Note, any Offering Proceeds Note Guarantee, the Subordination Agreement or any other agreement with Parent or any Restricted Subsidiary to subordinate a payment obligation on any Debt to the prior payment in full in cash of all obligations with respect to the Offering Proceeds Note or an Offering Proceeds Note Guarantee, and the Issuer and Level 3 LLC may not amend the Offering Proceeds Note in a manner adverse to the holders of the Securities; *provided, however*, that nothing in this covenant shall compel the Issuer to demand payment under the

Offering Proceeds Note or any Offering Proceeds Note Guarantee except during a bankruptcy, insolvency or similar proceeding;

- (b) in the event Level 3 LLC (or any successor obligor under the Offering Proceeds Note) repays all or a portion of the Offering Proceeds Note, the Issuer must (i) deposit an amount of cash equal to the principal amount of the Offering Proceeds Note then repaid in an escrow account with an unaffiliated financial institution for the benefit of the Holders of the Securities, and as security for the prompt and complete payment and performance when due of the Issuer's obligations in respect of the Securities, until such time as the Securities are no longer outstanding or such cash is used pursuant to clause (ii) or (iii) of this paragraph, (ii) redeem Securities having a principal amount equal to the principal amount of the Offering Proceeds Note then repaid in accordance with, and if at such time permitted by, the Securities, or (iii) purchase Securities in the open market having a principal amount equal to the principal amount of the Offering Proceeds Note then repaid; *provided, however*, that if at any time the principal amount of the Offering Proceeds Note is greater than the principal amount of Securities that remain outstanding, Level 3 LLC (or any successor obligor under the Offering Proceeds Note) may repay or forgive or waive an amount of the Offering Proceeds Note equal to such excess without complying with clause (i), (ii) or

(iii) above;

(c) Parent shall not, and shall not permit any Restricted Subsidiary to, provide any Lien on its Property for the benefit of, or any Guarantee (other than a similarly subordinated Guarantee) or other form of credit enhancement in respect of, (i) the Parent Intercompany Note or (ii) any other intercompany note required by clause (vi) of paragraph (b) of Section 1010 or clause (iv) of paragraph (b) of Section 1011 to be subordinated to the prior payment in full in cash of all obligations with respect to the Offering Proceeds Note or an Offering Proceeds Note Guarantee, or take any other action with the purpose or effect of making the Parent Intercompany Note senior to or equal in right of payment with the Offering Proceeds Note;

(d) Parent and Level 3 LLC shall not amend the terms of the Parent Intercompany Note in a manner adverse to the holders of the Securities, the determination of which shall be made by the Board of Directors of Parent acting in good faith and shall be evidenced by a Board Resolution of Parent except to permit subordination of Level 3 LLC's obligations under the Parent Intercompany Note to its obligations under a Qualified Credit Facility as described, and to the extent set forth in the Subordination Agreement; and

(e) Parent, the Issuer and Level 3 LLC shall not amend the Subordination Agreement in a manner adverse to the holders of the Securities and Parent or any Restricted Subsidiary and the Issuer shall not amend any other agreement between Parent or any Restricted Subsidiary and the Issuer to subordinate a payment obligation on any Debt of Parent or any Restricted Subsidiary to the prior payment in full in cash of all obligations with respect to the Offering Proceeds Note or any Offering Proceeds Note Guarantee, in each case, the determination of which shall be made by the Board of Directors of Parent acting in good faith and shall be evidenced by a Board Resolution of Parent except to permit subordination of their respective obligations under the Offering Proceeds Note or any Offering Proceeds Note Guarantee to their respective obligations under a Qualified Credit Facility as described, and to the extent set forth, in the Subordination Agreement.

SECTION 1021. *Covenant Suspension.* During any period of time (a "Suspension Period") that (i) the ratings assigned to the Securities by both of the Rating Agencies are Investment Grade Ratings and (ii) no Default or Event of Default has occurred and is continuing, Parent and the Restricted Subsidiaries will not be subject to the covenants set forth in Sections 1010, 1011, 1012, 1013, 1015(i)(a), 1016, 1017 (other than the first two sentences thereof), 1018, 801(3) and (4), 803(3) and (4) and clause (b) of the first sentence of Section 1019 (collectively, the "Suspended Covenants"). In the event

that Parent and the Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the preceding sentence and, on any subsequent date (the "Reversion Date"), one or both of the Rating Agencies withdraws its ratings or downgrades the ratings assigned to the Securities below the required Investment Grade Ratings or a Default or Event of Default occurs and is continuing, then Parent and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants and calculations of the amount available to be made as Restricted Payments under Section 1012 will be made as though Section 1012 had been in effect during the entire period of time from the Measurement Date. On the Reversion Date, all Debt Incurred during the Suspension Period will be classified to have been Incurred pursuant to paragraph (a) of Section 1010 or one of the clauses set forth in paragraph (b) of Section 1010 or paragraph (a) of Section 1011 or one of the clauses set forth in paragraph (b) of Section 1011 (in each case to the extent such Debt would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Debt Incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Debt would not be permitted to be Incurred pursuant to paragraph (a) of Section 1010 or one of the clauses set forth in paragraph (b) of Section 1010 or paragraph (a) of Section 1011 or one of the clauses set forth in paragraph (b) of Section 1011, such Debt will be deemed to have been outstanding on the Measurement Date, so that it is classified as permitted under Section 1010(b)(v) or Section 1011(b)(iii). If the Incurrence of any Debt by a Restricted Subsidiary during the Suspension Period would have been prohibited or conditioned upon such Restricted Subsidiary entering into a Note Guarantee and an Offering Proceeds Note Guarantee had Section 1010 and Section 1011 been in effect at the time of such Incurrence, such Restricted Subsidiary shall enter into a Note Guarantee and an Offering Proceeds Note Guarantee that are senior to or *pari passu* with such Debt within ten days after the Reversion Date. For purposes of determining compliance with Section 1016 on the Reversion Date, the Net Available Proceeds from all Asset Sales not applied in accordance with the covenant will be deemed to be reset to zero. Notwithstanding the foregoing, neither (a) the continued existence, after the date of such withdrawal or downgrade, of facts and circumstances or obligations that were Incurred or otherwise came into existence during a Suspension Period nor (b) the performance of any such obligations, shall constitute a breach of any covenant set forth in the Indenture or cause a Default or Event of Default thereunder; *provided, however*, that (1) Parent and its Restricted Subsidiaries did not incur or otherwise cause such facts and circumstances or obligations to exist in anticipation of a withdrawal or downgrade below investment grade, (2) Parent reasonably believed that such Incurrence or actions would not result in such a withdrawal or downgrade and (3) if so required each Restricted Subsidiary shall have entered into a Note Guarantee and an Offering Proceeds Note Guarantee within the specified time period. For purposes of clauses (1) and (2) in the preceding sentence, anticipation and reasonable belief may be determined by Parent and shall be conclusively evidenced by a board resolution to such effect adopted in good faith by the Board of Directors of Parent. In reaching their determination, the Board of Directors of Parent may, but need not, consult with the Rating Agencies.

SECTION 1022. *Special Interest Notice.*

In the event that the Issuer is required to pay Special Interest to Holders pursuant to the Registration Agreement, the Issuer will provide written notice ("Special Interest Notice") to the Trustee of its obligation to pay Special Interest no later than fifteen days prior to the proposed payment date for the Special Interest, and the Special Interest Notice shall set forth the amount of Special Interest to be paid by the Issuer on such payment date. The Trustee shall not at any time be under any duty or responsibility to any Holders to determine the Special Interest, or with

ARTICLE ELEVEN

REDEMPTION OF SECURITIES

SECTION 1101. *Right of Redemption.*

The Securities will be subject to redemption at the option of the Issuer, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days' prior notice, on the terms and at the redemption prices (expressed as percentages of principal amount) set forth in paragraph 5 on the reverse of the form of Security, plus accrued and unpaid interest thereon (if any) to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

SECTION 1102. *Applicability of Article.*

This Article shall govern any redemption of the Securities pursuant to Section 1101.

SECTION 1103. *Election to Redeem; Notice to Trustee.*

The election of the Issuer to redeem any Securities pursuant to Section 1101 shall be evidenced by a Board Resolution of the Issuer. The Issuer shall, at least 60 days prior to the Redemption Date fixed by the Issuer (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Securities to be redeemed pursuant to Section 1104. Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Issuer to the effect that such redemption will comply with the conditions herein.

SECTION 1104. *Selection by Trustee of Securities to Be Redeemed.*

If less than all the Securities are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities not previously called for redemption, in compliance with the requirements of the principal national securities exchange, if any, on which the Securities are listed, or, if the Securities are not so listed, on a pro rata basis, by lot or by such other method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of Securities; *provided, however*, that no such partial redemption shall reduce the portion of the principal amount of a Security not redeemed to less than \$1,000.

The Trustee shall promptly notify the Issuer in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 1105. *Notice of Redemption.*

Notice of redemption shall be given in the manner provided for in Section 106 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed.

Each notice of redemption shall identify the Securities (including "CUSIP" number(s)) to be redeemed and shall state:

- (1) the Redemption Date,
- (2) the Redemption Price and the amount of accrued interest to the Redemption Date payable as provided in Section 1107, if any,

(3) if less than all Outstanding Securities are to be redeemed, the identification (and, in the case of a partial redemption, the principal amounts) of the particular Securities to be redeemed,

(4) in case any Security is to be redeemed in part only, that on and after the Redemption Date, upon surrender of such Security, the Holder will receive, without charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed,

(5) that on the Redemption Date the Redemption Price (and unpaid and accrued interest, if any, to the Redemption Date payable as provided in Section 1107) will become due and payable upon each such Security, or the portion thereof, to be redeemed, and that, unless the Issuer defaults in making such redemption payment or the Trustee or the Paying Agent is prohibited from making such payment, interest thereon will cease to accrue on and after said date, and

(6) the place or places where such Securities are to be presented and surrendered for payment of the Redemption Price and accrued interest, if any.

Notice of redemption of Securities to be redeemed at the election of the Issuer shall be given by the Issuer or, at the Issuer's request, by the Trustee in the name and at the expense of the Issuer.

SECTION 1106. *Deposit of Redemption Price.*

On or prior to any Redemption Date (and if on any Redemption Date, before 11:00 A.M. New York City time, on such date), the Issuer shall deposit with the Trustee or with a Paying Agent (or, if the Issuer is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and unpaid and accrued interest (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) on, all the Securities which are to be redeemed on that date.

SECTION 1107. *Securities Payable on Redemption Date.*

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified (together with unpaid and accrued interest, if any, to the Redemption Date), and from and after such date (unless the Issuer shall default in the payment of the Redemption Price and accrued interest or the Trustee or the Paying Agent shall be prohibited from making such payment) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Issuer at the Redemption Price, together with unpaid and accrued interest, if any, to the Redemption Date; *provided, however*, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate borne by the Securities.

SECTION 1108. *Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at the office or agency of the Issuer maintained for such purpose pursuant to Section 1002 (with, if the Issuer and the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Issuer shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1201. *Issuer's Option to Effect Defeasance or Covenant Defeasance.*

The Issuer may, at its option by Board Resolution of the Issuer, at any time, with respect to the Securities, elect to have either Section 1202 or Section 1203 be applied to all Outstanding Securities upon compliance with the conditions set forth below in this Article Twelve.

SECTION 1202. *Defeasance and Discharge.*

Upon the Issuer's exercise under Section 1201 of the option applicable to this Section 1202, the Issuer and the Guarantors shall be deemed to have been discharged from their obligations with respect to all Outstanding Securities on the date the conditions set forth in Section 1204 are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Issuer shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Securities, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 1205 and the other Sections of this Indenture referred to in clauses (A) and (B) below, and to have satisfied all their other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Issuer, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the Issuer's obligations with respect to such Securities under Section 2.3 of Appendix A and Sections 303, 306, 307, 1002 and 1003 and the Issuer's rights under Section 1101, (B) rights of Holders to receive payment of principal of, premium, if any, and interest on such Securities (but not the Purchase Price referred to under Section 1009 or 1016) and any rights of the Holders with respect to such amounts, (C) the rights, obligations and immunities of the Trustee under the Indenture and (D) this Article Twelve. Subject to compliance with this Article Twelve, the Issuer may exercise its option under this Section 1202 notwithstanding the prior exercise of its option under Section 1203 with respect to the Securities. If the Issuer exercises its option under this Section 1202, (u) each Guarantor, if any, shall be released from all its obligations under its Note Guarantee, (v) all subordination provisions contained in the Parent Intercompany Note and the Subordination Agreement shall be deemed terminated as they relate to the Offering Proceeds Note and the Offering Proceeds Note Guarantees, (w) the Offering Proceeds Note may be prepaid in whole or in part, (x) no entity shall be obligated to guarantee the Offering Proceeds Note, (y) the Offering Proceeds Note may be canceled and (z) all obligations to provide Offering Proceeds Note Guarantees shall terminate and all references in the Indenture to Offering Proceeds Note Guarantees and Offering Proceeds Note Guarantees shall be disregarded and not be deemed to be requirements to take or omit to take any action by Parent or any Restricted Subsidiary.

SECTION 1203. *Covenant Defeasance.*

Upon the Issuer's exercise under Section 1201 of the option applicable to this Section 1203, the Issuer and each Guarantor shall be released from their obligations under any covenant contained in Sections 801(3), (4) and (5), 803(3), (4) and (5) in Sections 804, 806, 1005, 1006 and 1007 and Sections 1009 through 1021 and from the operation of Sections 501(6), (7), (8), (9) and (10) (but, in the case of Sections 501(9) and (10), with respect only to Significant Subsidiaries), with respect to the Outstanding Securities on and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"), and the Securities shall thereafter be deemed not to be "Outstanding" for the purposes of any direction, waiver, consent, declaration or other Act of Holders (and the consequences of any thereof) in connection with such provisions, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the Outstanding Securities, the Issuer and the Guarantors may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such provision, whether directly

72

or indirectly, by reason of any reference elsewhere herein to any such provision or by reason of any reference in any such provision to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 501 (3), (4), (5), (6), (7), (8), (9) or (10) (but, in the case of Section 501(9) or (10), with respect only to Significant Subsidiaries) but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby. If the Issuer exercises its option under this Section 1203, (u) each Guarantor shall be released from all its obligations under its Note Guarantee, (v) all subordination provisions contained in the Parent Intercompany Note and the Subordination Agreement shall be deemed terminated as they relate to the Offering Proceeds Note and the Offering Proceeds Note Guarantees, (w) the Offering Proceeds Note may be prepaid in whole or in part, (x) no entity shall be obligated to guarantee the Offering Proceeds Note, (y) the Offering Proceeds Note may be canceled and (z) all obligations to provide Offering Proceeds Note Guarantees shall terminate and all references in the Indenture to Offering Proceeds Note Guarantees and Offering Proceeds Note Guarantees shall be disregarded and not be deemed to be requirements to take or omit to take any action by Parent or any Restricted Subsidiary.

SECTION 1204. *Conditions to Defeasance or Covenant Defeasance.*

The following shall be the conditions to application of either Section 1202 or Section 1203 to the Outstanding Securities:

(1) The Issuer shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of Section 608 who shall agree to comply with the provisions of this Article Twelve applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, at any time prior to the Maturity of the Securities: (A) money in an amount, or (B) Government Securities which through the payment of interest and principal will provide, not later than one day before the due date of payment in respect of the Securities, money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge the principal of (and premium, if any, on) and interest on, the Outstanding Securities on the Stated Maturity (or Redemption Date, if applicable) of such principal (and premium, if any) or installment of interest; *provided* that the Trustee (or such other trustee) shall have been irrevocably instructed in writing to apply such money or the proceeds of such Government Securities to said payments with respect to the Securities. Before such a deposit, the Issuer may give to the Trustee, in accordance with Section 1103, a notice of their election to redeem all of the Outstanding Securities at a future date in accordance with Article Eleven, which notice shall be irrevocable. Such irrevocable redemption notice, if given, shall be given effect in applying the foregoing.

(2) No Default or Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit or,

insofar as paragraphs (9) and (10) of Section 501 are concerned with respect to the Parent and the Issuer, at any time during the period ending on the 123rd day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(3) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other agreement or instrument to which the Issuer or any Guarantor is a party or by which it is bound.

(4) In the case of an election under Section 1202, the Issuer shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(5) In the case of an election under Section 1203, the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Outstanding Securities will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(6) The Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the defeasance under Section 1202 or the covenant defeasance under Section 1203 (as the case may be) have been complied with.

(7) The Issuer shall have delivered to the Trustee an Opinion of Counsel acceptable to the Trustee to the effect that such defeasance will not result in the trust relating thereto or the Trustee being subject to regulation under the Investment Company Act of 1940.

SECTION 1205. *Deposited Money and Government Securities to Be Held in Trust; Other Miscellaneous Provisions.*

Subject to the provisions of the last paragraph of Section 1003, all money and Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 1205, the "Trustee") pursuant to Section 1204 in respect of the Outstanding Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Issuer acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law or to the extent the Issuer or Parent acts as the Issuer's Paying Agent.

The Issuer shall pay and indemnify the Trustee and (if applicable) its officers, directors, employees and agents against any tax, fee or other charge imposed on or assessed against the Government Securities deposited pursuant to Section 1204 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the Outstanding Securities.

Anything in this Article Twelve to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuer from time to time upon Issuer Request any money or Government Securities held by it as provided in Section 1204 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent defeasance or covenant defeasance, as applicable, in accordance with this Article Twelve.

SECTION 1206. *Reinstatement.*

If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 401 or 1205 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Issuer's and each Guarantor's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 401, 1202 or 1203, as the case may be, until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance therewith; *provided, however*, that if the Issuer or any Guarantor makes any payment of principal of, premium, if any, or interest on any Security following the reinstatement of its obligations, the Issuer or such Guarantor shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE THIRTEEN

GUARANTEES AND OFFERING PROCEEDS NOTE GUARANTEES

SECTION 1301. *Guarantees.* Each Guarantor hereby unconditionally guarantees, jointly and severally, to each Holder and to the Trustee and its successors and assigns (a) the full and punctual payment of principal of (and premium, if any) and interest on the Securities when due, whether at Stated Maturity, by acceleration, by redemption or otherwise, and all other monetary obligations of the Issuer under this Indenture and the Securities and (b) the full and punctual performance within applicable grace periods of all other obligations of the Issuer under this Indenture and the Securities (all the foregoing being hereinafter collectively called the "Obligations"). Each Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from such Guarantor, and that such Guarantor will remain bound under this Article Thirteen notwithstanding any extension or renewal of any Obligation.

Each Guarantor waives presentation to, demand of, payment from and protest to the Issuer of any of the Obligations and also waives notice of protest for nonpayment. Each Guarantor waives notice of any default under the Securities or the Obligations. The obligations of each Guarantor hereunder shall not be affected by (a) the failure of any Holder or the Trustee to assert any claim or demand or to enforce any right or remedy against the Issuer or any other Person under this Indenture, the Securities or any other agreement or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions of this Indenture, the Securities or any other agreement; (d) the release of any security held by any Holder or the Trustee for the Obligations or any of them; (e) the failure of any Holder or the Trustee to exercise any right or remedy against any other guarantor of the Obligations; or (f) any change in the ownership of such Guarantor.

Each Guarantor further agrees that its Note Guarantee herein constitutes a guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder or the Trustee to any security held for payment of the Obligations.

Except as expressly set forth in Sections 805, 806, 1017, 1019, 1202, 1203, 1303 and 1308, the obligations of each Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder or the Trustee to assert any claim or demand or to enforce any remedy under this Indenture, the Securities or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of such Guarantor or would otherwise operate as a discharge of such Guarantor as a matter of law or equity.

Each Guarantor further agrees that its Note Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of (or premium, if any) or interest on any Obligation is rescinded or must otherwise be restored by any Holder or the Trustee upon the bankruptcy or reorganization of the Issuer or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder or the Trustee has at law or in equity against any Guarantor by virtue hereof, upon the failure of the Issuer to pay the principal of (or premium, if any) or interest on any Obligation when and as the same shall become due, whether at Stated Maturity, by acceleration, by redemption or otherwise, or to perform or comply with any other Obligation, each Guarantor hereby promises to and will, upon receipt of written

demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders or the Trustee an amount equal to the sum of (i) the unpaid amount of such Obligations, (ii) accrued and unpaid interest on such Obligations (but only to the extent not prohibited by law) and (iii) all other monetary Obligations of the Issuer to the Holders and the Trustee.

Each Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Obligations guaranteed hereby until payment in full in cash of all Obligations. Each Guarantor further agrees that, as between it, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article Five for the purposes of such Guarantor's Note Guarantee herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Obligations as provided in Article Five, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Guarantor for the purposes of this Section.

Each Guarantor also agrees to pay any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Section 1301.

SECTION 1302. *Contribution.* Each of the Issuer and any Guarantor (a "Contributing Party") agrees that, in the event a payment shall be made by any other Guarantor under any Note Guarantee (the "Claiming Guarantor"), the Contributing Party shall indemnify the Claiming Guarantor in an amount equal to the amount of such payment multiplied by a fraction, the numerator of which shall be the net worth of the

Contributing Party on the date hereof and the denominator of which shall be the aggregate net worth of the Issuer and all the Guarantors on the date hereof (or, in the case of any Guarantor becoming a party hereto pursuant to Section 901, the date of the supplemental indenture executed and delivered by such Guarantor).

SECTION 1303. *Release of Guarantees.* The Note Guarantee of a Guarantor (other than Parent) will be released (a) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary, if the sale or other disposition of all or substantially all of the assets of that Guarantor complies with Section 1016 (or Parent certifies in an Officers' Certificate to the Trustee that it will comply with the requirements of Section 1016 relating to application of the proceeds of such sale or disposition), (b) in connection with any sale of all of the Capital Stock of a Guarantor (other than Parent) to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary, if the sale of all such Capital Stock of that Guarantor complies with Section 1016 (or Parent certifies in an Officers' Certificate to the Trustee that it will comply with the requirements of Section 1016 relating to application of the proceeds of such sale or disposition), or (c) if Parent properly designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary pursuant to Section 1019.

SECTION 1304. *Successors and Assigns.* This Article Thirteen shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges conferred upon that party in this Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.

SECTION 1305. *No Waiver.* Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Article Thirteen shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Article Thirteen at law, in equity, by statute or otherwise.

76

SECTION 1306. *Modification.* No modification, amendment or waiver of any provision of this Article Thirteen, nor the consent to any departure by any Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Guarantor in any case shall entitle such Guarantor to any other or further notice or demand in the same, similar or other circumstances.

SECTION 1307. *Execution of Supplemental Indenture for Future Guarantors.* Each Subsidiary which is required to become a Guarantor pursuant to any Section of the Indenture shall promptly execute and deliver to the Trustee a supplemental indenture in the form of Exhibit C hereto pursuant to which such Subsidiary shall become a Guarantor under this Article Thirteen and shall guarantee the Obligations. Concurrently with the execution and delivery of such supplemental indenture, the Issuer shall deliver to the Trustee an Opinion of Counsel to the effect that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and that, subject to the application of bankruptcy, insolvency, moratorium, fraudulent conveyance or transfer and other similar laws relating to creditors' rights generally and to the principles of equity, whether considered in a proceeding at law or in equity, the Note Guarantee of such Guarantor is a legal, valid and binding obligation of such Guarantor, enforceable against such Guarantor in accordance with its terms. Each Person then a Guarantor authorizes the Issuer to enter into such a supplemental indenture on its behalf.

SECTION 1308. *Subordination of Note Guarantees.* The Issuer, the Guarantors and the Trustee may, without notice to or consent of any holder of Securities, enter into one or more indentures supplemental to the Indenture, or amend any indenture supplemental to the Indenture entered into by the Issuer, such Guarantor and the Trustee for the purpose of adding an additional Note Guarantee pursuant to Section 1010 or Section 1011 to provide that the payment obligation on a Note Guarantee of a Guarantor (other than Parent or any Sister Restricted Subsidiary) be expressly subordinated in any bankruptcy, liquidation or winding up proceeding of such Guarantor to the prior payment in full in cash of all obligations of such Guarantor under any Guarantee of, or obligation as borrower under, any Qualified Credit Facility Incurred by Parent or a Restricted Subsidiary in accordance with clause (ii) of paragraph (b) of Section 1010 or clause (ii) of paragraph (b) of Section 1011; *provided*, *however*, that (x) the terms of the subordination of a Note Guarantee to any such Guarantee of, or obligation as borrower under, a Qualified Credit Facility may not eliminate or otherwise adversely affect the subordination of the payment obligation on any other Debt of such Guarantor to the payment obligation of the Note Guarantee of such Guarantor and (y) any Guarantee (other than a Guarantee of such Qualified Credit Facility) by such Guarantor of any other Debt of Parent or any Sister Restricted Subsidiary also shall be expressly subordinated in any bankruptcy, liquidation or winding up proceeding of such Guarantor to the prior payment in full in cash of all obligations of such Guarantor under its Guarantee of such Qualified Credit Facility to at least the same extent and on the same terms and conditions as the subordination provisions applicable to such Guarantor's Note Guarantee.

SECTION 1309. *Execution of Offering Proceeds Note Guarantees for Future Offering Proceeds Note Guarantors; Subordination of Offering Proceeds Note Guarantee.* (a) Each Subsidiary which is required to become an Offering Proceeds Note Guarantor pursuant to any Section of the Indenture shall promptly execute, and deliver a copy to the Trustee of, an Offering Proceeds Note Guarantee substantially in the form set forth in Exhibit E hereto pursuant to which such Subsidiary shall become an Offering Proceeds Note Guarantor. Concurrently with the execution and delivery of such Offering Proceeds Note Guarantee, the Issuer shall deliver to the Trustee an Opinion of Counsel to the effect that such Offering Proceeds Note Guarantee has been duly authorized, executed and delivered by such Subsidiary and that, subject to the application

of bankruptcy, insolvency, moratorium, fraudulent conveyance or transfer and other similar laws relating to creditors' rights generally and to the principles of equity, whether considered in a proceeding at law or in equity, the Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor is a legal, valid and binding obligation of

such Offering Proceeds Note Guarantor, enforceable against such Offering Proceeds Note Guarantor in accordance with its terms. Any Offering Proceeds Note Guarantee of an Offering Proceeds Note Guarantor will be released on the terms, and as set forth in, the form of Offering Proceeds Note Guarantee attached as Exhibit E hereto.

(b) Each Offering Proceeds Note Guarantor required expressly to subordinate the payment obligation of certain intercompany Debt to obligations with respect to the Offering Proceeds Note Guarantee of such Offering Proceeds Note Guarantor pursuant to, and on terms set forth in, clause (vi) of paragraph (b) of Section 1010 or clause (iv) of paragraph (b) of Section 1011, shall promptly execute, and deliver a copy to the Trustee of, a supplement to the Subordination Agreement in substantially the form attached as Exhibit D hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

LEVEL 3 FINANCING, INC., as Issuer

By: /s/ NEIL J. ECKSTEIN

Name: Neil J. Eckstein
Title: Senior Vice President

LEVEL 3 COMMUNICATIONS, INC., as Parent and a Guarantor

By: /s/ THOMAS C. STORTZ

Name: Thomas C. Stortz
Title: Group Vice President

THE BANK OF NEW YORK, as Trustee

By: /s/ VAN K. BROWN

Name: Van K. Brown
Title: Vice President

APPENDIX A

FOR OFFERINGS TO QUALIFIED INSTITUTIONAL BUYERS PURSUANT TO RULE 144A AND TO CERTAIN PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S.

PROVISIONS RELATING TO INITIAL SECURITIES
AND EXCHANGE SECURITIES

1. Definitions

1.1 Definitions

For the purposes of this Appendix A the following terms shall have the meanings indicated below:

"Additional Securities" means, subject to the Issuer's compliance with the covenants in this Indenture, including Section 1010 and Section 1011, 10.750% Senior Notes due 2011 issued from time to time after the Issue Date under the terms of the Indenture (other than pursuant to Section 306, 307, 1016 or 1108 of the Indenture and other than Exchange Securities or Private Exchange Securities issued pursuant to an exchange offer for other Securities outstanding under the Indenture).

"Definitive Security" means a certificated Initial Security or Exchange Security or Private Exchange Security bearing, if required, the restricted securities legend set forth in Section 2.3(c).

"Depository" means The Depository Trust Company, its nominees and their respective successors.

"Distribution Compliance Period", with respect to any Securities, means the period of 40 consecutive days beginning on and including the later of (i) the day on which such Securities are first offered to persons other than distributors (as defined in Regulation S under the Securities Act) in reliance on Regulation S and (ii) the Issue Date with respect to such Securities.

"Exchange Securities" has the meaning stated in the first recital of the Indenture.

"Euroclear" means the Euroclear Clearance System or any successor securities clearing agency.

"Initial Purchasers" means Citigroup Global Markets Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated and UBS Warburg LLC.

"Initial Securities" has the meaning stated in the first recital of the Indenture.

"Original Securities" means Initial Securities in the aggregate principal amount of \$500,000,000 issued on October 1, 2003.

"Private Exchange" means the offer by the Issuer, pursuant to Section 2(f) of the Registration Agreement dated October 1, 2003, or pursuant to any similar provision of any other Registration Agreement, to issue and deliver to certain purchasers, in exchange for the Initial Securities held by such purchasers as part of their initial distribution, a like aggregate principal amount of Private Exchange Securities.

"Private Exchange Securities" means the Exchange Securities to be issued pursuant to this Indenture in connection with a Private Exchange Offer pursuant to the relevant Registration Agreement.

"Purchase Agreement" means the Purchase Agreement dated September 26, 2003, among Parent, the Issuer and the Initial Purchasers relating to the Original Securities, or any similar agreement relating to any future sale of Initial Securities by the Issuer.

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

A-1

"Registered Exchange Offer" means the offer by the Issuer, pursuant to the relevant Registration Agreement, to certain Holders of Initial Securities, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount of Exchange Securities registered under the Securities Act.

"Registration Agreement" means the Registration Agreement dated October 1, 2003, among Parent, the Issuer and the Initial Purchasers relating to the Original Securities, or any similar agreement relating to any registration of Additional Securities.

"Rule 144A Securities" means all Initial Securities offered and sold to QIBs in reliance on Rule 144A.

"Securities" has the meaning stated in the first recital of the Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended (or any successor act), and the rules and regulations thereunder (or respective successors thereto).

"Securities Custodian" means the custodian with respect to a Global Security (as appointed by the Depository) or any successor person thereto, who shall initially be the Trustee.

"Shelf Registration Statement" means a registration statement issued by Parent and the Issuer in connection with the offer and sale of Initial Securities or Private Exchange Securities pursuant to the relevant Registration Agreement.

"Transfer Restricted Securities" means Definitive Securities and any other Securities that bear or are required to bear the legend set forth in Section 2.3(c) hereto.

1.2 Other Definitions

Term	Defined in Section:
"Agent Members"	2.1(b)
"Global Security"	2.1(a)
"Regulation S"	2.1
"Rule 144A"	2.1
"Rule 144A Global Security"	2.1(a)

2. The Securities

2.1 Form and Dating

The Initial Securities will be offered and sold by the Issuer, from time to time, pursuant to one or more Purchase Agreements. The Initial Securities will be resold initially only to QIBs in reliance on Rule 144A under the Securities Act ("Rule 144A") and in reliance on Regulation S under the Securities Act ("Regulation S"). Initial Securities may thereafter be transferred to, among others, QIBs and purchasers in reliance on Regulation S.

(a) *Global Securities.* Initial Securities initially resold pursuant to Rule 144A shall be issued initially in the form of one or more permanent global Securities in definitive, fully registered form (collectively, the "Rule 144A Global Security") and Initial Securities initially resold pursuant to Regulation S shall be issued initially in the form of one or more global securities (collectively, the "Regulation S Global Security"), in each case without interest coupons and with the global securities legend and restricted securities legend set forth in Exhibit 1 hereto, which shall be deposited on behalf of the purchasers of the Initial Securities represented thereby with the Securities Custodian, and registered in the name of the Depository or a nominee of the Depository, duly executed by the Issuer and authenticated by the Trustee as provided in this Indenture. The Rule 144A Global Security and Regulation S Global Security are collectively referred to herein as "Global Securities." The aggregate

A-2

principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository or its nominee as hereinafter provided.

(b) *Book-Entry Provisions.* This Section 2.1(b) shall apply only to a Global Security deposited with or on behalf of the Depository.

The Issuer shall execute and the Trustee shall, in accordance with this Section 2.1(b) and pursuant to an order of the Issuer, authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depository for such Global Security or Global Securities or the nominee of such Depository and (b) shall be delivered by the Trustee to such Depository or pursuant to such Depository's instructions or held by the Trustee as Securities Custodian.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository or by the Trustee as Securities Custodian or under such Global Security, and the Depository may be treated by the Issuer, the Trustee and any agent of the Issuer or the Trustee as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Trustee or any agent of the Issuer or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices of such Depository governing the exercise of the rights of a holder of a beneficial interest in any Global Security.

(c) *Definitive Securities.* Except as provided in Section 2.3 or 2.4, owners of beneficial interests in Global Securities will not be entitled to receive physical delivery of Definitive Securities.

2.2 *Authentication.* The Trustee shall authenticate and deliver: (1) Original Securities, (2) any Additional Securities, and (3) the Exchange Securities or Private Exchange Securities for issue only in a Registered Exchange Offer or a Private Exchange, respectively, pursuant to the relevant Registration Agreement, for a like principal amount of Initial Securities or Private Exchange Securities, as applicable, upon a written order of the Issuer signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Issuer. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of Securities is to be authenticated and whether the Securities are to be Initial Securities or Exchange Securities.

2.3 *Transfer and Exchange.* (a) *Transfer and Exchange of Definitive Securities.* When Definitive Securities are presented to the Security

Registrar or a co-registrar with a request:

(x) to register the transfer of such Definitive Securities; or

(y) to exchange such Definitive Securities for an equal principal amount of Definitive Securities of other authorized denominations,

the Security Registrar or co-registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Definitive Securities surrendered for transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Issuer and the Security Registrar or co-registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(ii) if such Definitive Securities bear a restricted securities legend, they are being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant

A-3

to clause (A), (B) or (C) below, and are accompanied by the following additional information and documents, as applicable:

(A) if such Definitive Securities are being delivered to the Security Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect; or

(B) if such Definitive Securities are being transferred to the Issuer, a certification to that effect; or

(C) if such Definitive Securities are being transferred pursuant to an exemption from registration in accordance with Rule 144 under the Securities Act, (i) a certification to that effect and (ii) if the Issuer so requests, an opinion of counsel or other evidence reasonably satisfactory to it as to the compliance with the restrictions set forth in the legend set forth in Section 2.3(d)(i).

(b) *Transfer and Exchange of Global Securities.* (i) The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depository, in accordance with this Indenture (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Depository therefor. A transferor of a beneficial interest in a Global Security shall deliver a written order given in accordance with the Depository's procedures containing information regarding the participant account of the Depository to be credited with a beneficial interest in the Global Security and such account shall be credited in accordance with such instructions with a beneficial interest in the Global Security and the account of the Person making the transfer shall be debited by an amount equal to the beneficial interest in the Global Security being transferred.

(ii) If the proposed transfer is a transfer of a beneficial interest in one Global Security to a beneficial interest in another Global Security, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Global Security to which such interest is being transferred in an amount equal to the principal amount of the interest to be so transferred, and the Security Registrar shall reflect on its books and records the date and a corresponding decrease in the principal amount of the Global Security from which such interest is being transferred.

(iii) Notwithstanding any other provisions of this Appendix A (other than the provisions set forth in Section 2.4), a Global Security may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(iv) In the event that a Global Security is exchanged for Definitive Securities pursuant to Section 2.4 prior to the consummation of a Registered Exchange Offer or the effectiveness of a Shelf Registration Statement with respect to such Securities, such Securities may be exchanged only in accordance with such procedures as are substantially consistent with the provisions of this Section 2.3 (including the certification requirements set forth on the reverse of the Initial Securities intended to ensure that such transfers comply with Rule 144A, Regulation S or such other applicable exemption from registration under the Securities Act, as the case may be) and such other procedures as may from time to time be adopted by the Issuer.

A-4

(c) *Legend.*

(i) Except as permitted by the following paragraphs (ii), (iii) and (iv), each certificate evidencing the Global Securities and the Definitive Securities (and all Securities issued in exchange therefor or in substitution thereof) shall bear a legend in substantially the following form:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS NOTE MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED (X) PRIOR TO THE SECOND ANNIVERSARY OF THE ISSUANCE HEREOF (OR ANY PREDECESSOR SECURITY HERETO) OR (Y) BY ANY HOLDER THAT WAS AN AFFILIATE OF THE ISSUER AT ANY TIME DURING THE THREE MONTHS PRECEDING THE DATE OF SUCH TRANSFER, IN EITHER CASE OTHER THAN (1) TO THE ISSUER, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS NOTE), (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS NOTE), (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 (IF APPLICABLE) UNDER THE SECURITIES ACT, OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT IS (1) A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR (2) A NON-U.S. PERSON OUTSIDE THE UNITED STATES WITHIN THE MEANING OF (OR AN ACCOUNT SATISFYING THE REQUIREMENTS OF PARAGRAPH (k)(2)(i) OF RULE 902 UNDER) REGULATION S UNDER THE SECURITIES ACT."

Each Definitive Security will also bear the following additional legend:

"IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE SECURITY REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS."

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Security) pursuant to Rule 144 under the Securities Act:

(A) in the case of any Transfer Restricted Security that is a Definitive Security, the Security Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Security that does not bear the legends set forth above and rescind any restriction on the transfer of such Transfer Restricted Security; and

A-5

(B) in the case of any Transfer Restricted Security that is represented by a Global Security, the Security Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Security that does not bear the legends set forth above and rescind any restriction on the transfer of such Transfer Restricted Security,

in either case, if the Holder certifies in writing to the Security Registrar that its request for such exchange was made in reliance on Rule 144 (such certification to be in the form set forth on the reverse of the Initial Security).

(iii) After a transfer of any Initial Securities or Private Exchange Securities, as the case may be, during the period of the effectiveness of a Shelf Registration Statement with respect to such Initial Securities or Private Exchange Securities, all requirements pertaining to restricted legends on such Initial Security or such Private Exchange Security will cease to apply and an Initial Security or Private Exchange Security, as the case may be, in global form without restricted legends will be available to the transferee of the beneficial interests of such Initial Securities or Private Exchange Securities. Upon the occurrence of any of the circumstances described in this paragraph, the Issuer will deliver an Officers' Certificate to the Trustee instructing the Trustee to issue Securities without restricted legends.

(iv) Upon the consummation of a Registered Exchange Offer with respect to the Initial Securities pursuant to which certain Holders of such Initial Securities are offered Exchange Securities in exchange for their Initial Securities, Exchange Securities in global form without the restricted legends will be available to Holders or beneficial owners that exchange such Initial Securities (or beneficial interests therein) in such Registered Exchange Offer. Upon the occurrence of any of the circumstances described in this paragraph, the Issuer will deliver an Officers' Certificate to the Trustee instructing the Trustee to issue Securities without restricted legends.

(d) *Cancellation or Adjustment of Global Security.* At such time as all beneficial interests in a Global Security have either been exchanged for Definitive Securities, redeemed, repurchased or canceled, such Global Security shall be returned by the Depository to the Trustee for cancellation or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for Definitive Securities, redeemed, repurchased or canceled, the principal amount of Securities represented by such Global Security shall be reduced and an adjustment shall be made on the books and records of the Trustee (if it is then the Securities Custodian for such Global Security) with respect to such Global Security, by the Trustee or the Securities Custodian, to reflect such reduction.

(e) *Obligations with Respect to Transfers and Exchanges of Securities.*

(i) To permit registrations of transfers and exchanges, the Issuer shall execute and the Trustee shall authenticate Definitive Securities and Global Securities at the Security Registrar's or co-registrar's request.

(ii) No service charge shall be made for any registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charge payable upon exchange or transfer pursuant to Sections 907, 1013, 1017 and 1108 of this Indenture).

(iii) The Security Registrar or co-registrar shall not be required to register the transfer of or exchange of any Security for a period beginning 15 days before the mailing of a notice of redemption or an offer to repurchase Securities or 15 days before an interest payment date.

(iv) Prior to the due presentation for registration of transfer of any Security, the Issuer, the Trustee, the Paying Agent, the Security Registrar or any co-registrar may deem and treat the

A-6

person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Issuer, the Trustee, the Paying Agent, the Security Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Securities issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Securities surrendered upon such transfer or exchange.

(f) *No Obligation of the Trustee.*

(i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Security, a member of, or a participant in the Depository or any other Person with respect to the accuracy of the records of the Depository or its nominee or of any participant or member thereof, with respect to any ownership interest in the Securities or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depository) of any notice (including any notice of redemption or repurchase) or the payment of any amount, under or with respect to such Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Securities shall be given or made only to the registered Holders (which shall be the Depository or its nominee in the case of a Global Security). The rights of beneficial owners in any Global Security shall be exercised only through the Depository subject to the applicable rules and procedures of the Depository. The Trustee may conclusively rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Depository participants, members or beneficial owners in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

2.4 Definitive Securities

(a) A Global Security deposited with the Depository or with the Trustee as Securities Custodian pursuant to Section 2.1 shall be transferred to the beneficial owners thereof in the form of Definitive Securities in an aggregate principal amount equal to the principal amount of such Global Security, in exchange for such Global Security, only if such transfer complies with Section 2.3 and (i) the Depository notifies the Issuer that it is unwilling or unable to continue as a Depository for such Global Security or if at any time the Depository ceases to be a "clearing agency" registered under the Exchange Act, and a successor Depository is not appointed by the Issuer within 90 days of such notice, or (ii) a Default or an Event of Default has occurred and is continuing or (iii) the Issuer, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of Definitive Securities under this Indenture.

(b) Any Global Security that is transferable to the beneficial owners thereof pursuant to this Section 2.4 shall be surrendered by the Depository to the Trustee, to be so transferred, in whole or from time to time in part, without charge, and the Trustee shall authenticate and deliver, upon such transfer of each portion of such Global Security, an equal aggregate principal amount of Definitive Securities of authorized denominations. Definitive Securities issued in exchange for any portion of a Global Security transferred pursuant to this Section shall be executed, authenticated and delivered only

A-7

in denominations of \$1,000 and any integral multiple thereof and registered in such names as the Depository shall direct. Any Definitive Security delivered in exchange for an interest in the Global Security shall, except as otherwise provided by Section 2.3(c), bear the restricted securities legend set forth in Exhibit 1 hereto.

(c) The registered Holder of a Global Security may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action that a Holder is entitled to take under this Indenture or the Securities.

(d) In the event of the occurrence of any of the events specified in Section 2.4(a)(i), (ii) or (iii), the Issuer will promptly make available to the Trustee a reasonable supply of Definitive Securities in definitive, fully registered form without interest coupons.

A-8

**EXHIBIT 1
to APPENDIX A**

[FORM OF FACE OF INITIAL SECURITY]

[Global Securities Legend]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

[Restricted Securities Legend]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS NOTE MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED (X) PRIOR TO THE SECOND ANNIVERSARY OF THE ISSUANCE HEREOF (OR ANY PREDECESSOR SECURITY HERETO) OR (Y) BY ANY HOLDER THAT WAS AN AFFILIATE OF THE ISSUER AT ANY TIME DURING THE THREE MONTHS PRECEDING THE DATE OF SUCH TRANSFER, IN EITHER CASE, OTHER THAN (1) TO THE ISSUER, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS NOTE), (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS NOTE), (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 (IF APPLICABLE) UNDER THE SECURITIES ACT, OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT IS (1) A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR (2) A NON-U.S. PERSON OUTSIDE THE UNITED STATES WITHIN THE MEANING OF

[Definitive Securities Legend]

[IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE SECURITY REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.]

[FORM OF FACE OF INITIAL SECURITY]

No. [up to]** \$

10.750% Senior Note due 2011

CUSIP No.

LEVEL 3 FINANCING, INC., a Delaware corporation, promises to pay to [Cede & Co.]**, or registered assigns, the principal sum [of Dollars]* [as set forth on the Schedule of Increases or Decreases annexed hereto] on October 15, 2011.

Interest Payment Dates: April 15 and October 15.

Record Dates: April 1 and October 1.

* Insert for Definitive Securities.

** Insert for Global Securities. If the Security is to be issued in global form, add the Global Securities Legend from Exhibit 1 to Appendix A and the attachment from such Exhibit 1 captioned "TO BE ATTACHED TO GLOBAL SECURITIES—SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY".

Additional provisions of this Security are set forth on the other side of this Security.

IN WITNESS WHEREOF, the parties have caused this instrument to be duly executed.

LEVEL 3 FINANCING, INC.,

By: _____

Name:

Title:

By: _____

Name:

Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

Dated:

THE BANK OF NEW YORK, as Trustee,

certifies that this is one of the Securities referred to in the Indenture.

By: _____
Authorized Signatory

[FORM OF REVERSE SIDE OF INITIAL SECURITY]

10.750% Senior Note due 2011

1. *Interest*

(a) LEVEL 3 FINANCING, INC., a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Issuer"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Issuer will pay interest semiannually on April 15 and October 15 of each year, commencing April 15, 2004. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from October 1, 2003. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Special Interest.* The holder of this Security is entitled to the benefits of a Registration Rights Agreement, dated as of October 1, 2003, among Parent, the Issuer and the Initial Purchasers named therein, or any other similar Registration Rights Agreement for the registration of Additional Securities (each, a "Registration Agreement"). Capitalized terms used in this paragraph (b) but not defined herein have the meanings assigned to them in the relevant Registration Agreement. If (i) on or prior to April 30, 2005, neither the Exchange Offer Registration Statement nor the Shelf Registration Statement has been filed with the Commission, (ii) on or prior to June 30, 2005, neither the Exchange Offer Registration Statement nor the Shelf Registration Statement has been declared effective, (iii) on or prior to July 31, 2005, neither the Exchange Offer has been consummated nor the Shelf Registration Statement has been declared effective, or (iv) after either the Exchange Offer Registration Statement or the Shelf Registration Statement has been declared effective, such Registration Statement thereafter ceases to be effective or usable (subject to certain exceptions) in connection with resales of Original Securities or New Securities offered in exchange for such Original Securities, in accordance with and during the periods specified in, the Registration Agreement (each such event referred to in clauses (i) through (iv), a "Registration Default"), interest ("Special Interest") will accrue on the principal amount of the Original Securities and the New Securities offered in exchange for such Original Securities (in addition to the stated interest on the Original Securities and such New Securities) from and including the date on which the first such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. Special Interest will accrue at a rate of 0.50% per annum during the 90-day period immediately following the occurrence of such Registration Default and shall increase by 0.25% per annum at the end of each subsequent 90-day period, but in no event shall such rate exceed 1.00% per annum. Special Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

2. *Method of Payment*

The Issuer will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the April 1 or October 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Issuer will pay principal and interest in money of the United States of America that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Issuer will make all payments in respect of a Definitive Security (including principal, premium and interest), by mailing a check to the registered address of each Holder thereof; provided, however, that, at the option of the Issuer, payments on the Securities may also be made, in the case of a Holder of at least \$1,000,000 aggregate principal amount of Securities, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder requests payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. *Paying Agent and Security Registrar*

Initially, THE BANK OF NEW YORK, a New York banking corporation (the "Trustee"), will act as Paying Agent and Security Registrar. The Issuer may appoint and change any Paying Agent, Security Registrar or co-registrar without notice.

4. *Indenture*

The Issuer issued the Securities under an Indenture dated as of October 1, 2003 (the "Indenture"), among Parent, the Issuer and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb) as in effect on the date of the Indenture (the "TIA"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Holders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are unsubordinated unsecured obligations of the Issuer. [This Security is one of the Original Securities referred to in the Indenture issued in an aggregate principal amount of \$500,000,000. The Securities include the Original Securities, any Additional Securities, and

any Exchange Securities issued in exchange for Original or Additional Securities]. [This Security is one of the Additional Securities issued in addition to the Original Securities and Exchange Securities issued in exchange therefor in an aggregate principal amount of \$500,000,000 previously issued under the Indenture. The Original Securities, the Exchange Securities issued in exchange for the Original Securities, the Additional Securities and any Exchange Securities issued in exchange for the Additional Securities are treated as a single class of securities under the Indenture.] The Indenture imposes certain limitations on the ability of Parent, the Issuer and their respective Restricted Subsidiaries to, among other things, make certain Investments and other Restricted Payments, pay dividends and other distributions, incur Debt, enter into consensual restrictions upon the payment of certain dividends and distributions by such Restricted Subsidiaries, issue or sell shares of capital stock of such Restricted Subsidiaries, enter into or permit certain transactions with Affiliates, create or incur Liens and make Asset Sales. The Indenture also imposes limitations on the ability of Parent, the Issuer and their respective Restricted Subsidiaries to consolidate or merge with or into any other Person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of the Property of such entities.

To guarantee the due and punctual payment of the principal and interest on the Securities and all other amounts payable by the Issuer under the Indenture and the Securities when and as the same shall be due and payable, whether at maturity, by acceleration or otherwise, according to the terms of the Securities and the Indenture, Parent has unconditionally guaranteed the Securities on an unsubordinated basis pursuant to the terms of the Indenture.

5. *Optional Redemption*

The Securities will be subject to redemption at the option of the Issuer, in whole or in part, at any time from time to time on or after October 15, 2007, upon not less than 30 nor more than 60 days' prior notice, at the Redemption Prices set forth below, plus accrued and unpaid interest thereon (if any) to the Redemption Date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning October 15, of the years indicated below:

Period	Redemption Price
2007	105.375%
2008	102.688%
2009 and thereafter	100.000%

In addition, at any time from time to time on or prior to October 15, 2006, the Issuer may redeem up to 35% of the original aggregate principal amount of the Securities at a Redemption Price equal to 110.750% of the principal amount of the Securities so redeemed, plus accrued and unpaid interest thereof (if any) to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date), with the net cash proceeds contributed to the capital of the Issuer of one or more private placements to Persons other than Affiliates of Parent or underwritten public offerings of Common Stock of Parent resulting, in each case, in gross proceeds of at least \$100,000,000 in the aggregate; *provided, however*, that at least 65% of the original aggregate principal amount of the Securities would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days' prior notice.

6. *Sinking Fund*

The Securities are not subject to any sinking fund.

7. *Notice of Redemption*

Notice of redemption will be mailed by first-class mail at least 30 days but not more than 60 days prior to the Redemption Date to each Holder of Securities to be redeemed at his or her registered address. Securities in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000. If money sufficient to pay the Redemption Price of and accrued interest on all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent on or before the Redemption Date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

8. *Repurchase of Securities at the Option of Holders upon Change of Control Triggering Event*

Upon a Change of Control Triggering Event, any Holder of Securities will have the right, subject to certain conditions specified in the Indenture, to cause the Issuer to repurchase all or any part of the Securities of such Holder at a purchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date that is on or prior to the date of purchase) as provided in, and subject to the terms of, the Indenture.

9. *Denominations; Transfer; Exchange*

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. Upon any transfer or exchange, the Security Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes required by law or permitted by the Indenture. The Security Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or to transfer or exchange any Securities for a period of 15 days prior to the mailing of a notice of redemption of Securities to be redeemed or 15 days before an interest payment date.

10. *Persons Deemed Owners*

The registered Holder of this Security may be treated as the owner of it for all purposes.

11. *Unclaimed Money*

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Issuer at its written request unless an abandoned

property law designates another Person. After any such payment, Holders entitled to the money must look only to the Issuer and not to the Trustee for payment.

12. *Discharge and Defeasance*

Subject to certain conditions, the Issuer at any time may terminate some of or all its obligations under the Securities and the Indenture if the Issuer deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

13. *Amendment, Waiver*

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended without prior notice to any Holder but with the written consent of the Holders of at least a majority (or, with respect to certain covenants, the written consent of at least two-thirds) in aggregate principal amount of the Outstanding Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of at least a majority in principal amount of the Outstanding Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder of Securities, the Issuer and the Trustee may amend the Indenture or the Securities (i) to evidence the succession of another Person to the Issuer, Parent or any other Guarantor and the assumption by such successor of the covenants of the Issuer, Parent or any other Guarantor, respectively, in the Indenture, the Securities and the applicable Note Guarantee, (ii) to add to the covenants of Parent, the Issuer or any of their respective Subsidiaries, for the benefit of the Holders, or to surrender any right or power conferred upon Parent, the Issuer or any other Guarantor by the Indenture; (iii) to add any additional Events of Default; (iv) to provide for uncertificated Securities in addition to or in place of certificated Securities; (v) to evidence and provide for the acceptance of appointment under the Indenture of a successor Trustee; (vi) to secure the Securities; (vii) to comply with the Trust Indenture Act or the Securities Act (including Regulation S promulgated thereunder); (viii) to add additional Note Guarantees or to release any Guarantors from Note Guarantees as provided by the terms of the Indenture; (ix) to subordinate Note Guarantees under the circumstances and to the extent set forth in the Indenture; and (x) to cure any ambiguity in the Indenture, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein or to add any other provision with respect to matters or questions arising under the Indenture; *provided* such actions shall not adversely affect the interests of the Holders in any material respect.

14. *Defaults and Remedies*

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding, subject to certain limitations, may declare all the Securities to be immediately due and payable. Certain events of bankruptcy or insolvency are Events of Default and shall result in the Securities being immediately due and payable upon the occurrence of such Events of Default without any further act of the Trustee or any Holder.

Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power under the Indenture. The Holders of a majority in aggregate principal amount of the Securities then outstanding, by written notice to the Issuer and the Trustee, may rescind any declaration of acceleration and its consequences if the rescission would not conflict with any judgment or decree, and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration.

15. *Trustee Dealings with the Issuer*

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Issuer or its Affiliates and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee.

16. *No Recourse Against Others*

A director, officer, employee, incorporator or stockholder, as such, of the Issuer or any Guarantor shall not have any liability for any obligations of the Issuer under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation, solely by reason of its status as a director, officer, employee, incorporator or stockholder of such Person. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. *Authentication*

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

18. *Abbreviations*

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

19. *Governing Law*

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

20. *CUSIP Numbers*

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Issuer will furnish to any Holder of Securities upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Security.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Security on the books of the Issuer. The agent may substitute another to act for him.

Date: _____

Your Signature: _____

Sign exactly as your name appears on the other side of this Security.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act after the later of the date of original issuance of such Securities and the last date, if any, on which such Securities were owned by the Issuer or any Affiliate of the Issuer, the undersigned confirms that such Securities are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

- (1) ☐ to the Issuer; or
- (2) ☐ pursuant to an effective registration statement under the Securities Act of 1933; or
- (3) ☐ inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to and in compliance with Rule 144A under the Securities Act of 1933; or
- (4) ☐ outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act in compliance with Rule 904 under the Securities Act of 1933; or
- (5) ☐ pursuant to another available exemption from registration provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any person other than the registered holder thereof; *provided, however*, that if box (4) or (5) is checked, the Trustee may require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Issuer has reasonably

requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

Your signature

Signature Guarantee:

Date: _____

Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee

Signature of Signature Guarantee

TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED:

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Issuer as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: _____

[TO BE ATTACHED TO GLOBAL SECURITIES]

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The initial principal amount of this Global Security is \$[]. The following increases or decreases in this Global Security have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Security	Amount of increase in Principal Amount of this Global Security	Principal amount of this Global Security following such decrease or increase	Signature of authorized signatory of Trustee or Securities Custodian
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OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Issuer pursuant to Section 1016 (Asset Sale) or 1009 (Change of Control Triggering Event) of the Indenture, check the box:

☐

If you want to elect to have only part of this Security purchased by the Issuer pursuant to Section 1016 or 1009 of the Indenture, state the amount:

\$

Date: _____ Your Signature: _____

Sign exactly as your name appears on the other side of this Security.

Signature Guarantee:

Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee.

EXHIBIT A

[FORM OF FACE OF SECURITY]

No.

[up to]** \$

10.750% Senior Note due 2011

CUSIP No.

LEVEL 3 FINANCING, INC., a Delaware corporation, promises to pay to [Cede & Co.]** or registered assigns, the principal sum [of Dollars]* [as set forth on the Schedule of Increases or Decreases annexed hereto] on October 15, 2011.

Interest Payment Dates: April 15 and October 15.

Record Dates: April 1 and October 1.

* Insert for Definitive Securities.

** If the Security is to be issued in global form, add the Global Securities Legend from Exhibit 1 to Appendix A and the attachment from such Exhibit 1 captioned "TO BE ATTACHED TO GLOBAL SECURITIES—SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY".

Additional provisions of this Security are set forth on the other side of this Security.

IN WITNESS WHEREOF, the parties have caused this instrument to be duly executed.

LEVEL 3 FINANCING, INC.,

By: _____

Name:

Title:

By: _____

Name:

Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

Dated:

THE BANK OF NEW YORK,

as Trustee, certifies that this is one of the Securities referred to in the Indenture.

By: _____

Authorized Signatory

[FORM OF REVERSE SIDE OF SECURITY]

10.750% Senior Note due 2011

1. *Interest*

LEVEL 3 FINANCING, INC., a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Issuer"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Issuer will pay interest semiannually on April 15 and October 15 of each year. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from October 1, 2003. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

2. *Method of Payment*

The Issuer will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the April 1 or October 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Issuer will pay principal and interest in money of the United States of America that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Issuer will make all payments in respect of a Definitive Security (including principal, premium and interest), by mailing a check to the registered address of each Holder thereof; provided, however, that, at the option of the Issuer, payments on the Securities may also be made, in the case of a Holder of at least \$1,000,000 aggregate principal amount of Securities, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder

requests payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. *Paying Agent and Security Registrar*

Initially, THE BANK OF NEW YORK, a New York banking corporation (the "Trustee"), will act as Paying Agent and Security Registrar. The Issuer may appoint and change any Paying Agent, Security Registrar or co-registrar without notice.

4. *Indenture*

The Issuer issued the Securities under an Indenture dated as of October 1, 2003 (the "Indenture"), among Parent, the Issuer and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb) as in effect on the date of the Indenture (the "TIA"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Holders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are unsubordinated unsecured obligations of the Issuer. [This Security is one of the Original Securities referred to in the Indenture issued in an aggregate principal amount of \$500,000,000. The Securities include the Original Securities, any Additional Securities, and any Exchange Securities issued in exchange for Original or Additional Securities]. [This Security is one of the Additional Securities issued in addition to the Original Securities and Exchange Securities issued in exchange therefor in an aggregate principal amount of \$500,000,000 previously issued under the Indenture. The Original Securities, the Exchange Securities issued in exchange for the Original Securities, the Additional Securities and any Exchange Securities issued in exchange for the Additional Securities are treated as a single class of securities under the Indenture.] The Indenture imposes certain limitations on the ability of Parent, the Issuer and their respective Restricted Subsidiaries to, among other things, make certain Investments and other Restricted Payments, pay dividends and other

distributions, incur Debt, enter into consensual restrictions upon the payment of certain dividends and distributions by such Restricted Subsidiaries, issue or sell shares of capital stock of such Restricted Subsidiaries, enter into or permit certain transactions with Affiliates, create or incur Liens and make Asset Sales. The Indenture also imposes limitations on the ability of Parent, the Issuer and their respective Restricted Subsidiaries to consolidate or merge with or into any other Person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of the Property of such entities.

To guarantee the due and punctual payment of the principal and interest on the Securities and all other amounts payable by the Issuer under the Indenture and the Securities when and as the same shall be due and payable, whether at maturity, by acceleration or otherwise, according to the terms of the Securities and the Indenture, Parent has unconditionally guaranteed the Securities on an unsubordinated basis pursuant to the terms of the Indenture.

5. *Optional Redemption*

The Securities will be subject to redemption at the option of the Issuer, in whole or in part, at any time from time to time on or after October 15, 2007, upon not less than 30 nor more than 60 days' prior notice, at the Redemption Prices set forth below, plus accrued and unpaid interest thereon (if any) to the Redemption Date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning October 15, of the years indicated below:

Period	Redemption Price
2007	105.375%
2008	102.688%
2009 and thereafter	100.000%

In addition, at any time from time to time on or prior to October 15, 2006, the Issuer may redeem up to 35% of the original aggregate principal amount of the Securities at a Redemption Price equal to 110.750% of the principal amount of the Securities so redeemed, plus accrued and unpaid interest thereof (if any) to the Redemption Date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date), with the net cash proceeds contributed to the capital of the Issuer of one or more private placements to Persons other than Affiliates of Parent or underwritten public offerings of Common Stock of Parent resulting, in each case, in gross proceeds of at least \$100,000,000 in the aggregate; *provided, however*, that at least 65% of the original aggregate principal amount of the Securities would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days' prior notice.

6. *Sinking Fund*

The Securities are not subject to any sinking fund.

7. *Notice of Redemption*

Notice of redemption will be mailed by first-class mail at least 30 days but not more than 60 days prior to the Redemption Date to each Holder of Securities to be redeemed at his or her registered address. Securities in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000. If money sufficient to pay the Redemption Price of and accrued interest on all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent on or before the Redemption Date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

8. *Repurchase of Securities at the Option of Holders upon Change of Control Triggering Event*

Upon a Change of Control Triggering Event, any Holder of Securities will have the right, subject to certain conditions specified in the Indenture, to cause the Issuer to repurchase all or any part of the Securities of such Holder at a purchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date that is on or prior to the date of purchase) as provided in, and subject to the terms of, the Indenture.

9. *Denominations; Transfer; Exchange*

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. Upon any transfer or exchange, the Security Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes required by law or permitted by the Indenture. The Security Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or to transfer or exchange any Securities for a period of 15 days prior to the mailing of a notice of redemption of Securities to be redeemed or 15 days before an interest payment date.

10. *Persons Deemed Owners*

The registered Holder of this Security may be treated as the owner of it for all purposes.

11. *Unclaimed Money*

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Issuer at its written request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Issuer and not to the Trustee for payment.

12. *Discharge and Defeasance*

Subject to certain conditions, the Issuer at any time may terminate some of or all its obligations under the Securities and the Indenture if the Issuer deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

13. *Amendment, Waiver*

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended without prior notice to any Holder but with the written consent of the Holders of at least a majority (or, with respect to certain covenants, the written consent of at least two-thirds) in aggregate principal amount of the Outstanding Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of at least a majority in principal amount of the Outstanding Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder of Securities, the Issuer and the Trustee may amend the Indenture or the Securities (i) to evidence the succession of another Person to the Issuer, Parent or any other Guarantor and the assumption by such successor of the covenants of the Issuer, Parent or any other Guarantor, respectively, in the Indenture, the Securities and the applicable Note Guarantee, (ii) to add to the covenants of Parent, the Issuer or any of their respective Subsidiaries, for the benefit of the Holders, or to surrender any right or power conferred upon Parent, the Issuer or any other Guarantor by the Indenture; (iii) to add any additional Events of Default; (iv) to provide for uncertificated Securities in addition to or in place of certificated Securities; (v) to evidence and provide for the acceptance of

Securities Act (including Regulation S promulgated thereunder); (viii) to add additional Note Guarantees or to release any Guarantors from Note Guarantees as provided by the terms of the Indenture; (ix) to subordinate Note Guarantees under the circumstances and to the extent set forth in the Indenture; and (x) to cure any ambiguity in the Indenture, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein or to add any other provision with respect to matters or questions arising under the Indenture; *provided* such actions shall not adversely affect the interests of the Holders in any material respect.

14. *Defaults and Remedies*

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding, subject to certain limitations, may declare all the Securities to be immediately due and payable. Certain events of bankruptcy or insolvency are Events of Default and shall result in the Securities being immediately due and payable upon the occurrence of such Events of Default without any further act of the Trustee or any Holder.

Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power under the Indenture. The Holders of a majority in aggregate principal amount of the Securities then outstanding, by written notice to the Issuer and the Trustee, may rescind any declaration of acceleration and its consequences if the rescission would not conflict with any judgment or decree, and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration.

15. *Trustee Dealings with the Issuer*

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Issuer or its Affiliates and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee.

16. *No Recourse Against Others*

A director, officer, employee, incorporator or stockholder, as such, of the Issuer or any Guarantor shall not have any liability for any obligations of the Issuer under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation, solely by reason of its status as a director, officer, employee, incorporator or stockholder of such Person. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. *Authentication*

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

18. *Abbreviations*

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

19. *Governing Law*

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

20. *CUSIP Numbers*

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Issuer will furnish to any Holder of Securities upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Security.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Security on the books of the Issuer. The agent may substitute another to act for him.

Date: _____ Your Signature: _____

Sign exactly as your name appears on the other side of this Security. Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee.

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Issuer pursuant to Section 1016 (Asset Sale) or 1009 (Change of Control Triggering Event) of the Indenture, check the box:

☐

If you want to elect to have only part of this Security purchased by the Issuer pursuant to Section 1016 or 1009 of the Indenture, state the amount:

\$ _____

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of the Security)

Signature Guarantee:

Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee.

The undersigned, _____, being the _____ of _____ (the "Company") does hereby certify that the individuals listed below are qualified and acting officers of the Company as set forth in the right column opposite their respective names and the signatures appearing in the extreme right column opposite the name of each such officer is a true specimen of the genuine signature of such officer and such individuals have the authority to execute documents to be delivered to, or upon the request of, The Bank of New York, as Trustee under the Indenture dated as of _____, 20____, among the Company, [Level 3 Communications, Inc./Level 3 Financing, Inc.] and The Bank of New York.

Name	Title	Signature
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Certificate as of the _____ day of _____, 20____.

Name:
Title:

EXHIBIT C

FORM OF SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE (this "Supplemental Indenture") dated as of _____, among [GUARANTOR] (the "New Guarantor"), a direct or indirect subsidiary of Level 3 Communications, Inc. (or its successor), a Delaware corporation ("Parent"), LEVEL 3 FINANCING, INC., a Delaware corporation (the "Issuer") on behalf of itself and the Guarantors (the "Existing Guarantors"), if any, under the Indenture referred to below, and THE BANK OF NEW YORK, a New York banking corporation, as trustee under the indenture referred to below (the "Trustee").

WITNESSETH:

WHEREAS the Issuer and Parent have heretofore executed and delivered to the Trustee an Indenture dated as of October 1, 2003 (the "Indenture"; capitalized terms used but not defined herein having the meanings assigned thereto in the Indenture), providing for the issuance of its 10.75% Senior Notes Due 2011;

WHEREAS the Indenture permits the New Guarantor to execute and deliver to the Trustee a supplemental indenture pursuant to which the New Guarantor shall unconditionally guarantee all the Issuer's obligations under the Securities pursuant to a Guarantee on the terms and conditions set forth herein;

WHEREAS the Guarantee contained in this Supplemental Indenture shall constitute a "Restricted Subsidiary Guarantee", and the New Guarantor shall constitute a "Guarantor", for all purposes of the Indenture; and

WHEREAS pursuant to Section 901 and Section 1307 of the Indenture, the Trustee and the Issuer are authorized to execute and deliver this Supplemental Indenture;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the Issuer, the Existing Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Securities as follows:

- Agreement to Guaranty* . The New Guarantor hereby agrees, jointly and severally with all the existing Guarantors, to unconditionally guarantee the Issuer's obligations under the Securities on the terms and subject to the conditions set forth in Article 13 of the Indenture and to be bound by all other applicable provisions of the Indenture and the Securities.
- Successors and Assigns*. This Supplemental Indenture shall be binding upon the New Guarantor and its successors and assigns and shall enure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges conferred upon that party in the Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.
- No Waiver*. Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Supplemental Indenture, the Indenture or the Securities shall operate as a waiver thereof, nor shall a single or partial exercise thereof

preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders herein and therein expressly specified are cumulative and not exclusive of any

C-1

other rights, remedies or benefits which either may have under this Supplemental Indenture, the Indenture or the Securities at law, in equity, by statute or otherwise.

4. *Modification.* No modification, amendment or waiver of any provision of this Supplemental Indenture, nor the consent to any departure by the New Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the New Guarantor in any case shall entitle the New Guarantor to any other or further notice or demand in the same, similar or other circumstances.

5. *Opinion of Counsel.* Concurrently with the execution and delivery of this Supplemental Indenture, the Issuer shall deliver to the Trustee an Opinion of Counsel to the effect that this Supplemental Indenture has been duly authorized, executed and delivered by each of the New Guarantor and the Issuer and that, subject to the application of bankruptcy, insolvency, moratorium, fraudulent conveyance or transfer and other similar laws relating to creditors' rights generally and to the principles of equity, whether considered in a proceeding at law or in equity, the Guarantee of the New Guarantor is a legal, valid and binding obligation of the New Guarantor, enforceable against the New Guarantor in accordance with its terms.

6. *Ratification of Indenture; Supplemental Indentures Part of Indenture.* Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

7. *Governing Law.* **THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

8. *Counterparts.* The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

9. *Effect of Headings.* The Section headings herein are for convenience only and shall not effect the construction thereof.

C-2

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

[NEW GUARANTOR],

By: _____
Name:
Title:

LEVEL 3 FINANCING, INC., on behalf of itself as the Issuer and the Existing Guarantors, if any,

By: _____
Name:
Title:

THE BANK OF NEW YORK, as Trustee,

By: _____
Name:
Title:

EXHIBIT D

SUBORDINATION AGREEMENT dated as of October [], 2003 among LEVEL 3 FINANCING, INC. (the "Issuer"), LEVEL 3 COMMUNICATIONS, LLC ("Level 3 LLC"), each Issuer Restricted Subsidiary (as defined in the Indenture described below) that becomes party hereto as provided in Section 4.12 hereto (each such Issuer Restricted Subsidiary and Level 3 LLC individually, a "Subordinated Borrower," and collectively, the "Subordinated Borrowers"), LEVEL 3 COMMUNICATIONS, INC. ("Parent"), each Sister Restricted Subsidiary (as defined in the Indenture described below) that becomes party hereto as provided in Section 4.13 hereto (each such Sister Restricted Subsidiary and Parent individually, a "Subordinated Lender," and collectively, the "Subordinated Lenders").

Reference is made to (a) the Purchase Agreement dated September 26, 2003 (the "Purchase Agreement") among the initial purchasers party thereto (the "Purchasers"), the Issuer and Parent, (b) the Indenture dated October 1, 2003 (the "Indenture") among the Issuer, Parent and The Bank of New York, as trustee (in such capacity, the "Trustee"), (c) the intercompany demand note dated the Issue Date, in an initial principal amount equal to \$500,000,000, issued by Level 3 LLC to the Issuer, as it may be amended from time to time pursuant to Sections 301 and 1020 of the Indenture (the "Offering Proceeds Note") and (d) the intercompany demand note dated the date hereof (the "Parent Intercompany Note") issued by Level 3 LLC to Parent, the outstanding balance of which, as of June 30, 2003, was \$11,547,230,519. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Indenture.

The Issuer has agreed to sell to the Purchasers, upon the terms set forth in the Purchase Agreement, its 10.75% Senior Notes due 2011 (the "Securities") to be guaranteed on an unsecured unsubordinated basis by Parent. The obligation of the Purchasers to purchase the Securities is conditioned on, among other things, the execution and delivery by Parent, the Issuer and Level 3 LLC of a subordination agreement in the form hereof. Additionally, upon the incurrence of certain intercompany indebtedness, the Indenture requires Restricted Subsidiaries of Parent (other than the Issuer) to guarantee the Offering Proceeds Note (each such guarantee, an "Offering Proceeds Note Guarantee", and each such Restricted Subsidiary that provides such a guarantee, an "Offering Proceeds Note Guarantor") and to subordinate their obligations with respect to such newly incurred indebtedness to their obligations with respect to their Offering Proceeds Note Guarantee. Offering Proceeds Note Guarantors required to provide subordination with respect to intercompany indebtedness and the creditors on such indebtedness are required to become parties to this Subordination Agreement, if they are not yet parties. In order to induce the Purchasers to purchase the Securities, Parent, the Issuer and Level 3 LLC are willing to execute and deliver this Agreement. Accordingly, Parent, as a Subordinated Lender, the Issuer and Level 3 LLC, as a Subordinated Borrower, hereby agree as follows:

ARTICLE I**Subordination**

SECTION 1.1. *Subordination.* Each Subordinated Lender hereby agrees that all obligations in respect of any Debt owed to such Subordinated Lender by any Subordinated Borrower, including the payment of principal, premium (if any), interest, Guarantees or all other amounts payable thereunder (the "Subordinated Obligations"), are subordinate and junior in right of payment, to the extent and in the manner provided in this Article I, to the prior payment in full in cash of all obligations of such Subordinated Borrower in respect of the Offering Proceeds Note, including the payment of principal, premium (if any), interest (including interest arising after the commencement of a bankruptcy or other proceeding, whether or not such a claim is permitted in such proceeding), Offering Proceeds Note Guarantees thereof or all other amounts payable thereunder (the "Senior Obligations").

D-1

SECTION 1.2. *Subordination in the Event of Dissolution or Insolvency of any Subordinated Borrower.* Subject to the terms of a subordination agreement entered into pursuant to Section 4.14, upon any distribution of the assets of any Subordinated Borrower in connection with its dissolution or insolvency or upon any dissolution, winding up, liquidation or reorganization of any Subordinated Borrower, whether in bankruptcy, insolvency, reorganization, arrangement or receivership or similar proceedings, or upon any assignment for the benefit of creditors or any other marshaling of the assets and liabilities of any Subordinated Borrower:

(a) the Issuer shall first be entitled to receive payment in full in cash of the Senior Obligations of such Subordinated Borrower in accordance with the terms of such Senior Obligations before any Subordinated Lender shall be entitled to receive any payment on account of the Subordinated Obligations owed by such Subordinated Borrower to such Subordinated Lender, whether as principal, premium (if any), interest, pursuant to an Offering Proceeds Note Guarantee or otherwise; and

(b) any payment by, or distribution of the assets of, such Subordinated Borrower of any kind or character, whether in cash, property or securities, to which any Subordinated Lender would be entitled except for the provisions of this Agreement shall be paid or delivered by the Person making such payment or distribution (whether a trustee in bankruptcy, a receiver, custodian or liquidating trustee or otherwise) directly to the Issuer to the extent necessary to make payment in full in cash of all Senior Obligations remaining unpaid, after giving effect to any

concurrent payment or distribution to the Issuer in respect of the Senior Obligations.

In the event of any proceeding involving any Subordinated Borrower under any bankruptcy, insolvency, reorganization, receivership or similar law, each Subordinated Lender agrees, until the indefeasible payment in full of all monetary Senior Obligations, not to ask, demand, sue for or take or receive from any Subordinated Borrower in cash, securities or other property or by setoff, purchase or redemption (including, without limitation, from or by way of collateral), payment of all or any part of the Subordinated Obligations owed to such Subordinated Lender (other than payments permitted pursuant to clause (b) above) and agrees that in connection with any proceeding involving any Subordinated Borrower under any bankruptcy, insolvency, reorganization, receivership or similar law (i) the Issuer is irrevocably authorized and empowered (in its own name or in the name of such Subordinated Borrower or otherwise), but shall have no obligation, to demand, sue for, collect and receive every payment or distribution referred to in the preceding sentence and give acquittance therefor and to file claims and proofs of claim and take such other action (including, without limitation, voting the applicable Subordinated Obligations and enforcing any security interest or other lien securing payment of such Subordinated Obligations) as the Issuer may deem necessary or advisable for the exercise or enforcement of any of its rights or interests and (ii) each Subordinated Lender shall duly and promptly take such action as the Issuer may reasonably request to (A) collect amounts in respect of the applicable Subordinated Obligations for the account of the Issuer and to file appropriate claims or proofs of claim in respect of such Subordinated Obligations, (B) execute and deliver to the Issuer such irrevocable powers of attorney, assignments or other instruments as the Issuer may reasonably request in order to enable the Issuer to enforce any and all claims with respect to, and any security interests and other liens securing payment of, the applicable Subordinated Obligations and (C) collect and receive any and all payments or distributions which may be payable or deliverable upon or with respect to the applicable Subordinated Obligations. A copy of this Agreement may be filed with any court as evidence of the Issuer's right, power and authority hereunder.

SECTION 1.3. *Certain Payments Held in Trust.* Subject to the terms of a subordination agreement entered into pursuant to Section 4.14, in the event that any payment by, or distribution of the assets of, any Subordinated Borrower of any kind or character, whether in cash, property or securities, and whether directly or otherwise, shall be received by or on behalf of any Subordinated Lender at a time when such payment is prohibited by this Agreement, such payment or distribution shall be held in trust for the benefit of, and shall be paid over to, the Issuer to the extent necessary to make payment in full

D-2

in cash of all Senior Obligations remaining unpaid, after giving effect to any concurrent payment or distribution to the Issuer in respect of such Senior Obligations.

SECTION 1.4. *Subrogation.* Subject to the prior indefeasible payment in full in cash of the Senior Obligations, each Subordinated Lender shall be subrogated to the rights of the Issuer to receive payments or distributions in cash, property or securities of each applicable Subordinated Borrower in respect of the Senior Obligations until all amounts owing on the applicable Subordinated Obligations shall be paid in full, and as between and among a Subordinated Borrower, its creditors (other than the Issuer) and the applicable Subordinated Lender, no such payment or distribution made to the Issuer by virtue of this Agreement that otherwise would have been made to such Subordinated Lender shall be deemed to be a payment by such Subordinated Borrower on account of such Subordinated Obligations, it being understood that the provisions of this Agreement are intended solely for the purpose of defining the relative rights of the Subordinated Lenders, on the one hand, and the Issuer, on the other hand.

ARTICLE II

Other Matters Regarding the Subordinated Obligations

SECTION 2.1. *Other Creditors.* Except in the limited circumstances set forth in Article I, nothing contained in this Agreement is intended to or shall impair, as between and among a Subordinated Borrower, its creditors and any Subordinated Lender, the obligations of such Subordinated Borrower to pay to such Subordinated Lender the Subordinated Obligations of such Subordinated Borrower as and when the same shall become payable in accordance with the terms thereof, or affect the relative rights of such Subordinated Lender and the other creditors of such Subordinated Borrower.

SECTION 2.2. *Proofs of Claims.* In the event of any dissolution, winding up, liquidation or reorganization of any Subordinated Borrower, whether in bankruptcy, insolvency, reorganization, arrangement or receivership proceedings or otherwise, or any assignment for the benefit of creditors or any other marshaling of the assets and liabilities of any Subordinated Borrower, each Subordinated Lender agrees to file proofs of claim for the Subordinated Obligations owed to it upon demand of the Issuer, in default of which the Issuer or an authorized representative of the Issuer is hereby irrevocably authorized so to file in order to effectuate the provisions hereof. This Section shall not be construed to permit any Subordinated Lender to retain any payment received by it in respect of a Subordinated Obligation that such Subordinated Lender is not entitled to receive and retain under any other provision of this Agreement.

SECTION 2.3. *Waivers.* (a) Each Subordinated Lender waives the right to compel any assets or property of any Subordinated Borrower or the assets or property of any Offering Proceeds Note Guarantor or any other Person to be applied in any particular order to discharge the Senior Obligations. Each Subordinated Lender expressly waives the right to require the Issuer to proceed against any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person, or to pursue any other remedy in the Issuer's power which such Subordinated Lender cannot pursue and which would lighten such Subordinated Lender's burden, notwithstanding that the failure of the Issuer to do so may thereby

prejudice such Subordinated Lender. Each Subordinated Lender agrees that it shall not be discharged, exonerated or have its obligations hereunder to the Issuer reduced (i) by the Issuer's delay in proceeding against or enforcing any remedy against any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person; (ii) by the Issuer releasing any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person from all or any part of the Senior Obligations; or (iii) by the discharge of any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person by an operation of law or otherwise, with or without the intervention or omission of the Issuer, except in each case unless all Senior Obligations due to the Issuer have been indefeasibly paid in full in cash. The Issuer's vote to accept or reject any plan of

D-3

reorganization relating to any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person, or the Issuer's receipt on account of all or part of the Senior Obligations of any cash, securities or other property distributed in any bankruptcy, reorganization, or insolvency case, shall not discharge, exonerate, or reduce the obligations of any Subordinated Lender hereunder to the Issuer, except in each case unless all Senior Obligations have been indefeasibly paid in full in cash.

(b) Each Subordinated Lender waives all rights and defenses arising out of an election of remedies by the Issuer, even though that election of remedies, including, without limitation, any nonjudicial foreclosure with respect to security for the Senior Obligations, has impaired the value of such Subordinated Lender's rights of subrogation, reimbursement, or contribution against any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person. Each Subordinated Lender expressly waives any rights or defenses it may have by reason of protection afforded to any Subordinated Borrower, any Offering Proceeds Note Guarantor or any other Person with respect to the Senior Obligations pursuant to any anti deficiency laws or other laws of similar import which limit or discharge the principal debtor's indebtedness upon judicial or nonjudicial foreclosure of real property or personal property collateral for the Senior Obligations, if any.

(c) Each Subordinated Lender agrees that, without the necessity of any reservation of rights against it, and without notice to or further assent by it, any demand for payment of the Senior Obligations made by the Issuer may be rescinded in whole or in part by the Issuer, and any Senior Obligation may be continued, and the Senior Obligations, or the liability of any Subordinated Borrower or any Offering Proceeds Note Guarantor or any other party upon or for any part thereof, or any Guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, modified, accelerated, compromised, waived, surrendered, or released by the Issuer, in each case without notice to or further assent by such Subordinated Lender, which will remain bound under this Agreement and without impairing, abridging, releasing or affecting the subordination and other agreements provided for herein.

(d) Each Subordinated Lender waives any and all notice of the creation, renewal, extension or accrual of any of the Senior Obligations and notice of or proof of reliance by the Issuer upon this Agreement. The Senior Obligations, and any of them, shall be deemed conclusively to have been created, contracted or incurred in reliance upon this Agreement, and all dealings between any Subordinated Borrower and the Issuer shall be deemed to have been consummated in reliance upon this Agreement. Each Subordinated Lender acknowledges and agrees that the Issuer has relied upon the subordination and other agreements provided for herein in consenting to this Agreement. Each Subordinated Lender waives notice of or proof of reliance on this Agreement and protest, demand for payment and notice of default.

SECTION 2.4. *Legend.* Any and all instruments or records now or hereafter creating or evidencing the Subordinated Obligations, whether upon refunding, extension, renewal, refinancing, replacement or otherwise, shall contain the following legend:

"Notwithstanding anything contained herein to the contrary, neither the principal of nor the interest on, nor any other amounts payable in respect of, the indebtedness created or evidenced by this instrument or record shall become due or be paid or payable, except to the extent permitted under the Subordination Agreement dated [insert date of this agreement], among Level 3 Communications, Inc., [any additional Subordinated Lenders,] Level 3 Communications, LLC[, any additional Subordinated Borrowers] and Level 3 Financing, Inc., which Subordination Agreement is incorporated herein with the same effect as if fully set forth herein."

SECTION 2.5. *Transfer of Subordinated Obligations.* Each Subordinated Lender agrees that it will not sell, assign, transfer or otherwise dispose of all or any part of the Subordinated Obligations owed to it unless the Person to whom such sale, assignment, transfer or disposition is made shall acknowledge in writing (delivered to the Issuer and the Purchasers) that it shall be bound by the terms of this

D-4

Agreement to the same extent as such Subordinated Lender, including the terms of this Section 2.5, as though it is a party hereto as of the date hereof.

SECTION 2.6. *Obligations Hereunder Not Affected.* (a) All rights and interests of the Issuer hereunder, and all agreements and obligations of each Subordinated Lender hereunder, shall remain in full force and effect irrespective of:

- (i) any lack of validity or enforceability of the Offering Proceeds Note, the Purchase Agreement or any document contemplated

thereby;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Senior Obligations, or any other amendment or waiver of or consent to departure from the Offering Proceeds Note;

(iii) any release, amendment, waiver or other modification, whether in writing or by course of conduct or otherwise, of, or consent to departure from, any Offering Proceeds Note Guarantee; or

(iv) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Subordinated Borrower in respect of its Senior Obligations or of any Subordinated Lender in respect of this Agreement.

(b) This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of the Senior Obligations or any part thereof is rescinded or must otherwise be returned by the Issuer upon the insolvency, bankruptcy or reorganization of any Subordinated Borrower or otherwise, all as though such payment had not been made.

ARTICLE III

Representations and Warranties of the Subordinated Lenders

Each Subordinated Lender represents and warrants to the Issuer that:

(a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized.

(b) The execution, delivery and performance by it of this Agreement and the consummation of the transactions contemplated hereby are within its powers, have been duly authorized by all necessary action on its part, require no action by or in respect of, or filing with, any court or governmental or regulatory body or agency (other than such as have been duly taken or made) and do not contravene, or constitute a default under, any provision of applicable law or regulation or of its certificate of incorporation or by-laws (or other organizational documents, as applicable) or of any material agreement, judgment, injunction, order, decree or other instrument binding upon it or any of its subsidiaries.

(c) This Agreement constitutes a valid and binding agreement of such Subordinated Lender, enforceable against such Subordinated Lender in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally and equitable principles of general applicability.

ARTICLE IV

Miscellaneous

SECTION 4.1. *Notices.* All communications and notices hereunder shall be in writing and shall be mailed or delivered and sent by fax and confirmed at 1025 Eldorado Boulevard, Broomfield, Colorado 80021, attention: General Counsel (Telecopy No. 720-888-5127; Telephone Confirm 720-888-2505), with

D-5

a copy in like manner to Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York, 10013 (Telecopy No. 212-816-0949).

SECTION 4.2. *Successors and Assigns.* Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. All representations, warranties, covenants, promises and agreements by or on behalf of each Subordinated Lender and each Subordinated Borrower that are contained in this Agreement shall bind its successors and assigns and inure to the benefit of the Issuer and the successors and assigns of the Issuer. Each Subordinated Lender and each Subordinated Borrower agrees that it shall not assign or delegate any of its obligations under this Agreement without the prior written consent of the Issuer, and any attempted assignment or delegation without such consent shall be void and of no effect.

SECTION 4.3. *Governing Law; Jurisdiction; Consent to Service of Process.* (a) **THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

(b) Each Subordinated Lender hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any

such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Issuer may otherwise have to bring any action or proceeding relating to this Agreement against any Subordinated Lender or its properties in the courts of any jurisdiction.

(c) Each Subordinated Lender hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each Subordinated Lender hereby irrevocably consents to service of process in the manner provided for notices in Section 4.1 hereto. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 4.4. *Waivers; Amendment.* No failure or delay of the Issuer in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power by the Issuer preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Issuer hereunder and instruments creating or securing its respective Senior Obligations are cumulative and are not exclusive of any other rights or remedies provided by law. Neither this Agreement nor any provision hereof may be waived, amended or modified except (i) in accordance with Section 1020 of the Indenture and (ii) pursuant to an agreement or agreements in writing entered into by the Issuer, each Subordinated Lender and each Subordinated Borrower intending to be bound thereby.

SECTION 4.5. *Waiver of Claims.* (a) To the maximum extent permitted by law, each Subordinated Lender waives any claim it might have against the Issuer with respect to, or arising out of, any action

D-6

or failure to act or any error of judgment, negligence, or mistake or oversight whatsoever on the part of the Issuer or its directors, officers, employees, agents or affiliates with respect to any exercise of rights or remedies under the Offering Proceeds Note. Neither the Issuer nor any of its respective directors, officers, employees, agents or affiliates shall be liable for failure to demand, collect or realize upon any Offering Proceeds Note Guarantee or for any delay in doing so or shall be under any obligation to take any other action whatsoever with regard to the Offering Proceeds Note or any part thereof.

(b) Each Subordinated Lender, for itself and on behalf of its successors and assigns, hereby waives any and all now existing or hereafter arising rights it may have to require the Issuer to marshal assets for the benefit of such Subordinated Lender, or to otherwise direct the timing, order or manner of any enforcement of the Offering Proceeds Note. The Issuer is under no duty or obligation, and each Subordinated Lender hereby waives any right it may have to compel the Issuer, to pursue any Offering Proceeds Note Guarantor or other Person who may be liable for the Senior Obligations.

(c) Each Subordinated Lender hereby waives and releases all rights which a guarantor or surety with respect to the Senior Obligations could exercise.

(d) Each Subordinated Lender hereby waives any duty on the part of the Issuer to disclose to it any fact known or hereafter known by the Issuer relating to the operation or financial condition of any Subordinated Borrower or any Offering Proceeds Note Guarantor, or their respective businesses. Each Subordinated Lender enters into this Agreement based solely upon its independent knowledge of the applicable Subordinated Borrower's results of operations, financial condition and business and such Subordinated Lender assumes full responsibility for obtaining any further or future information with respect to the applicable Subordinated Borrower or its results of operations, financial condition or business.

SECTION 4.6. *Further Assurances.* Each Subordinated Lender and each Subordinated Borrower, at its own expense and at any time from time to time, upon the written request of the Issuer, will promptly and duly execute and deliver such further instruments and documents and take such further actions as the Issuer reasonably may request for the purposes of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted.

SECTION 4.7. *Provisions Define Relative Rights.* This Agreement is intended solely for the purpose of defining the relative rights of the Issuer on the one hand and the Subordinated Lenders and the Subordinated Borrowers on the other, and no other Person shall have any right, benefit or other interest under this Agreement.

SECTION 4.8. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED

TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 4.9. *Severability*. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace any invalid, illegal or

D-7

unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 4.10. *Counterparts*. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which, when taken together, shall constitute but one instrument.

SECTION 4.11. *Headings*. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 4.12. *Additional Subordinated Borrowers*. Pursuant to clause (vi) of paragraph (b) of Section 1010 or clause (iv) of paragraph (b) of Section 1011 of the Indenture, upon execution and delivery by, as applicable, any Restricted Subsidiary or Issuer Restricted Subsidiary of an instrument in the form of Annex I attached hereto or otherwise in a form acceptable to the Issuer, such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, shall become a Subordinated Borrower hereunder with the same force and effect as if originally named as a Subordinated Borrower herein. The execution and delivery of any such instrument shall not require the consent of any other Subordinated Borrower hereunder. The rights and obligations of each Subordinated Borrower herein shall remain in full force and effect notwithstanding the addition of any Subordinated Borrower as a party to this Agreement.

SECTION 4.13. *Additional Subordinated Lenders*. Pursuant to clause (vi) of paragraph (b) of Section 1010 of the Indenture or clause (iv) of paragraph (b) of Section 1011 of the Indenture or both such clauses, upon execution and delivery by any Sister Restricted Subsidiary of an instrument in the form of Annex I attached hereto or otherwise in a form acceptable to the Issuer, such Sister Restricted Subsidiary shall become a Subordinated Lender hereunder with the same force and effect as if originally named as a Subordinated Lender herein. The execution and delivery of any such instrument shall not require the consent of any other Subordinated Lender hereunder. The rights and obligations of each Subordinated Lender herein shall remain in full force and effect notwithstanding the addition of any Subordinated Lender as a party to this Agreement.

SECTION 4.14. *Subordination of Senior Obligations to Qualified Credit Facility*. The Issuer, a Subordinated Borrower and the Subordinated Lenders may enter into an agreement or arrangement that provides that the payment obligation on the Senior Obligations of such Subordinated Borrower be expressly subordinated in any bankruptcy, liquidation or winding up proceeding of such Subordinated Borrower to the prior payment in full in cash of all obligations of such Subordinated Borrower under any Guarantee of, or obligation as borrower under, any Qualified Credit Facility Incurred by Parent or a Restricted Subsidiary in accordance with clause (ii) of paragraph (b) of Section 1010 or clause (ii) of paragraph (b) of Section 1011 of the Indenture; *provided, however*, that (x) the terms of the subordination of such Senior Obligations of such Subordinated Borrower, to any such Guarantee of or obligation as borrower under a Qualified Credit Facility may not eliminate or otherwise adversely affect the subordination of the payment obligation on any other Debt of such Subordinated Borrower, to the payment obligation of the Senior Obligations of such Subordinated Borrower, and (y) any Guarantee (other than a Guarantee of such Qualified Credit Facility) by such Subordinated Borrower of any other Debt of Parent or any Sister Restricted Subsidiary also shall be expressly subordinated in any bankruptcy, liquidation or winding up proceeding of such Subordinated Borrower, to the prior payment in full in cash of all obligations of such Subordinated Borrower under its Guarantee of such Qualified Credit Facility to at least the same extent and on the same terms and conditions as the subordination provisions applicable to the Senior Obligations of such Subordinated Borrower.

D-8

IN WITNESS WHEREOF, Level 3 LLC, as a Subordinated Borrower, Parent, as a Subordinated Lender and the Issuer have caused this Agreement to be duly executed by their respective authorized representatives as of the day and year first above written.

LEVEL 3 COMMUNICATIONS, LLC,

By: _____

Name:

Title:

LEVEL 3 COMMUNICATIONS, INC.,

By: _____

Name:

Title:

LEVEL 3 FINANCING, INC.,

By: _____

Name:

Title:

D-9

**Annex I to the
Subordination Agreement**

SUPPLEMENT NO. [] dated as of [] to the Subordination Agreement dated as of [] (the "Subordination Agreement"), among LEVEL 3 COMMUNICATIONS, LLC ("Level 3 LLC"), each Restricted Subsidiary or Issuer Restricted Subsidiary becoming a party thereto pursuant to Section 4.12 thereof (each such Restricted Subsidiary or Issuer Restricted Subsidiary and Level 3 LLC, a "Subordinated Borrower"), LEVEL 3 COMMUNICATIONS, INC. ("Parent"), each Sister Restricted Subsidiary becoming a party thereto pursuant to Section 4.13 thereof (each such Sister Restricted Subsidiary and Parent, a "Subordinated Lender") and LEVEL 3 FINANCING, INC. (the "Issuer").

Reference is made to the Subordination Agreement.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Subordination Agreement.

Pursuant to clause (vi) of paragraph (b) of Section 1010 or clause (iv) of paragraph (b) of Section 1011 of the Indenture, as applicable, a Restricted Subsidiary or an Issuer Restricted Subsidiary is allowed to incur Debt from Parent or a Sister Restricted Subsidiary provided that (i) such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, is a Guarantor and an Offering Proceeds Note Guarantor and (ii) such Debt is expressly subordinated in any bankruptcy, liquidation or winding up proceeding of such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, to such Restricted Subsidiary's or Issuer Restricted Subsidiary's Offering Proceeds Note Guarantee, as applicable. Section 4.12 of the Subordination Agreement provides that a Restricted Subsidiary or an Issuer Restricted Subsidiary may become a Subordinated Borrower under the Subordination Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Restricted Subsidiary or Issuer Restricted Subsidiary (the "New Subordinated Borrower") is executing this Supplement to become a Subordinated Borrower under the Subordination Agreement in order to comply with the terms of the Indenture and as consideration for amounts previously advanced to the Issuer under the Indenture.

Accordingly, the New Subordinated Borrower agrees as follows:

In accordance with Section 4.12 of the Subordination Agreement, the New Subordinated Borrower by its signature below becomes a Subordinated Borrower under the Subordination Agreement with the same force and effect as if originally named therein as a Subordinated Borrower and the New Subordinated Borrower hereby agrees to all the terms and provisions of the Subordination Agreement applicable to it as a Subordinated Borrower thereunder. Each reference to a "Subordinated Borrower" in the Subordination Agreement shall be deemed to include the New Subordinated Borrower. The Subordination Agreement is hereby incorporated herein by reference.

The New Subordinated Borrower represents and warrants to the Issuer that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity regardless of whether considered in a proceeding in equity or at law.

This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute a single contract. This Supplement shall become effective when the Issuer shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subordinated Borrower and the Issuer. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

Except as expressly supplemented hereby and pursuant to any other supplement contemplated by Section 4.12 or 4.13 of the Subordination Agreement, the Subordination Agreement shall remain in full force and effect.

THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

In the event any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace any invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

All communications and notices hereunder shall be in writing and given as provided in Section 4.1 of the Subordination Agreement. All communications and notices hereunder to the New Subordinated Borrower shall be given to it at the address set forth under its signature below.

2

IN WITNESS WHEREOF, the New Subordinated Borrower and the Issuer have duly executed this Supplement to the Subordination Agreement as of the day and year first above written.

[NAME OF NEW SUBORDINATED BORROWER],

By: _____

Name:
Title:

LEVEL 3 FINANCING, INC.,

By: _____

Name:
Title:

3

**Annex II to the
Subordination Agreement**

SUPPLEMENT NO. [] dated as of [] to the Subordination Agreement dated as of [] (the "Subordination Agreement"), among LEVEL 3 COMMUNICATIONS, LLC ("Level 3 LLC"), each Restricted Subsidiary or Issuer Restricted Subsidiary becoming a party thereto pursuant to Section 4.12 thereof (each such Restricted Subsidiary or Issuer Restricted Subsidiary and Level 3 LLC, a "Subordinated Borrower"), LEVEL 3 COMMUNICATIONS, INC. ("Parent"), each Sister Restricted Subsidiary becoming a party thereto pursuant to Section 4.13 thereof (each such Sister Restricted Subsidiary and Parent, a "Subordinated Lender" and, collectively, the "Subordinated Lenders") and LEVEL 3 FINANCING, INC. (the "Issuer").

Reference is made to the Subordination Agreement.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Subordination Agreement.

Pursuant to clause (vi) of paragraph (b) of Section 1010 or clause (iv) of paragraph (b) of Section 1011 of the Indenture, as applicable, a Restricted Subsidiary or an Issuer Restricted Subsidiary is allowed to incur Debt from Parent or a Sister Restricted Subsidiary provided that (i) such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, is a Guarantor and an Offering Proceeds Note Guarantor and (ii) such Debt is subordinated in any bankruptcy, liquidation or winding up proceeding of such Restricted Subsidiary or Issuer Restricted Subsidiary, as applicable, to such Restricted Subsidiary's or Issuer Restricted Subsidiary's Offering Proceeds Note Guarantee. Section 4.13 of the Subordination Agreement provides that a Sister Restricted Subsidiary may become a Subordinated Lender under the Subordination Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Sister Restricted Subsidiary (the "New Subordinated Lender") is executing this Supplement to become a Subordinated Lender under the Subordination Agreement in order to comply with the terms of the Indenture and as consideration for amounts previously advanced to the Issuer under the Indenture.

Accordingly, the New Subordinated Lender agrees as follows:

In accordance with Section 4.13 of the Subordination Agreement, the New Subordinated Lender by its signature below becomes a Subordinated Lender under the Subordination Agreement with the same force and effect as if originally named therein as a Subordinated Lender and the New Subordinated Lender hereby (a) agrees to all the terms and provisions of the Subordination Agreement applicable to it as a Subordinated Lender thereunder and (b) represents and warrants that the representations and warranties made by it as a Subordinated Lender thereunder are true and correct on and as of the date hereof. Each reference to a "Subordinated Lender" in the Subordination Agreement shall be deemed to include the New Subordinated Lender. The Subordination Agreement is hereby incorporated herein by reference.

The New Subordinated Lender represents and warrants to the Issuer that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity regardless of whether considered in a proceeding in equity or at law.

This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute a single contract. This Supplement shall become effective when the Issuer shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subordinated Lender and the Issuer. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

Except as expressly supplemented hereby and pursuant to any other supplement contemplated by Section 4.12 or 4.13 of the Subordination Agreement, the Subordination Agreement shall remain in full force and effect.

THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

In the event any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace any invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

All communications and notices hereunder shall be in writing and given as provided in Section 4.1 of the Subordination Agreement. All communications and notices hereunder to the New Subordinated Lender shall be given to it at the address set forth under its signature below.

IN WITNESS WHEREOF, the New Subordinated Lender and the Issuer have duly executed this Supplement to the Subordination Agreement as of the day and year first above written.

[NAME OF NEW SUBORDINATED LENDER]

By: _____
Name:
Title:

LEVEL 3 FINANCING, INC.,

By: _____
Name:
Title:

WITNESSETH:

WHEREAS Level 3 Communications, LLC ("Level 3 LLC") has heretofore executed and delivered to Level 3 Financing, Inc. (the "Issuer") an intercompany demand note in an initial principal amount equal to \$500,000,000, as it may be amended from time to time pursuant to Sections 301 and 1020 of the Indenture (as defined below) (the "Offering Proceeds Note").

WHEREAS the Issuer has heretofore executed and delivered to The Bank of New York, as trustee, an Indenture dated as of October 1, 2003 (the "Indenture"; capitalized terms used but not defined herein having the meanings assigned thereto in the Indenture), providing for the issuance of its 10.75% Senior Notes due (the "Securities");

WHEREAS the Indenture permits the Offering Proceeds Note Guarantor to incur certain Debt provided, among other things, that such Offering Proceeds Note Guarantor execute and deliver to the Issuer a Guarantee pursuant to which the Offering Proceeds Note Guarantor shall unconditionally guarantee all Level 3 LLC's obligations under the Offering Proceeds Note pursuant to a Guarantee on the terms and conditions set forth herein; and

WHEREAS the Guarantee contained in this Guarantee Agreement shall constitute an "Offering Proceeds Note Guarantee" for all purposes of the Indenture;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Offering Proceeds Note Guarantor and the Issuer mutually covenant and agree for the equal and ratable benefit of the Issuer as follows:

ARTICLE I

Offering Proceeds Note Guarantee

SECTION 1.01. *Guarantees.* Subject to a subordination agreement entered into pursuant to Section 1.03, the Offering Proceeds Note Guarantor hereby unconditionally guarantees to the Issuer and its successors and assigns (a) the full and punctual payment in cash of all obligations of Level 3 LLC in respect of the Offering Proceeds Note, including the payment of principal, premium (if any), interest (including interest arising after the commencement of a bankruptcy or other proceeding, whether or not such a claim is permitted in such proceeding) or any other amount payable thereunder (the "Obligations"). The Offering Proceeds Note Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from the Offering Proceeds Note Guarantor and that the Offering Proceeds Note Guarantor will remain bound under this Agreement notwithstanding any extension or renewal of the Obligations.

The Offering Proceeds Note Guarantor waives presentation to, demand of, payment from and protest to Level 3 LLC of any of the Obligations and also waives notice of protest for nonpayment. The Offering Proceeds Note Guarantor waives notice of any default under the Obligations. The obligations of the Offering Proceeds Note Guarantor hereunder shall not be affected by (a) the failure of the Issuer to assert any claim or demand or to enforce any right or remedy against Level 3 LLC, any Offering Proceeds Note Guarantor or any other Person under the Offering Proceeds Note or any other agreement or otherwise; (b) any extension or renewal of any obligation thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions of the Offering Proceeds Note, any Offering Proceeds Note Guarantee or any other agreement or (d) the release of any security held by the Issuer for the Obligations, if any.

The Offering Proceeds Note Guarantor further agrees that its Guarantee herein constitutes a Guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by the Issuer to any security held for payment of the Obligations.

Except as expressly set forth in Section 1.03 or Section 2.08, the obligations of the Offering Proceeds Note Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of the Offering Proceeds Note Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of the Issuer to assert any claim or demand or to enforce any remedy under the Offering Proceeds Note, any Offering Proceeds Note Guarantee or any other agreement, by any waiver or modification of any term thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Offering Proceeds Note Guarantor or would otherwise operate as a discharge of the Offering Proceeds Note Guarantor as a matter of law or equity.

The Offering Proceeds Note Guarantor further agrees that its Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or (premium, if any) interest on any Senior Obligation is rescinded or must otherwise be restored by the Issuer upon the bankruptcy or reorganization of Level 3 LLC or otherwise.

In furtherance of the foregoing and not in limitation of any other right which the Issuer has at law or in equity against the Offering Proceeds

Note Guarantor by virtue hereof, upon the failure of Level 3 LLC to pay the principal of (or premium, if any) or interest on the Obligations when and as the same shall become due or to perform or comply with any other Senior Obligation, the Offering Proceeds Note Guarantor hereby promises to and will, upon receipt of written demand by the Issuer, forthwith pay, or cause to be paid, in cash, to the Issuer an amount equal to all unpaid amounts in respect of the Obligations.

The Offering Proceeds Note Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Obligations guaranteed hereby until payment in full in cash of all Obligations.

The Offering Proceeds Note Guarantor also agrees to pay any and all costs and expenses (including reasonable attorneys' fees) incurred by the Issuer in enforcing any rights under this Article I.

SECTION 1.02. *Contribution.* The Offering Proceeds Note Guarantor (a "Contributing Party") agrees that, in the event a payment shall be made by any other Offering Proceeds Note Guarantor under any other Offering Proceeds Note Guarantee (the "Claiming Offering Proceeds Note Guarantor"), the Contributing Party shall indemnify the Claiming Offering Proceeds Note Guarantor in an amount equal to the amount of such payment multiplied by a fraction, the numerator of which shall be the net worth of the Contributing Party (which shall be measured on the date hereof) and the denominator of which shall be the aggregate net worth of Level 3 LLC on the Issue Date and the Offering Proceeds Note Guarantors on the respective dates of the Offering Proceeds Note Guarantee Agreements executed and delivered by such Offering Proceeds Note Guarantors.

SECTION 1.03. *Subordination of Guarantees to Qualified Credit Facility.* The Offering Proceeds Note Guarantor may enter into an agreement or arrangement that provides that its payment obligation on the Obligations arising hereunder be expressly subordinated to the extent and under the conditions set forth in Section 1308 of the Indenture.

ARTICLE II

Miscellaneous

SECTION 2.01. *Successors and Assigns.* This Agreement shall be binding upon the Offering Proceeds Note Guarantor and its successors and assigns and shall enure to the benefit of the successors and assigns of the Issuer and, in the event of any transfer or assignment of rights by the Issuer, the rights and privileges conferred upon that party in the Offering Proceeds Note shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of the Indenture.

SECTION 2.02. *No Waiver.* Neither a failure nor a delay on the part of the Issuer in exercising any right, power or privilege under this Agreement or the Offering Proceeds Note shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Issuer herein and therein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Agreement or the Offering Proceeds Note at law, in equity, by statute or otherwise.

SECTION 2.03. *Modification.* Subject to Section 1020 of the Indenture, no modification, amendment or waiver of any provision of this Agreement, nor the consent to any departure by the Offering Proceeds Note Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Issuer, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Offering Proceeds Note Guarantor in any case shall entitle the Offering Proceeds Note Guarantor to any other or further notice or demand in the same, similar or other circumstances.

SECTION 2.04. *Opinion of Counsel.* Concurrently with the execution and delivery of this Agreement, the Offering Proceeds Note Guarantor shall deliver to the Issuer an Opinion of Counsel to the effect that this Agreement has been duly authorized, executed and delivered by the Offering Proceeds Note Guarantor and that, subject to the application of bankruptcy, insolvency, moratorium, fraudulent conveyance or transfer and other similar laws relating to creditors' rights generally and to the principles of equity, whether considered in a proceeding at law or in equity, the Guarantee of the Offering Proceeds Note Guarantor is a legal, valid and binding obligation of the Offering Proceeds Note Guarantor, enforceable against the Offering Proceeds Note Guarantor in accordance with its terms.

SECTION 2.05. *Governing Law.* **THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

SECTION 2.06. *Counterparts.* The parties may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement.

SECTION 2.07. *Effect of Headings.* The Section headings herein are for convenience only and shall not effect the construction thereof.

SECTION 2.08. *Termination of Agreement and Release of Guarantee.* This Agreement will be terminated and all obligations hereunder of the Offering Proceeds Note Guarantor will be released under the circumstances and conditions set forth in Section 1303 of the Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

[OFFERING PROCEEDS NOTE GUARANTOR],

By: _____
Name:
Title:

LEVEL 3 FINANCING, INC.,

By: _____
Name:
Title:

QuickLinks

[Indenture Dated as of October 1, 2003](#)

INDENTURE

Dated as of October 24, 2003

between

Level 3 Communications, Inc.,

as Issuer

and

The Bank of New York,

as Trustee

\$294,732,000

9% Convertible Senior Discount Notes due 2013

(Senior Debt Securities)

CROSS-REFERENCE TABLE*

Trust Indenture Act Section	Indenture Section
310 (a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	N.A.
(b)	7.08, 7.10
(c)	N.A.
311(a)	7.11
(b)	7.11
(c)	N.A.
312 (a)	2.05
(b)	11.03
(c)	11.03
313(a)	7.06
(b)(1)	7.06
(b)(2)	7.06
(c)	7.06
(d)	7.06
314(a)	4.02, 4.03

(b)	N.A.
(c)(1)	11.04
(c)(2)	11.04
(c)(3)	N.A.
(d)	N.A.
(e)	11.05
(f)	N.A.
315(a)	7.01(b)
(b)	7.05
(c)	7.01
(d)	7.01(c)
(e)	6.11
316(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(b)	6.07
(c)	1.05(e)
317(a)(1)	6.08
(a)(2)	6.09
(b)	2.04
318(a)	N.A.

N.A. means not applicable.

*This Cross-Reference Table is not part of the Indenture.

TABLE OF CONTENTS

	Page
ARTICLE 1	DEFINITIONS AND INCORPORATION BY REFERENCE
	1
Section 1.01.	Definitions
	1
Section 1.02.	Incorporation by Reference of Trust Indenture Act
	8
Section 1.03.	Rules of Construction
	8
Section 1.04.	Acts of Holders.
	8
ARTICLE 2	THE SECURITIES
	9
Section 2.01.	Title and Terms
	9
Section 2.02.	Denominations
	10
Section 2.03.	Form and Dating
	10
Section 2.04.	Execution and Authentication
	11
Section 2.05.	Registrar, Paying Agent and Conversion Agent
	11
Section 2.06.	Paying Agent to Hold Money in Trust.
	11
Section 2.07.	Holder Lists
	12
Section 2.08.	Transfer and Exchange.
	13
Section 2.09.	Replacement Securities
	14
Section 2.10.	Outstanding Securities; Determinations of Holders' Action
	15
Section 2.11.	Temporary Securities
	15
Section 2.12.	Cancellation
	15
Section 2.13.	Persons Deemed Owners
	16
Section 2.14.	Transfer Provisions.
	16
Section 2.15.	CUSIP Numbers
	18
ARTICLE 3	REDEMPTION
	18
Section 3.01.	Optional Redemption
	18

Section 3.02.	Notices to Trustee	18
Section 3.03.	Selection of Securities to Be Redeemed	18
Section 3.04.	Notice of Redemption	19
Section 3.05.	Effect of Notice of Redemption	20
Section 3.06.	Deposit of Redemption Price	20
Section 3.07.	Securities Redeemed in Part	20
Section 3.08.	Conversion Arrangement on Call for Redemption	20
ARTICLE 4	COVENANTS	21
Section 4.01.	Payment of Accreted Value and Interest	21
Section 4.02.	Maintenance of Office or Agency	21
Section 4.03.	Money for Securities Payments to Be Held in Trust	21
Section 4.04.	Statement as to Compliance	22
Section 4.05.	Repurchase Upon Designated Event	22
Section 4.06.	Limitation on Liens	24
Section 4.07.	Special Interest Notice	24
Section 4.08.	Calculation of Original Issue Discount	25
ARTICLE 5	CONSOLIDATION, MERGER, SALE, LEASE OR CONVEYANCE	25
Section 5.01.	When the Company May Merge, Etc	25
Section 5.02.	Successor Corporation Substituted	25
Section 5.03.	Purchase Option on Change of Control	26

ARTICLE 6	EVENTS OF DEFAULT	26
Section 6.01.	Events of Default	26
Section 6.02.	Acceleration	27
Section 6.03.	Other Remedies	28
Section 6.04.	Waiver of Past Defaults	28
Section 6.05.	Control by Majority	28
Section 6.06.	Limitation on Suits	28
Section 6.07.	Rights of Holders to Receive Payment	28
Section 6.08.	Collection Suit by Trustee	29
Section 6.09.	Trustee May File Proofs of Claim	29
Section 6.10.	Priorities	29
Section 6.11.	Undertaking for Costs	29
Section 6.12.	Notice of Default or Event of Default	29
ARTICLE 7	TRUSTEE	29
Section 7.01.	Duties of Trustee.	29
Section 7.02.	Rights of Trustee	30
Section 7.03.	Individual Rights of Trustee	31
Section 7.04.	Trustee's Disclaimer	32
Section 7.05.	Notice of Defaults	32
Section 7.06.	Reports by Trustee to Holders	32
Section 7.07.	Reports by Company	32
Section 7.08.	Compensation and Indemnity	32
Section 7.09.	Replacement of Trustee	33
Section 7.10.	Successor Trustee by Merger	33
Section 7.11.	Eligibility; Disqualification	34
Section 7.12.	Preferential Collection of Claims Against Company	34

Section 7.13.	Money Held in Trust	34
ARTICLE 8	DISCHARGE OF INDENTURE	34
Section 8.01.	Discharge of Liability on Securities	34
Section 8.02.	Application of Trust Funds	34
Section 8.03.	Repayment to the Company	34
ARTICLE 9	AMENDMENTS	35
Section 9.01.	Without Consent of Holders	35
Section 9.02.	With Consent of Holders	35
Section 9.03.	Compliance with Trust Indenture Act	36
Section 9.04.	Revocation and Effect of Consents	36
Section 9.05.	Notation on or Exchange of Securities	36
Section 9.06.	Trustee to Sign Supplemental Indentures	36
Section 9.07.	Effect of Supplemental Indentures	36

ARTICLE 10	CONVERSIONS	36
Section 10.01.	Right to Convert	36
Section 10.02.	Exercise of Conversion Privilege; Issuance of Common Stock on Conversion; No Adjustment for Interest, Accretion or Dividends	37
Section 10.03.	Cash Payments in Lieu of Fractional Shares	38
Section 10.04.	Adjustment of the Conversion Price	39
Section 10.05.	Effect of Reclassification, Consolidation, Merger or Sale	44
Section 10.06.	Taxes on Shares Issued	45
Section 10.07.	Reservation of Shares; Shares to Be Fully Paid; Listing of Common Stock	45
Section 10.08.	Responsibility of Trustee	46
Section 10.09.	Notice to Holders Prior to Certain Actions	46
ARTICLE 11	MISCELLANEOUS	47
Section 11.01.	Trust Indenture Act Controls	47
Section 11.02.	Notices	47
Section 11.03.	Communication by Holders with Other Holders	48
Section 11.04.	Certificate and Opinion as to Conditions Precedent	48
Section 11.05.	Statements Required in Certificate or Opinion.	48
Section 11.06.	Separability Clause	48
Section 11.07.	Rules by Trustee, Paying Agent, Conversion Agent and Registrar	49
Section 11.08.	Legal Holidays	49
Section 11.09.	Governing Law	49
Section 11.10.	No Recourse Against Others	49
Section 11.11.	Successors	49
Section 11.12.	Multiple Originals	49
Exhibit A-1	— Form of Global Security	
Exhibit A-2	— Form of Certificated Security	
Exhibit B	— Transfer Certificate	

THIS INDENTURE, dated as of October 24, 2003, is by and between Level 3 Communications, Inc., a Delaware corporation (the "*Company*"), and The Bank of New York, a corporation duly organized and existing under the laws of the State of New York (the "*Trustee*"), having a Corporate Trust Office at 101 Barclay Street, Floor 8 West, New York, New York 10286.

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders (as defined below) of the Company's 9% Convertible Senior Discount Notes Due 2013 (the "*Securities* "):

ARTICLE 1 DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01. *Definitions* .

" *144A Global Security* " means a permanent Global Security in the form of the Security attached hereto as Exhibit A-1 that is deposited with and registered in the name of the Depository, representing Securities eligible to be resold in reliance on Rule 144A under the Securities Act.

" *Accreted Value* " of any Security as of or to any date of determination prior to October 15, 2007, means, as of any date of determination, an amount equal to the sum of (a) the Issue Price of such Security plus (b) the aggregate of the portions of the original issue discount (the excess of the amounts considered as part of the "stated redemption price at maturity" of such Security within the meaning of Section 1273(a)(2) of the Code or any successor provisions, whether denominated as principal or interest, over the Issue Price of such Security) that shall theretofore have accrued pursuant to Section 1272 of the Code (without regard to Section 1272(a)(7) of the Code) from the date of issue of such Security to the date of determination (which amount shall be accrued on a daily basis and compounded semiannually on each Accretion Measurement Date at a rate of 9% per annum from the Issue Date through the date of determination on the basis of a 360-day year of twelve 30-day months), minus all amounts theretofore paid in respect of such Security, which amounts are considered as part of the "stated redemption price at maturity" of such Security within the meaning of Section 1273(a)(2) of the Code or any successor provisions (whether such amounts paid were denominated as principal or interest). The Accreted Value of any Security on or after October 15, 2007, will mean the principal amount at maturity of such Security. Notwithstanding the foregoing, if the Company elects to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007, the Securities shall cease to accrete, and the Accreted Value and the principal amount at maturity of each Security shall be the Accreted Value on the date of commencement of such accrual as calculated in accordance with the first sentence of this definition.

" *Accretion Measurement Date* " means April 15 and October 15 of each year.

" *Acquired Debt* " means, with respect to any specified Person, (a) indebtedness of any other Person existing at the time such Person merges with or into or consolidates with such specified Person and (b) indebtedness secured by a Lien encumbering any property acquired by such specified Person, which indebtedness in each case was not incurred in anticipation of, and was outstanding prior to, such merger, consolidation or acquisition.

" *Act* " shall have the meaning set forth in Section 1.04(a) of this Indenture.

" *Affiliate* " of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, " *Control* " when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms " *Controlling* " and " *Controlled* " have meanings correlative to the foregoing.

" *Agent Members* " shall have the meaning given in Section 2.14(e) of this Indenture.

" *Authorized Newspaper* " means a newspaper, printed in the English language or in an official language of the country of publication, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Whenever successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different Authorized Newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

" *Bankruptcy Law* " means Title 11, U.S. Code or any similar federal, state, or foreign law for the relief of debtors.

" *Board of Directors* " means either the board of directors of the Company or any duly authorized committee of such board.

" *Board Resolution* " means a copy of one or more resolutions, certified by an Officer of the Company to have been duly adopted or consented to by the applicable Board of Directors and to be in full force and effect, and delivered to the Trustee.

" *Business Day* " means a day that in the City of New York is not a day on which banking institutions are authorized or obligated by law or regulation to close.

" *Capital Stock* " of any Person means any and all shares, interests, participations or other equivalents (however designated) of corporate stock or other equity participations, including partnership interests, whether general or limited, of such Person and any rights (other than debt securities convertible and exchangeable into an equity interest), warrants or options to acquire an equity interest in such Person.

" *Certificated Securities* " means Securities that are in the form of the Securities attached hereto as Exhibit A-2.

" *Change of Control* " at such time after the original issuance of the Securities means the occurrence of one or more of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act or any successor provisions to either of the foregoing), including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5 (b)(1) under the Exchange Act, other than any one or more of the Permitted Holders, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the total voting power of the Voting Stock of the Company; *provided, however*, that the Permitted Holders are the "beneficial owners" (as defined in Rule 13d-3 under the Exchange Act, except that a person will be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, in the aggregate of a lesser percentage of the total voting power of the Voting Stock of the Company than such other person or group (for purposes of this clause (a), such person or group shall be deemed to beneficially own any Voting Stock of a corporation (the " *specified corporation* ") held by any other corporation (the " *parent corporation* ") so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the total voting power of the Voting Stock of such parent corporation); or (b) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of the Company and its Subsidiaries, considered as a whole (other than a disposition of such assets as an entirety or virtually as an entirety to a wholly owned Subsidiary or one or more Permitted Holders) shall have occurred; or (c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new

directors whose election or appointment by such board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; or (d) the shareholders of the Company shall have approved any plan of liquidation or dissolution of the Company; *provided, however*, that a Change of Control under (a) and (b) above shall not be deemed to have occurred if either (x) the daily market price per share of Common Stock for any five Trading Days within the period of 10 consecutive Trading Days ending immediately after the later of the Change of Control or the public announcement of the Change of Control (in the case of a Change of Control under clause (a) above) or the period of 10 consecutive Trading Days ending immediately before the Change of Control (in the case of a Change of Control under clause (b) above) shall equal or exceed 105% of the Conversion Price in effect on the date of the Change of Control or the public announcement of the Change of Control (*provided* that for purposes of the foregoing, the Conversion Price shall be determined without regard to temporary increases therein pursuant to Section 10.04(g) of this Indenture, as applicable; or (y) all of the consideration (excluding cash payments for fractional shares) in the transaction or transactions constituting the Change of Control consists of shares of common stock that are, or upon issuance will be, traded on the New York Stock Exchange or the American Stock Exchange or quoted on the Nasdaq National Market and as a result of such transaction or transactions the Securities become convertible solely into such common stock.

" *Clearstream* " means Clearstream Banking, société anonyme.

" *Closing Sale Price* " of the shares of Common Stock on any date means the closing sale price per share (or, if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported in composite transactions for the New York Stock Exchange or such other principal United States securities exchange on which shares of Common Stock may be traded or, if the shares of Common Stock are not listed on a United States national or regional securities exchange, as reported by the Nasdaq system or by the National Quotation Bureau Incorporated. In the absence of such quotations, the Company shall be entitled to determine the Closing Sale Price on the basis of such quotations as it considers appropriate. Closing Sale Price shall be determined without reference to extended or after hours trading.

" *Code* " means the Internal Revenue Code of 1986, as amended.

" *Common Stock* " means shares of the Company's Common Stock, \$0.01 par value per share, as they exist on the date of this Indenture or any other shares of Capital Stock of the Company into which the Common Stock shall be reclassified or changed.

" *Company* " means the party named as the "Company" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

" *Company Order* " means a written request or order signed in the name of the Company by any two Officers.

" *Conversion Agent* " means the Trustee or any other Person appointed by the Company to accept Securities presented for conversion.

" *Conversion Price* " shall have the meaning set forth in Exhibit A-1 hereto.

" *Corporate Trust Office* " means the principal office of the Trustee at which at any time the trust created by this Indenture shall be administered, which office at the date hereof is located at 101

Barclay Street, Floor 8 West, New York, New York 10286, Attention: Corporate Trust Administration, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Holders and the Company).

" *Current Market Price* " shall have the meaning set forth in Section 10.04(f)(1) of this Indenture.

" *Custodian* " means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

" *Default* " means any event which is, or after notice or passage of time or both would be, an Event of Default.

" *Defaulted Interest* " shall have the meaning set forth in Section 2.06(b) of this Indenture.

" *Designated Event* " means the occurrence of a Change of Control or a Termination of Trading.

" *Designated Event Date* " shall have the meaning set forth in Section 4.05 of this Indenture.

" *Designated Event Offer* " shall have the meaning set forth in Section 4.05 of this Indenture.

" *Designated Event Offer Termination Date* " shall have the meaning set forth in Section 4.05 of this Indenture.

" *Designated Event Payment* " shall have the meaning set forth in Section 4.05 of this Indenture.

" *Designated Event Payment Date* " shall have the meaning set forth in Section 4.05 of this Indenture.

" *Depository* " shall have the meaning set forth in Section 2.03(b) of this Indenture.

" *Determination Date* " shall have the meaning set forth in Section 10.04(j) of this Indenture.

" *DTC* " shall have the meaning set forth in Section 2.03(b) of this Indenture.

" *Distribution* " shall have the meaning set forth in Section 10.04(d) of this Indenture.

" *Euroclear* " means Euroclear S.A. / N.V., as operator of the Euroclear System.

" *Event of Default* " shall have the meaning set forth in Section 6.01 of this Indenture.

" *Exchange Act* " means the Securities Exchange Act of 1934, and the rules and regulations promulgated thereunder, as in effect from time to time.

" *Expiration Time* " shall have the meaning set forth in Section 10.04(e) of this Indenture.

" *Fair Market Value* " has the meaning set forth in Section 10.04(f)(2) of this Indenture.

" *GAAP* " means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the America Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect on the Issue Date.

" *Global Security* " shall have the meaning set forth in Section 2.03 of this Indenture.

" *Holder* " or " *Securityholder* " means a person in whose name a Security is registered on the Registrar's books.

" *Indenture* " means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof, including the provisions of the TIA that are deemed to be a part hereof.

" *Initial Purchasers* " shall mean CRC (Bermuda) Reinsurance Limited, Markel Insurance Company of Canada, Federated Insurance Company of Canada, Federated Life Insurance Company of Canada, Commonwealth Insurance Company, Commonwealth Insurance Company of America, Lombard General Insurance Company of Canada, Ranger Insurance Company, United States Fire Insurance Company, The North River Insurance Company, Seneca Insurance Company, Inc., Seneca Specialty Insurance Company, Odyssey America Reinsurance Corporation, Odyssey Reinsurance Corporation, Hudson Insurance Company, Newline Underwriting Management Limited, Falcon Insurance Company Limited, TIG Insurance Company and Riverstone Management Limited.

" *Interest Payment Date* " means the Stated Maturity of an installment of interest on the Securities.

" *Issue Date* " of any Security means the date on which the Security was originally issued or deemed issued as set forth on the face of the Security.

" *Issue Price* " of any Security means \$704.73 per \$1,000 principal amount at maturity.

" *Legal Holiday* " shall have the meaning set forth in Section 11.08 of this Indenture.

" *Legend* " shall have the meaning set forth in Section 2.08(f) of this Indenture.

" *Lien* " means any mortgage or deed of trust, pledge, hypothecation, security interest, lien, charge, encumbrance or other security agreement of any kind or nature whatsoever; *provided, however*, that Liens shall not include defeasance trusts or funds. For purposes of this definition, the sale, lease, conveyance or other transfer by the Company or any of its subsidiaries of, including the grant of indefeasible rights of use or equivalent arrangements with respect to, dark or lit communications fiber capacity or communications conduit shall not constitute a Lien.

" *Material Subsidiary* " means any Subsidiary of the Company which at the date of determination is a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and the Exchange Act.

" *Non-electing Share* " shall have the meaning set forth in Section 10.05 of this Indenture.

" *Non-U.S. Person* " means a person who is not a U.S. person, as defined in Regulation S.

" *Officer* " means the Chairman and Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, the Controller or the Secretary or Assistant Secretary of such Person or any other officer designated by the board of directors of such Person serving in a similar capacity.

" *Officers' Certificate* " means a written certificate containing the information specified in Sections 11.04 and 11.05, signed in the name of the Company by any two Officers, and delivered to the Trustee. An Officers' Certificate given pursuant to Section 4.04 shall be signed by the principal financial, principal executive or principal accounting officer of the Company but need not contain the information specified in Sections 11.04 and 11.05.

" *Opinion Of Counsel* " means a written opinion containing the information specified in Sections 11.04 and 11.05, from legal counsel who is acceptable to the Trustee in its reasonable discretion. The counsel may be an employee of, or counsel to, the Company or the Trustee.

" *Paying Agent* " means any Person (including the Company acting as Paying Agent) authorized by the Company to pay the Accreted Value of or interest on any Securities on behalf of the Company.

" *Payment Default* " shall have the meaning given in Section 6.01(f) of this Indenture.

" *Permitted Holders* " means the members of the Company's Board of Directors on April 28, 1998, and their respective estates, spouses, ancestors, and lineal descendants, the legal representatives of any of the foregoing and the trustees of any bona fide trusts of which the foregoing are the sole

beneficiaries or the grantors, or any person of which the foregoing "beneficially owns" (as defined in Rule 13d-3 under the Exchange Act) at least 66 ² / 3 % of the total voting power of the Voting Stock of such person.

" *Person* " means any individual, corporation, company, partnership, joint venture, limited liability company, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof or any other entity.

" *Place of Payment* " means the place or places where the Accreted Value of and interest on such Securities are payable as specified.

" *Purchased Shares* " shall have the meaning set forth in Section 10.04(e) of this Indenture.

" *QIBS* " shall have the meaning set forth in Section 2.03(b) of this Indenture.

" *Record Date* " shall have the meaning set forth in Section 10.04(f)(3) of this Indenture.

" *Redemption Condition* " shall have the meaning set forth in Section 3.01 of this Indenture.

" *Redemption Date* ", when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

" *Redemption Price* " when used with respect to any of the Securities to be redeemed, means the price fixed for such redemption pursuant to Article 3 and the Securities.

" *Registrar* " shall have the meaning set forth in Section 2.05 of this Indenture.

" *Regular Record Date* " for the interest payable on any Interest Payment Date means the April 1 or October 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

" *Regulation S* " means Regulation S under the Securities Act.

" *Regulation S Global Security* " means a permanent Global Security in registered form representing the aggregate principal amount at maturity of Securities sold in reliance on Regulation S under the Securities Act.

" *Responsible Officer* " shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

" *Restricted Security* " means a Security required to bear the restrictive legend set forth in the form of Security set forth in Exhibit A-1 of this Indenture.

" *Rule 144A* " means Rule 144A under the Securities Act (or any successor provision), as it may be amended from time to time.

" *SEC* " means the Securities and Exchange Commission.

" *Security* " or " *Securities* " means any of the Company's 9% Convertible Senior Discount Notes Due 2013, as amended or supplemented from time to time, issued under this Indenture.

" *Security Register* " has the meaning set forth in Section 2.07 of this Indenture.

" *Securityholder* " or " *Holder* " means a person in whose name a Security is registered on the Registrar's books.

" *Securities Act* " means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

" *Special Interest* " has the meaning set forth in Exhibit A-1 to this Indenture.

" *Special Interest Notice* " has the meaning set forth in Section 4.07 of this Indenture.

" *Special Record Date* " has the meaning set forth in Section 2.06(b) of this Indenture.

" *Specified Indebtedness* " means (a) the Company's 9.125% Senior Notes due 2008, 11% Senior Notes due 2008, 10.5% Senior Discount Notes due 2008, 10.75% Senior Euro Notes due 2008, 12.875% Senior Discount Notes due 2010, 11.25% Senior Euro Notes due 2010, 11.25% Senior Notes due 2010, 6.0% Convertible Subordinated Notes due 2009, 6.0% Convertible Subordinated Notes due 2010 and 2.875% Convertible Senior Notes due 2010, and (b) any indebtedness of the Company for borrowed money that (i) is in the form of, or represented by, bonds, notes, debentures or other securities (other than promissory notes or similar evidence of indebtedness under bank loans, reimbursement agreements, receivables facilities or other bank, insurance or other institutional financing agreements under Section 4(2) of the Securities Act) or any guarantee thereof and (ii) is, or may be, quoted, listed or purchased and sold on any stock exchange, automated securities trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the Securities Act).

" *Spinoff Valuation Period* " shall have the meaning set forth in Section 10.04(d) of this Indenture.

" *Stated Maturity* ", when used with respect to a Security or any installment of interest thereon, means the date specified in such Security as the fixed date on which the Accreted Value of such Security or such installment of interest is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Security at the option of the Holder thereof upon the happening of any contingency beyond the control of the Company unless such contingency has occurred).

" *Subsidiary* " of any Person means (a) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more Subsidiaries thereof or (b) any other Person (other than a corporation) in which such Person, or one or more other Subsidiaries of such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof.

" *TIA* " means the Trust Indenture Act of 1939 as in effect on the date of this Indenture, provided, however, that in the event the TIA is amended after such date, TIA means, to the extent required by any such amendment, the TIA as so amended.

" *Termination of Trading* " will be deemed to have occurred if the Common Stock (or other common stock into which the Securities are then convertible) is neither listed for trading on a U.S. national securities exchange nor approved for trading on the Nasdaq National Market.

" *Trading Day* " means (a) if the applicable security is quoted on the Nasdaq National Market, a day on which trades may be made thereon, (b) if the applicable security is listed or admitted for trading on the New York Stock Exchange or another national securities exchange, a day on which the New York Stock Exchange or such other national securities exchange is open for business or (c) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

" *Transfer* " means any sale, assignment, pledge, hypothecation, or other disposition or encumbrance.

" *Trigger Event* " shall have the meaning set forth in Section 10.04(d) of this Indenture.

" *Trustee* " means the party named as the " *Trustee* " in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

" *Voting Stock* " of any Person means the Capital Stock of such Person which ordinarily has voting power for the election of directors (or persons performing similar functions) of such Person, whether at all times or only for so long as no senior class of securities has such voting power by reason of any contingency.

Section 1.02. *Incorporation by Reference of Trust Indenture Act* . Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

" *Commission* " means the SEC.

" *Indenture Securities* " means the Securities.

" *Indenture Security Holder* " means a Securityholder.

" *Indenture to be Qualified* " means this Indenture.

" *Indenture Trustee* " or " *Institutional Trustee* " means the Trustee.

" *Obligor* " on the indenture securities means the Company.

All other TIA terms used in this Indenture that are defined by the TIA, defined by a TIA reference to another statute or defined by an SEC rule have the meanings assigned to them by such definitions.

Section 1.03. *Rules of Construction* . Unless the context otherwise requires:

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time;
- (c) "or" is not exclusive;
- (d) "including" means including, without limitation; and
- (e) words in the singular include the plural, and words in the plural include the singular.

Section 1.04. *Acts of Holders* .

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the " *Act* " of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to such officer the execution thereof. Where such execution is by a

signer acting in a capacity other than such signer's individual capacity, such certificate or affidavit shall also constitute sufficient proof of such signer's authority.

The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

- (c) The ownership of Securities shall be proved by the register maintained by the Registrar.
- (d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.
- (e) If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

ARTICLE 2 THE SECURITIES

Section 2.01. *Title and Terms* . The aggregate principal amount at maturity of Securities which may be authenticated and delivered under this Indenture is limited to \$294,732,000, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 2.08, 2.09, 2.11, 3.07 or 4.05.

The Securities shall be known and designated as the "9% Convertible Senior Discount Notes Due 2013" of the Company. Their Stated Maturity shall be October 15, 2013. The Securities shall be issued at a discount of 29.527% to their aggregate principal amount at maturity, and shall accrete at a rate of 9% per annum, compounded semiannually, to 100% of their aggregate principal amount at maturity by October 15, 2007. On October 15, 2007, cash interest shall commence accruing at a rate of 9% per annum, which shall be payable semiannually in arrears on April 15 and October 15 in each year, commencing on April 15, 2008, and at said Stated Maturity, until the Accreted Value thereof is paid or duly provided for. The Company may elect, upon not less than 60 days prior notice to the Holders and the Trustee, to commence the accrual of cash interest on all outstanding Securities on or after October 15, 2004, in which case the outstanding principal amount at maturity of each Security shall on such commencement date be reduced to the Accreted Value of such Security as of such commencement date and cash interest shall be payable with respect to such Security on each April 15 and October 15 thereafter, as set forth or referred to in the text of the Securities.

Accreted Value of and interest on the Securities will be payable, and the Securities may be exchanged or transferred, at the office or agency of the Company in The City of New York, which, unless otherwise provided by the Company, will be the offices of the Trustee. At the option of the

Company, interest may be paid by check mailed to addresses of the Persons entitled thereto as such addresses shall appear on the Security Register.

The interest rate on the Securities is subject to increase by the addition of Special Interest and otherwise, all as set forth or referred to in the text of the Securities appearing in Exhibit A-1 hereto.

The Securities shall be convertible into shares of Common Stock as provided in Article 10.

The Securities shall be redeemable as provided in Article 3.

Section 2.02. *Denominations* . The Securities will be issued without coupons and in fully registered form only, in minimum denominations of \$1,000 principal amount at maturity and integral multiples thereof.

Section 2.03. *Form and Dating* . The Securities and the Trustee's certificate of authentication shall be substantially in the forms set forth on Exhibits A-1 and A-2, which are a part of this Indenture and incorporated by reference herein. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company shall provide any such notations, legends or endorsements to the Trustee in writing. Each Security shall be dated the date of its authentication.

(a) *Certificated Securities* . Securities shall be issued initially only in certificated form substantially in the form of *Exhibit A-2* attached hereto.

(b) *Global Securities* . Securities not issued in certificated form shall be issued in the form of one or more permanent global Securities in registered form, substantially in the form set forth in *Exhibit A-1* (each, a " *Global Security* "), which shall be deposited with the Trustee at its Corporate Trust Office, as custodian for the Depositary and registered in the name of The Depositary Trust Company (" *DTC* ") or the nominee thereof (such depositary, or any successor thereto, and any such nominee being hereinafter referred to as the " *Depositary* "), duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount at maturity of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depositary as hereinafter provided.

(c) *Global Securities in General* . Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, redemptions and conversions.

Any adjustment of the aggregate principal amount at maturity of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee as required by Section 2.14 hereof and shall be made on the records of the Trustee and the Depositary.

(d) *Book-Entry Provisions* . The Company shall execute and the Trustee shall, in accordance with this Section 2.03(c), authenticate and deliver initially one or more Global Securities that (i) shall be registered in the name of the Depositary, (ii) shall be delivered by the Trustee to

the Depositary or pursuant to the Depositary's instructions and (iii) shall bear legends substantially to the following effect:

"UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO LEVEL 3 COMMUNICATIONS, INC. (THE "COMPANY") OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST

10

COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS TO NOMINEES OF THE DEPOSITORY TRUST COMPANY OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF."

Section 2.04. *Execution and Authentication* . The Securities shall be executed on behalf of the Company by any Officer. The signature of the officer of the Company on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at the time of the execution of the Securities the proper Officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of authentication of such Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

Section 2.05. *Registrar, Paying Agent and Conversion Agent* . The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (" *Registrar* "), an office or agency where Securities may be presented for purchase or payment (" *Paying Agent* ") and an office or agency where Securities may be presented for conversion (" *Conversion Agent* "). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent, including any named pursuant to Section 4.02. The term Conversion Agent includes any additional conversion agent, including any named pursuant to Section 4.02.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent, Conversion Agent or co-registrar (other than the Trustee). Such agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Company or any Subsidiary or an Affiliate of either of them may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints the Trustee as Registrar, Conversion Agent and Paying Agent in connection with the Securities.

Section 2.06. *Paying Agent to Hold Money in Trust* .

(a) Except as otherwise provided herein, on or prior to 10:00 am New York City time each due date of payments in respect of any Security, the Company shall deposit with the Paying Agent a sum of money (in immediately available funds if deposited on the due date) sufficient to make such payments when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to

11

agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the making of payments in respect of the Securities and shall notify the Trustee of any Default by the Company in making any such payment. At any time during the continuance of any such Default, the Paying Agent shall, upon the written request of the Trustee, forthwith pay to the Trustee all moneys held in trust. If the Company, a Subsidiary or an Affiliate of either of them acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by it. Upon doing so, the Paying Agent shall have no further liability for the money.

(b) Except as otherwise specified with respect to the Securities, any interest on any Security that is payable, but is not punctually paid or duly provided for, within 30 days following any applicable payment date (herein called "Defaulted Interest"), shall forthwith cease to be payable to the Holder thereof on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below.

(i) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities are registered at the close of business on a date for the payment of such Defaulted Interest (the "Special Record Date"), which shall be fixed in the following manner: The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment (which shall not be less than 20 days after such notice is received by the Trustee), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities at his address as it appears on the list of Holders maintained pursuant to this Indenture not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Securities are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (ii).

(ii) Alternatively, the Company may make payment of any Defaulted Interest on the Securities in any other lawful manner not inconsistent with the requirements of any Securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.07. *Holder Lists* . The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders (the "Security Register"). If the Trustee is not the Registrar, the Company shall cause to be furnished to the Trustee at least semiannually on April 1 and October 1 a listing of Holders dated within 15 days of the date on which the list is furnished and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

Section 2.08. *Transfer and Exchange* .

(a) Subject to Section 2.14 hereof, upon surrender for registration of transfer of any Securities, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at the office or agency of the Company designated as Registrar or co-registrar pursuant to Section 2.05, the Company shall execute and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denomination or denominations, of a like aggregate principal amount at maturity. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the transferor exchange of the Securities from the Securityholder requesting such transferor exchange.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denomination or denominations, of a like aggregate principal amount at maturity, upon surrender of the Securities to be exchanged, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities that the Holder making the exchange is entitled to receive.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed) or any Securities in respect of which a notice of Redemption or notice of a Designated Event has been given and not withdrawn by the Holder thereof in accordance with the terms of this Indenture (except, in the case of Securities to be purchased in part, the portion thereof not to be purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

(b) Notwithstanding any provision to the contrary herein, so long as a Global Security remains outstanding and is held by or on behalf of the Depositary, transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.14 and this Section 2.08(b). Transfers of a Global Security shall be limited to transfers of such Global Security in whole, or in part, to nominees of the Depositary or to a successor of the Depositary or such successor's nominee. Owners of beneficial interests in the Securities represented by Global Securities shall hold such interests pursuant to the procedures and practices of the Depositary. Owners of beneficial interests who purchased such interests

pursuant to Regulation S may hold their interests in a Global Security through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Owners of beneficial interests who purchased such interests pursuant to Regulation S may also hold such interests through organizations other than Euroclear or Clearstream that are participants in the Depositary's system. Euroclear and Clearstream will hold interests in the Global Securities on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which in turn, will hold such interests in the Global Securities in customers' securities accounts in the depositories' names on the books of the Depositary. All interests in a Global Security, including those held through Euroclear or Clearstream may be subject to the procedures and requirements of the Depositary. Those interests held through Euroclear and Clearstream will be subject to the procedures and requirements of such systems.

(c) Successive registrations and registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the register for the Securities.

13

(d) Any Registrar appointed pursuant to Section 2.05 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

(e) No Registrar shall be required to make registrations of transfer or exchange of Securities during any periods designated in the text of the Securities or in this Indenture as periods during which such registration of transfers and exchanges need not be made.

(f) If Securities are issued upon the transfer, exchange or replacement of Securities subject to restrictions on transfer and bearing the legends set forth on the forms of Securities attached hereto as Exhibits A-1 and A-2 setting forth such restrictions (collectively, the " *Legend* "), or if a request is made to remove the Legend on a Security, the Securities so issued shall bear the Legend, or the Legend shall not be removed, as the case may be, unless there is delivered to the Company and the Registrar such satisfactory evidence, which shall include an Opinion of Shearman & Sterling LLP or any other counsel reasonably acceptable to the Company, as may be reasonably required by the Company and the Registrar, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Rule 144 under the Securities Act or that such Securities are not "restricted" within the meaning of Rule 144 under the Securities Act. Upon (i) provision of such satisfactory evidence, or (ii) notification by the Company to the Trustee and Registrar of the sale of such Security pursuant to a registration statement that is effective at the time of such sale, the Trustee, at the written direction of the Company, shall authenticate and deliver a Security that does not bear the Legend. If the Legend is removed from the face of a Security and the Security is subsequently held by an Affiliate of the Company, the Legend shall be reinstated.

Section 2.09. *Replacement Securities* . If any mutilated Security is surrendered to the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company and the Trustee such security or indemnity to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a protected purchaser (within the meaning of Section 8-303 of the Uniform Commercial Code), the Company shall execute, and upon the Company's written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount at maturity, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be purchased by the Company pursuant to Article 3 hereof, the Company in its discretion may, instead of issuing a new Security, pay or purchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

14

Section 2.10. *Outstanding Securities; Determinations of Holders' Action* . Securities outstanding at any time are all the Securities authenticated by the Trustee, except for those cancelled by it, those paid pursuant to Section 2.09, those delivered to it for cancellation pursuant to Section 2.12 and those described in this Section 2.10 as not outstanding. A Security does not cease to be outstanding because the Company or

an Affiliate thereof holds the Security; provided, however, that in determining whether the Holders of the requisite principal amount at maturity of Securities have given or concurred in any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Subject to the foregoing, only Securities outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Articles 6 and 9).

If a Security is replaced pursuant to Section 2.09, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a protected purchaser.

If the Paying Agent holds, in accordance with this Indenture, on a Redemption Date, or on the Business Day following a Redemption Date or a Designated Event Payment Date, or on Stated Maturity, money sufficient to pay amounts owed with respect to Securities payable on that date, then immediately after such Redemption Date, Designated Event Payment Date or Stated Maturity, as the case may be, such Securities shall cease to be outstanding and interest, if any (including contingent interest, if any), and Special Interest, if any, on such Securities shall cease to accrue; provided that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made.

If a Security is converted in accordance with Article 10, then from and after the time of conversion on the Conversion Date, such Security shall cease to be outstanding and interest, if any (including contingent interest, if any), shall cease to accrue on such Security.

Section 2.11. *Temporary Securities* . Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities that are printed, typewritten or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the Officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 2.05, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount at maturity of definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

Section 2.12. *Cancellation* . All Securities surrendered for payment, purchased by the Company pursuant to Article 3, conversion, redemption or registration of transfer or exchange (other than Securities exchanged pursuant to Section 10.02) shall, if surrendered to any person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder that the Company may have acquired in any manner whatsoever, and all Securities so

delivered shall be promptly cancelled by the Trustee. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or that any Holder has converted pursuant to Article 10. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of by the Trustee in accordance with the Trustee's customary procedure.

Section 2.13. *Persons Deemed Owners* . Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of the Accreted Value at maturity of the Security or the payment of any Redemption Price or Designated Event Payment in respect thereof, and accrued but unpaid interest thereon, for the purpose of conversion and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

Section 2.14. *Transfer Provisions* .

(a) A Global Security may not be transferred, in whole or in part, to any Person other than the Depositary or a nominee or any successor thereof, and no such transfer to any such other Person may be registered; provided that the foregoing shall not prohibit any transfer of a Security that is issued in exchange for a Global Security but is not itself a Global Security. No transfer of a Security to any Person shall be effective under this Indenture or the Securities unless and until such Security has been registered in the name of such Person. Notwithstanding any other provisions of this Indenture or the Securities, transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.08 and this Section 2.14.

(b) Subject to the succeeding paragraph, every Security shall be subject to the restrictions on transfer provided in the Legend including the delivery of an opinion of counsel, if so provided. Whenever any Restricted Security is presented or surrendered for registration of transfer or for exchange for a Security registered in a name other than that of the Holder, such Security must be accompanied by a certificate in substantially the form set forth in Exhibit B, dated the date of such surrender and signed by the Holder of such Security, as to compliance with such restrictions on transfer. The Registrar shall not be required to accept for such registration of transfer or exchange any Security not so accompanied by a properly completed certificate.

(c) The restrictions imposed by the Legend upon the transferability of any Security shall cease and terminate when such Security has been sold pursuant to an effective registration statement under the Securities Act or transferred in compliance with Rule 144 under the Securities Act (or any successor provision thereto) or, if earlier, upon the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision). Any Security as to which such restrictions on transfer shall have expired in accordance with their terms or shall have terminated may, upon a surrender of such Security for exchange to the Registrar in accordance with the provisions of this Section 2.14 (accompanied, in the event that such restrictions on transfer have terminated by reason of a transfer in compliance with Rule 144 or any successor provision, by an opinion of Shearman & Sterling LLP or any other counsel having substantial experience in practice under the Securities Act and otherwise reasonably acceptable to the Company, addressed to the Company and in form acceptable to the Company, to the effect that the transfer of such Security has been made in compliance with Rule 144 or such successor provision), be exchanged for a new Security, of like tenor and aggregate principal amount at maturity, which shall not bear the restrictive Legend. The Company shall inform the Trustee of the effective date of any registration statement registering the Securities under the Securities Act. The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the aforementioned opinion of counsel or registration statement.

16

(d) As used in the preceding clause (b) and (c) of this Section 2.14, the term " *transfer* " encompasses any sale, pledge, transfer, hypothecation or other disposition of any Security.

(e) The following provisions shall apply only to Global Securities:

(i) Notwithstanding any other provisions of this Indenture or the Securities, a Global Security shall not be exchanged in whole or in part for a Security registered in the name of any Person other than the Depositary or one or more nominees thereof; provided that a Global Security may be exchanged for Securities registered in the names of any person designated by the Depositary in the event that (x) the Depositary has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or such Depositary has ceased to be a "clearing agency" registered under the Exchange Act, and a successor Depositary is not appointed by the Company within 90 days, (y) the Company has provided the Depositary with written notice that it has decided to discontinue use of the system of book-entry transfer through the Depositary or any successor Depositary or (z) an Event of Default has occurred and is continuing with respect to the Securities. Any Global Security exchanged pursuant to clauses (x) or (y) above shall be so exchanged in whole and not in part, and any Global Security exchanged pursuant to clause (z) above may be exchanged in whole or from time to time in part as directed by the Depositary. Any Security issued in exchange for a Global Security or any portion thereof shall be a Global Security; provided that any such Security so issued that is registered in the name of a Person other than the Depositary or a nominee thereof shall not be a Global Security.

(ii) Securities issued in exchange for a Global Security or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount at maturity equal to that of such Global Security or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the Depositary shall designate and shall bear the applicable legends provided for herein. Any Global Security to be exchanged in whole shall be surrendered by the Depositary to the Trustee, as Registrar. With regard to any Global Security to be exchanged in part, either such Global Security shall be so surrendered for exchange or, if the Trustee is acting as custodian for the Depositary or its nominee with respect to such Global Security, the principal amount at maturity thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Trustee. Upon any such surrender or adjustment, the Trustee shall authenticate and deliver the Security issuable on such exchange to or upon the order of the Depositary or an authorized representative thereof.

(iii) Subject to the provisions of clause (v) below, the registered Holder may grant proxies and otherwise authorize any Person, including Agent Members (as defined below) and persons that may hold interests through Agent Members, to take any action which a holder is entitled to take under this Indenture or the Securities.

(iv) In the event of the occurrence of any of the events specified in clause (i) above, the Company will promptly make available to the Trustee a reasonable supply of Certificated Securities in definitive, fully registered form, without interest coupons.

(v) Neither any members of, or participants in, the Depositary (collectively, the " *Agent Members* ") nor any other Persons on whose behalf Agent Members may act shall have any rights under this Indenture with respect to any Global Security registered in the name of the Depositary or any nominee thereof, or under any such Global Security, and the Depositary or such nominee, as the case may be, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the

between the Depository, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of a holder of any Security.

(f) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Agent Members or beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(g) Neither the Trustee nor any agent shall have any responsibility for any actions taken or not taken by the Depository.

Section 2.15. *CUSIP Numbers* . The Company will issue the Securities with one or more "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee in writing of any change in the CUSIP numbers.

ARTICLE 3 REDEMPTION

Section 3.01. *Optional Redemption* . Prior to October 15, 2008, the Company cannot redeem the Securities. Beginning on October 15, 2008, the Company may redeem the Securities for cash in whole at any time, or in part from time to time, in accordance with the provisions of paragraph 7 of the Securities. Any redemption shall be made pursuant to paragraph 7 of the Securities and this Article 3.

Section 3.02. *Notices to Trustee* . If the Company elects to redeem Securities pursuant to the optional redemption provisions of paragraph 7 of the Securities, it shall furnish to the Trustee, at least 45 days but not more than 60 days before a Redemption Date (unless a shorter period shall be satisfactory to the Trustee), an Officers' Certificate setting forth (i) the Section of this Indenture pursuant to which the redemption shall occur, (ii) the Redemption Date, (iii) the Accreted Value of Securities (if less than all) to be redeemed, (iv) the Redemption Price and the amount of any accrued and unpaid interest payable on the Redemption Date and (v) the CUSIP number of the Securities being redeemed.

Section 3.03. *Selection of Securities to Be Redeemed* . If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed by a method that complies with the requirements of the principal national securities exchange, if any, on which the Securities are listed or quoted or, if the Securities are not so listed, on a pro rata basis by lot or by any other method that the Trustee considers fair and appropriate. The Trustee shall make the selection not more than 60 days and not less than 30 days before the Redemption Date from Securities outstanding and not previously called for redemption. The Trustee may select for redemption a portion of the Accreted Value of any Securities that has a denomination larger than \$1,000 principal amount at maturity. Securities and portions thereof will be redeemed in the amount of \$1,000 principal amount at maturity or integral multiples of \$1,000 (assuming no exercise by the Company of its right to elect to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007).

Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be called for redemption.

If any Security selected for partial redemption is converted in part after such selection, the converted portion of such Security shall be deemed (so far as possible) to be the portion to be selected for redemption. The Securities (or portion thereof) so selected shall be deemed duly selected for redemption for all purposes hereof. Upon any redemption of less than all the Securities, the Company and the Trustee may treat as outstanding any Securities surrendered for conversion during the period of 15 days next preceding the mailing of a notice of redemption and need not treat as outstanding any Security authenticated and delivered during such period in exchange for the unconverted portion of any Security converted in part during such period.

In the event of any redemption of less than all the Securities, the Company will not be required to (i) issue or register the transfer or exchange of any Security during a period of 15 days next preceding the mailing of a notice of redemption for such Securities for redemption, or (ii) register the transfer or exchange of any Security so selected for redemption, in whole or in part, except the unredeemed portion of any Security being redeemed in part, in which case the Company will execute and the Trustee will authenticate and deliver to the holder a new

Security equal in principal amount at maturity to the unredeemed portion of the Security surrendered.

Section 3.04. *Notice of Redemption* . At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail by first class mail a notice of redemption to each Holder whose Securities are to be redeemed, at such holder's registered address.

The notice shall identify the Securities to be redeemed and shall state:

- (A) the Redemption Date;
- (B) the Redemption Price and any accrued and unpaid interest payable on the Redemption Date;
- (C) if any Security is being redeemed in part, the portion of the Accreted Value of such Security to be redeemed and that, after the Redemption Date, upon surrender of such Security, a new Security or Securities in Accreted Value equal to the unredeemed portion will be issued in the name of the holder thereof;
- (D) that Securities called for redemption must be surrendered to the Paying Agent to collect the Redemption Price and any accrued and unpaid interest, if any;
- (E) that interest on Securities called for redemption and for which funds have been set apart for payment, ceases to accrue on and after the Redemption Date (unless the Company defaults in the payment of the Redemption Price or any accrued and unpaid interest, or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture);
- (F) the aggregate Accreted Value of Securities (if less than all) that are being redeemed;
- (G) the CUSIP number of the Securities (provided that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP numbers printed in the notice or on the Securities and that reliance may be placed only on the other identification numbers printed on the Securities);
- (H) the name and address of the Paying Agent;
- (I) that Securities called for redemption may be converted at any time prior to the close of business on the last Trading Day immediately preceding the Redemption Date and if not converted prior to the close of business on such date, the right of conversion will be lost; and

19

(J) that in the case of Securities or portions thereof called for redemption on a date that is also an Interest Payment Date, the interest due on such date shall be paid to the person in whose name the Security is registered at the close of business on the relevant Regular Record Date.

The notice, if mailed in the manner herein provided, shall be conclusively presumed to have been given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any Security.

At the Company's request, the Trustee shall give notice of redemption in the Company's name and at the Company's expense.

Section 3.05. *Effect of Notice of Redemption* . Once notice of redemption is mailed, Securities called for redemption become due and payable on the Redemption Date at the Redemption Price set forth in the Security.

Section 3.06. *Deposit of Redemption Price* . On or before 10 a.m. New York City time on the Redemption Date, the Company shall deposit with the Trustee or with the Paying Agent money in immediately available funds sufficient to pay the Redemption Price of and accrued interest, if any, on all Securities to be redeemed on that date. The Trustee or the Paying Agent shall return to the Company any money not required for that purpose.

On and after the Redemption Date, unless the Company shall default in the payment of the Redemption Price or any accrued and unpaid interest, interest will cease to accrue on the Accreted Value of the Securities or portions thereof called for redemption and for which funds have been set apart for payment, and such Securities, or portions thereof, shall cease after the close of business on the Business Day immediately preceding the Redemption Date to be convertible into Common Stock and, except as provided in this Section 3.06 and Article 4 of this Indenture, to be entitled to any benefit or security under this Indenture, and the Holders thereof shall have no right in respect of such Securities, or portions thereof, except the right to receive the Redemption Price thereof and unpaid interest to (but excluding) the Redemption Date. In the

case of Securities or portions thereof redeemed on a Redemption Date which is also an Interest Payment Date, the interest due on such date shall be paid to the person in whose name the Security is registered at the close of business on the relevant Regular Record Date.

Section 3.07. *Securities Redeemed in Part* . Upon surrender of a Security that is redeemed in part only, the Company shall issue and the Trustee shall authenticate and deliver to the Holder a new Security equal in principal amount at maturity to the unredeemed portion of the Security surrendered, at the expense of the Company.

Section 3.08. *Conversion Arrangement on Call for Redemption* . In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities by an arrangement with one or more investment bankers or other purchasers to purchase such Securities by paying to the Trustee in trust for the holders, on or before the date fixed for redemption, an amount not less than the applicable Redemption Price, together with interest accrued to the date fixed for redemption, of such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, together with interest accrued to the date fixed for redemption, shall be deemed to be satisfied and discharged to the extent such amount is so paid by the purchasers. If such an agreement is entered into, a copy shall be filed with the Trustee prior to the date fixed for redemption. Any Securities not duly surrendered for conversion by the holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such holders and (notwithstanding anything to the contrary contained in Article 10) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the date fixed for redemption (and the right to convert any such

20

Securities shall be deemed to have been extended through such time), subject to payment of the above amount as aforesaid. At the direction of the Company, the Trustee shall hold and dispose of any such amount paid to it in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and defend and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers to which the Trustee has not consented in writing, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

ARTICLE 4 COVENANTS

Section 4.01. *Payment of Accreted Value and Interest* . The Company covenants and agrees for the benefit of the Holders that it will duly and punctually pay prior to noon New York City time on any date of payment the Accreted Value of and interest on the Securities in accordance with the terms of the Securities and this Indenture. At the option of the Company, all payments of Accreted Value may be paid by check to the registered Holder of the Registered Security or other person entitled thereto against surrender of such Security.

Section 4.02. *Maintenance of Office or Agency* . The Company shall maintain in each Place of Payment an office or agency where the Securities may be presented or surrendered for payment or conversion, where the Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all of such purposes, and may from time to time rescind such designations; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in accordance with the requirements set forth above for the Securities. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The Company hereby designates as a Place of Payment for the Securities the office or agency of the Company in the Borough of Manhattan, The City of New York, and initially appoints the Trustee at its Corporate Trust Office as Paying Agent in such city and as its agent to receive all such presentations, surrenders, notices and demands.

Section 4.03. *Money for Securities Payments to Be Held in Trust* . If the Company shall at any time act as its own Paying Agent with respect to the Securities, it will, on or before each due date of the Accreted Value of, or interest on the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the Accreted Value or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for the Securities, it will, on or before each due date of the Accreted Value, or interest on the Securities, deposit with a Paying Agent

a sum sufficient to pay the Accreted Value or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such Accreted Value or interest and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

- (i) hold all sums held by it for the payment of Accreted Value of or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (ii) give the Trustee written notice of any default by the Company (or any other obligor upon the Securities) in the making of any such payment of Accreted Value or interest; and
- (iii) at any time during the continuance of any such default upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Except as otherwise provided in the Securities, any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the Accreted Value of or interest on any Security and remaining unclaimed for two years after such Accreted Value, or interest has become due and payable shall be paid to the Company upon Company Request or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment of such Accreted Value of or interest on any Security, without interest thereon, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense of the Company cause notice to be mailed to the Holders or published once in an Authorized Newspaper to the effect that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 4.04. *Statement as to Compliance* . The Company will deliver to the Trustee, within 120 days after the end of each fiscal year (which as of the date hereof is December 31), a brief certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture and, in the event of any noncompliance, specifying such noncompliance and the nature and status thereof. For purposes of this Section 4.04, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

Section 4.05. *Repurchase Upon Designated Event* . Following a Designated Event (the date of each such occurrence being the " *Designated Event Date* "), the Company shall notify the holders of Securities in writing of such occurrence and shall make an offer (the " *Designated Event Offer* ") to repurchase all Securities then outstanding at a repurchase price in cash (the " *Designated Event Payment* ") equal to 101% of the Accreted Value thereof as of the Designated Event Payment Date (as defined below), plus accrued and unpaid interest, if any, to, but excluding, the Designated Event Payment Date.

Notice of a Designated Event shall be mailed by or at the direction of the Company to the holders of Securities as shown on the Security Register of such holders maintained by the Registrar not more than 20 days after the applicable Designated Event Date at the addresses as shown on the Security Register of holders maintained by the Registrar, with a copy to the Trustee and the Paying Agent. The Designated Event Offer shall remain open until a specified date (the " *Designated Event Offer Termination Date* ") which is at least 20 Business Days from the date such notice is mailed. During the period specified in such notice, holders of Securities may elect to tender their Securities in whole or in part in integral multiples of \$1,000 principal amount at maturity in exchange for cash. Payment shall be made by the Company in respect of Securities properly tendered pursuant to this Section 4.05 on a Business Day specified by the Company (the " *Designated Event Payment Date* ") which shall be no later than 60 days after the applicable Designated Event.

The notice, which shall govern the terms of the Designated Event Offer, shall include such disclosures as are required by law and shall state:

- (a) that any Security not accepted for payment will continue to accrue interest in accordance with the terms thereof;

- (b) that a Designated Event Offer is being made pursuant to this Section 4.05 and that all Securities properly tendered and not withdrawn will be accepted for payment;
- (c) the event, transaction or transactions that constitute the Designated Event;
- (d) the Designated Event Payment for each Security, the Designated Event Offer Termination Date and the Designated Event Payment Date;
- (e) that, unless the Company defaults on making the Designated Event Payment, any Security accepted for payment pursuant to the Designated Event Offer shall cease to accrue interest on the Designated Event Payment Date and no further interest shall accrue on or after such date;
- (f) that holders electing to have Securities repurchased pursuant to a Designated Event Offer will be required to surrender their Securities to the Paying Agent at the address specified in the notice prior to 5:00 p.m., New York City time, on the Designated Event Offer Termination Date and must complete any form letter of transmittal proposed by the Company and acceptable to the Trustee and the Paying Agent;
- (g) that holders of Securities will be entitled to withdraw their election if the Paying Agent receives, not later than 5:00 p.m., New York City time, on the Designated Event Offer Termination Date, a facsimile transmission or letter setting forth the name of the holder, the principal amount at maturity of Securities the holder delivered for purchase, the principal amount at maturity of Securities the holder is withdrawing from his election (if less than the full election), the Security certificate number (if any) and a statement that such holder is withdrawing his election to have such Securities purchased;
- (h) that holders whose Securities are repurchased only in part will be issued Securities equal in principal amount at maturity to the unpurchased portion of the Securities surrendered;
- (i) the instructions that holders must follow in order to tender their Securities; and
- (j) that in the case of a Designated Event Payment Date that is also an Interest Payment Date, the interest due on such date shall be paid to the person in whose name the Security is registered at the close of business on the relevant Designated Event Offer Termination Date.

On the Designated Event Offer Termination Date, the Company shall (i) accept for payment all Securities or portions thereof properly tendered pursuant to the Designated Event Offer, (ii) deposit with the Paying Agent money sufficient to pay the Designated Event Payment with respect to all Securities or portions thereof so tendered and accepted and (iii) deliver or cause to be delivered to the Trustee the Securities so accepted together with an Officers' Certificate setting forth the aggregate principal amount at maturity of Securities or portions thereof tendered to and accepted for payment by the Company. On the Designated Event Payment Date, the Paying Agent shall deliver the Designated Event Payment to the holders of Securities so accepted and the Trustee shall promptly authenticate and deliver or cause to be transferred by book entry to such holders a new Security equal in principal amount at maturity to any unpurchased portion of the Security surrendered, if any; *provided, however*, that such new Securities will be in a principal amount at maturity of \$1,000 or an integral multiple thereof. Any Securities not so accepted shall be promptly mailed or delivered by the Company to the holder thereof.

In the case of any reclassification, change, consolidation, merger, share exchange, combination or sale or conveyance to which this Section 4.05 applies in which the Common Stock of the Company is changed or exchanged as a result into the right to receive stock, securities or other property or assets (including cash) which includes shares of common stock of the Company or another person that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States and such shares constitute at the time such change or exchange becomes effective in excess of 50% of the aggregate Fair Market Value of such stock, securities, other property and assets (including cash) (as determined by the Company, which determination shall be conclusive and binding), then the person formed by such consolidation or resulting from such merger or share exchange or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture (which shall comply with the TIA as in force at the date of execution of such supplemental indenture) modifying the provisions of this Indenture relating to the right of holders of Securities to cause the Company to repurchase Securities following a Designated Event, including the applicable provisions of this Section 4.05 and the definitions of Designated Event, Change of Control and Termination of Trading, as appropriate, as determined in good faith by the Company (which determination shall be conclusive and binding), to make such provision apply to such common stock and the issuer thereof if different from the Company and Common Stock of the Company (in lieu of the Company and the Common Stock of the Company).

The Designated Event Offer shall be made by the Company in compliance with all applicable provisions of the Exchange Act, and all applicable tender offer rules promulgated thereunder, to the extent such laws and regulations are then applicable and shall include all instructions and materials that the Company shall reasonably deem necessary to enable such holders of Securities to tender their Securities.

Section 4.06. *Limitation on Liens*. The Company will not, directly or indirectly, incur or suffer to exist any Lien (other than existing Liens) securing Specified Indebtedness of any nature whatsoever on any of its properties or assets, whether owned at the issue date of the Securities or

thereafter acquired, without making effective provision for securing the Securities equally and ratably with (or, if the obligation to be secured by the Lien is subordinated in right of payment to the Securities, prior to) the obligations so secured for so long as such obligations are so secured. The Lien, if granted, to secure the Securities may also secure obligations in addition to Specified Indebtedness. Any Lien created to secure the Securities pursuant to this Section 4.06 may provide by its terms that such Lien will be automatically and unconditionally released and discharged upon the full and unconditional release and discharge of the Lien securing the Specified Indebtedness and that the holders of some or all of such Specified Indebtedness may exclusively control the disposition of property subject to such Lien.

The foregoing restrictions in this Section 4.06 shall not apply to (a) Liens to secure Acquired Debt; *provided, however*, that (i) such Lien attaches to the acquired property prior to the time of the acquisition of such property and (ii) such Lien does not extend to or cover any other property; and (b) Liens to secure indebtedness incurred to refinance, in whole or in part, debt secured by any Lien referred to in the foregoing clause (a) or this clause (b) so long as such Lien does not extend to any other property (other than improvements and accessions to the original property) and the principal amount of indebtedness so secured is not increased.

Section 4.07. *Special Interest Notice*. In the event that the Company is required to pay Special Interest to Holders, the Company will provide written notice (" *Special Interest Notice* ") to the Trustee of its obligation to pay Special Interest no later than fifteen days prior to the proposed payment date for the Special Interest, and the Special Interest Notice shall set forth the amount of Special Interest to be paid by the Company on such payment date. The Trustee shall not at any time be under any duty or responsibility to any Holders to determine the Special Interest, or with respect to the nature, extent, or calculation of the amount of Special Interest owed, or with respect to the method employed in such calculation of the Special Interest.

Section 4.08. *Calculation of Original Issue Discount*. The Company shall file with the Trustee promptly at the end of each calendar year (i) a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year and (ii) such other specific information relating to such original issue discount as may then be relevant under the Internal Revenue Code of 1986, as amended from time to time.

ARTICLE 5

CONSOLIDATION, MERGER, SALE, LEASE OR CONVEYANCE

Section 5.01. *When the Company May Merge, Etc.* The Company may not, in a single transaction or series of related transactions, consolidate or merge with or into or effect a share exchange with (whether or not the Company is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets as an entirety or substantially as an entirety to, any Person unless:

(a) either

(i) the Company shall be the surviving or continuing corporation, or

(ii) the Person formed by or surviving any such consolidation, merger or share exchange (if other than the Company) or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company substantially as an entirety:

(1) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and

(2) shall expressly assume, by supplemental indenture in form reasonably satisfactory to the Trustee, executed and delivered to the Trustee, the due and punctual payment of the Accreted Value of and interest on all of the Securities and the performance of every covenant of the Securities and this Indenture on the part of the Company to be performed or observed, including, without limitation, modifications to rights of holders to cause the repurchase of Securities upon a Designated Event in accordance with the penultimate paragraph of Section 4.05 and conversion rights in accordance with Article 10 to the extent required by such Sections;

(b) immediately after giving effect to such transaction no Default and no Event of Default shall have occurred and be continuing; and

(c) the Company or such successor Person shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, share exchange, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this provision of this Indenture and that all conditions precedent in this

Indenture relating to such transaction have been satisfied.

For purposes of this Section 5.01, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Subsidiaries of the Company, the Capital Stock of which individually or in the aggregate constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

Section 5.02. *Successor Corporation Substituted* . Upon any such consolidation, merger, share exchange, sale, assignment, conveyance, lease, transfer or other disposition in accordance with Section 5.01, the successor Person formed by such consolidation or share exchange or into which the Company is merged or to which such sale, assignment, conveyance, lease, transfer or other disposition is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein, and thereafter (except in the case of a lease) the predecessor corporation will be relieved of all further obligations and covenants under this Indenture and the Securities.

Section 5.03. *Purchase Option on Change of Control* . This Article Five does not affect the obligations of the Company (including without limitation any successor to the Company) under Section 4.05.

ARTICLE 6 EVENTS OF DEFAULT

Section 6.01. *Events of Default* . An "Event of Default" with respect to the Securities occurs if:

- (a) the Company defaults in the payment of Accreted Value of the Securities when due at maturity, upon repurchase, upon acceleration or otherwise, including, without limitation, failure of the Company to make any optional redemption payment when required pursuant to Article 3 of the Indenture; or
- (b) the Company defaults in the payment of any installment of interest on the Securities when due (including any interest payable in connection with a repurchase pursuant to Section 4.05 or in connection with any optional redemption payment pursuant to Article 3 of the Indenture) and continuance of such default for 30 days or more; or
- (c) the Company defaults in the payment of the Designated Event Payment in respect of the Securities on the date therefor; or
- (d) the Company fails to provide timely notice of any Designated Event in accordance with Section 4.05; or
- (e) the Company defaults (other than a default set forth in clause (a), (b), (c) or (d) above) in the performance of, or breaches, any other covenant or warranty of the Company set forth in this Indenture or the Securities and fails to remedy such default or breach within a period of 60 days after the receipt of written notice (specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder) from the Trustee or the holders of at least 25% in aggregate principal amount at maturity of the then outstanding Securities; or
- (f) a default under any credit agreement, mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any Material Subsidiary (or the payment of which is guaranteed or secured by the

Company or any of its Material Subsidiaries), whether such indebtedness or guarantee exists on the date of this Indenture or is created thereafter, which default (i) is caused by a failure to pay when due any principal of such indebtedness within the grace period provided for in such indebtedness, which failure continues beyond any applicable grace period (a " *Payment Default* "), or (ii) results in the acceleration of such indebtedness prior to its express maturity (without such acceleration being rescinded or annulled) and, in each case, the principal amount, or principal amount at maturity, as applicable, of such indebtedness, together with the principal amount, or principal amount at maturity, as applicable, of any other such indebtedness under which there is a Payment Default or the maturity of which has been so accelerated, aggregates \$25,000,000 or its foreign currency equivalent or more and such Payment Default is not cured or such acceleration is not annulled within 10 days after receipt of written notice (specifying such default and requiring the Company to cause such Payment Default to be cured or cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder) by the Company from the Trustee or by the Company and the Trustee from any holder of Securities; or

(g) failure to pay a final, nonappealable judgment or final, nonappealable judgments (other than any judgment as to which a reputable insurance company has accepted full liability) for the payment of money entered by a court or courts of competent jurisdiction against the Company or any Material Subsidiaries of the Company, which judgments remain unstayed, unbonded or undischarged for a period of 60 days, *provided* that the aggregate amount of all such judgments exceeds \$25,000,000 or its foreign currency equivalent; or

(h) the Company or any Material Subsidiary, pursuant to or within the meaning of any Bankruptcy Law:

- (i) commences a voluntary case,
 - (ii) consents to the entry of an order for relief against it in an involuntary case,
 - (iii) consents to the appointment of a Custodian of it or for all or substantially all of its property,
 - (iv) makes a general assignment for the benefit of its creditors, or
 - (v) makes the admission in writing that it generally is unable to pay its debts as the same become due; or
- (i) a court of competent jurisdiction enters a judgment, order or decree under any Bankruptcy Law that:
- (i) is for relief against the Company or any Material Subsidiary in an involuntary case, and the order or decree remains unstayed and in effect for 90 days,
 - (ii) appoints a Custodian of the Company or any Material Subsidiary, and the order or decree remains unstayed and in effect for 90 days, or
 - (iii) orders the liquidation of the Company or any Material Subsidiary, and the order or decree remains unstayed and in effect for 90 days.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

Section 6.02. *Acceleration* . If an Event of Default (other than an Event of Default with respect to the Company specified in clauses (h) and (i) of Section 6.01) occurs and is continuing, then and in every such case the Trustee, by written notice to the Company, or the holders of at least 25% in aggregate principal amount at maturity of the then outstanding Securities, by written notice to the

Company and the Trustee, may declare the then Accreted Value of and accrued and unpaid interest on, all the Securities to be due and payable. Upon such declaration, such Accreted Value, and accrued and unpaid interest shall become immediately due and payable, notwithstanding anything contained in this Indenture or the Securities to the contrary. If any Event of Default with respect to the Company specified in clause (h) or (i) of Section 6.01 occurs, all Accreted Value of, and accrued and unpaid interest on, the Securities then outstanding shall become automatically due and payable, without any declaration or other act on the part of the Trustee or any holder of Securities.

The holders of a majority in aggregate principal amount at maturity of the then outstanding Securities by notice to the Trustee may rescind an acceleration of the Securities and its consequences if all existing Events of Default (other than nonpayment of Accreted Value of, and interest on, the Securities which has become due solely by virtue of such acceleration) have been cured or waived and if the rescission would not conflict with any judgment or decree of any court of competent jurisdiction. No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereto.

Section 6.03. *Other Remedies* . If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of Accreted Value of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy occurring upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 6.04. *Waiver of Past Defaults* . The holders of a majority in aggregate principal amount at maturity of the Securities then outstanding may, on behalf of the holders of all the Securities, waive an existing Default or Event of Default and its consequences, except a Default or Event of Default in the payment of the Accreted Value of, or interest on, the Securities (other than the non-payment of Accreted Value of, and interest on, the Securities which has become due solely by virtue of an acceleration which has been duly rescinded as provided above), or in respect of a covenant or provision of this Indenture which cannot be modified or amended without the consent of all holders of Securities. When a Default or Event of Default is waived, it is cured and stops continuing. No waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

Section 6.05. *Control by Majority* . The holders of a majority in aggregate principal amount at maturity of the then outstanding Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power

conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture that the Trustee determines may be unduly prejudicial to the rights of other holders of Securities or that may involve the Trustee in personal liability; *provided, however*, that the Trustee shall have no duty or obligation (subject to Section 7.01) to ascertain whether or not such actions or forbearances are unduly prejudicial to such holders; *provided further, however*, that the Trustee may take any other action the Trustee deems proper that is not inconsistent with such directions.

Section 6.06. *Limitation on Suits* . A Holder may not pursue any remedy with respect to this Indenture or the Securities unless:

- (a) the Holder gives to the Trustee notice of a continuing Event of Default;
- (b) the Holders of at least 25% in aggregate principal amount at maturity of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

28

(c) such Holder or Holders offer and, if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 30 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(e) during such 30-day period the holders of a majority in aggregate principal amount at maturity of the then outstanding Securities do not give the Trustee a direction inconsistent with the request.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another holder.

Section 6.07. *Rights of Holders to Receive Payment* . Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of Accreted Value, and interest on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, or to bring suit for the enforcement of the right to convert the Security shall not be impaired or affected without the consent of the Holder.

Section 6.08. *Collection Suit by Trustee* . If an Event of Default specified in Section 6.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of Accreted Value of and interest remaining unpaid on the Securities and interest on overdue principal and interest and such further amount as shall be sufficient to cover the costs and, to the extent lawful, expenses of collection, including the compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

Section 6.09. *Trustee May File Proofs of Claim* . The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the holders of Securities allowed in any judicial proceedings relative to the Company, its creditors or its property. Nothing contained herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any holder thereof, or to authorize the Trustee to vote in respect of the claim of any holder in any such proceeding.

Section 6.10. *Priorities* . Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of Accreted Value or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee and any predecessor Trustee under Section 7.07.

SECOND: To the payment of the amounts then due and unpaid upon the Securities for Accreted Value and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Securities for Accreted Value and interest, respectively; and

THIRD: To the payment of the remainder, if any, to the Company.

Section 6.11. *Undertaking for Costs* . In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit, other than the Trustee, of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a holder pursuant to Section 6.07 or a suit by holders of more than 10% in aggregate principal amount at maturity of the then outstanding Securities.

Section 6.12. *Notice of Default or Event of Default* . The Company shall deliver to the Trustee, as soon as reasonably practicable and in any event within 30 days after an executive officer of the Company becomes aware of the occurrence of any Event of Default or any event which, with notice or the lapse of time or both, would constitute an Event of Default, an Officers' Certificate setting forth the details of such Event of Default or Default and the action which the Company proposes to take with respect thereto.

ARTICLE 7 TRUSTEE

Section 7.01. Duties of Trustee .

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Trustee need perform only those duties that are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture, but in case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture, but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein.

This Section 7.01(b) shall be in lieu of Section 315(a) of the TIA and such Section 315(a) is hereby expressly excluded from this Indenture, as permitted by the TIA.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph (c) does not limit the effect of paragraph (b) of this Section 7.01;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

Section 7.01(c)(i), (ii) and (iii) shall be in lieu of Sections 315(d)(1), 315(d)(2) and 315(d)(3) of the TIA and such Sections 315(d)(1), 315(d)(2) and 315(d)(3) are hereby expressly excluded from this Indenture, as permitted by the TIA.

(d) The Trustee may refuse to perform any duty or exercise any right or power or expend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

Section 7.02. Rights of Trustee . Subject to its duties and responsibilities under the TIA,

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document

reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to

taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may obtain and, in the absence of bad faith or negligence on its part, conclusively rely upon an Officers' Certificate and/or an Opinion of Counsel;

(c) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, attorney, custodian or nominee appointed with due care by it hereunder;

(d) the Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith which it reasonably believes to be authorized or within its rights or powers conferred under this Indenture;

(e) the Trustee may consult with counsel selected by it and any advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion of such counsel;

(f) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby;

(g) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Order and any resolution of the Board of Directors be sufficiently evidenced by a Board Resolution;

(h) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled, during normal business hours, to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation;

(i) the Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a Default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture;

(j) the rights, privileges, protections, immunities and benefits given to the Trustee, including its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder;

(k) the Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded; and

(l) In no event shall the Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 7.03. *Individual Rights of Trustee* . The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, Conversion Agent or co-registrar may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

Section 7.04. *Trustee's Disclaimer* . The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, shall not be accountable for the Company's use or application of the proceeds from the Securities, and shall not be responsible for any statement in any registration statement for the Securities under the Securities Act or in any offering document for the Securities, the Indenture or the Securities (other than its certificate of authentication), or the determination as to which beneficial owners are entitled to receive any notices hereunder.

Section 7.05. *Notice of Defaults* . If a Default occurs and if it is known to the Trustee, the Trustee shall give to each Securityholder notice of

all current Defaults known to it within 90 days after any such Default occurs or, if later, within 15 days after it is known to the Trustee, unless such Default shall have been cured or waived before the giving of such notice. Notwithstanding the preceding sentence, except in the case of a Default described in Sections 6.01(a) and 6.01(b), the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Holders. The second sentence of this Section 7.05 shall be in lieu of the proviso to Section 315(b) of the TIA and such proviso is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 7.06. Reports by Trustee to Holders . Within 60 days after each May 15 beginning with the May 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such May 15 that complies with TIA Section 313(a), if required by such Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Holders shall be filed with the SEC and each securities exchange, if any, on which the Securities are listed. The Company agrees to notify the Trustee promptly whenever the securities become listed on any Securities exchange and of any delisting thereof.

Section 7.07. Reports by Company . The Company will file with the Trustee and the SEC, and transmit to Holders, such information, documents, and other reports, and such summaries thereof, as may be required pursuant to the TIA (or, if the Company is not subject to the TIA, such information, documents, and other reports, and summaries thereof as would be required if the Company were subject to the TIA) at the times and in the manner provided pursuant to the TIA; *provided* that any such information, documents, or reports required to be filed with the SEC pursuant to Section 13 or 15(d) of the Exchange Act will be filed with the Trustee within 15 calendar days after the same is so required to be filed with the SEC.

Delivery of such information, documents and reports to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 7.08. Compensation and Indemnity . The Company agrees:

(a) to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as the Company and the Trustee shall from time to time agree in writing for all services rendered by it hereunder (which compensation shall not be limited (to the extent permitted by law) by any provision of law in regard to the compensation of a trustee of an express trust);

(b) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture or any documents executed in connection herewith (including the compensation and the expenses, advances and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence, bad faith or willful misconduct; and

32

(c) to indemnify each of the Trustee and any predecessor Trustee and their agents, officers, directors and employees for, and to hold them harmless against, any and all loss, damage, claim, liability, cost or expense (including attorneys' fees and expenses and taxes (other than taxes based upon, measured by or determined by the income of the Trustee)) incurred without negligence, misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim (whether asserted by the Company or any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

To secure the Company's payment obligations in this Section 7.07, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee, except that held in trust to pay interest installments (including contingent interest, if any), Special Interest, if any, the Accreted Value, Redemption Price, Designated Event Payment or interest, if any, due on overdue amounts, as the case may be, in respect of any particular Securities.

The Company's payment obligations pursuant to this Section 7.07 shall survive the discharge of this Indenture or the earlier termination or resignation of the Trustee. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(f) or Section 6.01(g), the expenses, including the reasonable charges and expenses of its counsel, are intended to constitute expenses of administration under any bankruptcy law.

Section 7.09. Replacement of Trustee . The Trustee may resign by so notifying the Company; provided, however, that no such resignation shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 7.08. The Holders of a majority in aggregate principal amount at maturity of the Securities at the time outstanding may remove the Trustee by so notifying the Trustee and the Company. The Company shall remove the Trustee if:

(a) the Trustee fails to comply with Section 7.10;

- (b) the Trustee is adjudged bankrupt or insolvent;
- (c) a receiver or public officer takes charge of the Trustee or its property; or
- (d) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint, by resolution of its Board of Directors, a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company satisfactory in form and substance to the retiring Trustee and the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 30 days after the retiring Trustee gives its notice of resignation or is removed, the retiring Trustee, the Company or the Holders of a majority in aggregate principal amount at maturity of the Securities at the time outstanding may petition any court of competent jurisdiction at the expense of the Company for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Section 7.10. *Successor Trustee by Merger* . If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets (including the administration of the trust created by this Indenture) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

Section 7.11. *Eligibility; Disqualification* . The Trustee shall at all times satisfy the requirements of TIA Section 310(a)(1). The Trustee (or its parent holding company) shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. Nothing herein contained shall prevent the Trustee from filing with the SEC the application referred to in the penultimate paragraph of TIA Section 310(b). The Trustee shall comply with TIA Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

Section 7.12. *Preferential Collection of Claims Against Company* . The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

Section 7.13. *Money Held in Trust* . Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee (acting in any capacity hereunder) shall be under no liability for interest on any money received by it hereunder unless otherwise agreed in writing with the Company.

ARTICLE 8 DISCHARGE OF INDENTURE

Section 8.01. *Discharge of Liability on Securities* . When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.09) for cancellation or (ii) all outstanding Securities have become due and payable and the Company deposits with the Trustee cash sufficient to pay all amounts due and owing on all outstanding Securities (other than Securities replaced pursuant to Section 2.09), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 7.07, cease to be of further effect. The Trustee shall join in the execution of a document prepared by the Company acknowledging satisfaction and discharge of this Indenture on demand at the cost and expense of the Company and accompanied by an Officers' Certificate and Opinion of Counsel.

Section 8.02. *Application of Trust Funds* . Subject to the provisions of the last paragraph of Section 4.03, all money deposited with the Trustee pursuant to Section 8.01 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any), and any interest for whose payment such money has been deposited with or received by the Trustee, but such money need not be segregated from other funds except to the extent required by law.

Section 8.03. *Repayment to the Company* . The Trustee and the Paying Agent shall return to the Company upon written request any money held by them for the payment of any amount and any shares of Common Stock with respect to the Securities that remain unclaimed for

two years, subject to applicable unclaimed property law. After return to the Company, as applicable, Holders entitled to the money must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person and the Trustee and the Paying Agent shall have no further liability to the Holders with respect to such money or securities for that period commencing after the return thereof.

ARTICLE 9 AMENDMENTS

Section 9.01. *Without Consent of Holders* . The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to or consent of any Securityholder:

- (a) to comply with Article 5 or Section 10.05;
- (b) to cure any ambiguity, omission, defect or inconsistency, or to make any other change that does not adversely affect the rights of any Securityholder;
- (c) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities; or
- (d) to comply with the provisions of the TIA, or with any requirement of the SEC arising as a result of the qualification of this Indenture under the TIA.

Section 9.02. *With Consent of Holders* . The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of a majority in aggregate principal amount at maturity of the Securities then outstanding. The Holders of a majority in aggregate principal amount at maturity of the Securities then outstanding may waive compliance by the Company with restrictive provisions of this Indenture other than as set forth in this Section 9.02 below, and waive any past Default under this Indenture and its consequences, except a Default in the payment of amounts due in respect of any Security or in respect of a provision which under this Indenture cannot be modified or amended without the consent of the Holder of each outstanding Security affected.

Subject to Section 9.04, without the written consent of each Securityholder affected, the Company may not:

- (a) change the Stated Maturity of the Accreted Value of, or any installment of interest (including contingent interest, if any), if any, on, any Security;
- (b) reduce the Accreted Value of, or the rate or amount of interest (including contingent interest), if any, on, any Security, whether upon acceleration, redemption or otherwise, or alter the manner of calculation of interest, if any, or the rate or amount of accrual thereof on any Security;
- (c) change the currency for payment of Accreted Value of, or interest (including contingent interest, if any), on any Security or change any Place of Payment where the Accreted Value of or interest on any Security is payable;
- (d) impair the right to institute suit for the enforcement of any payment of any amount with respect to any Security when due;
- (e) adversely affect the conversion rights provided in Article 10;
- (f) modify the provisions of this Indenture requiring the Company to make an offer to repurchase Securities upon a Designated Event in a manner adverse to the Holders of the Securities;
- (g) reduce the percentage of principal amount at maturity of the outstanding Securities necessary to modify or amend this Indenture or to consent to any waiver provided for in this Indenture;
- (h) waive a Default or Event of Default in the payment of any amount with respect to any Security when due (except as provided in Section 6.02 and 6.04);
- (i) make any changes in this Section 9.02;
- (j) make any change in the provisions of this Indenture permitting Holders of a majority in aggregate principal amount at maturity of Securities to waive past Defaults or Events of Default or the

rights of Holders to receive payments of Accreted Value of or interest on the Securities or to bring suit to enforce such payment; or

(k) modify any provision of this Indenture relating to the calculation of Accreted Value with respect to the Securities.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.02 becomes effective, the Company shall mail to each Holder a notice briefly describing the amendment. Failure to mail the notice or a defect in the notice shall not effect the validity of the amendment.

Section 9.03. *Compliance with Trust Indenture Act* . Every supplemental indenture executed pursuant to this Article shall comply with the TIA.

Section 9.04. *Revocation and Effect of Consents* . Until an amendment, waiver or other action by Holders becomes effective, a consent thereto by a Holder of a Security hereunder is a continuing consent by the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same obligation as the consenting Holder's Security, even if notation of the consent, waiver or action is not made on the Security. However, unless otherwise agreed in writing by such Holder or a predecessor Holder any such Holder or subsequent Holder may revoke the consent, waiver or action as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment, waiver or action becomes effective. After an amendment, waiver or action becomes effective, it shall bind every Securityholder.

Section 9.05. *Notation on or Exchange of Securities* . Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article 9 may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors of the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for outstanding Securities.

Section 9.06. *Trustee to Sign Supplemental Indentures* . The Trustee shall sign any supplemental indenture authorized pursuant to this Article 9 if the amendment contained therein does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign such supplemental indenture. In signing such supplemental indenture the Trustee shall receive, and (subject to the provisions of Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

Section 9.07. *Effect of Supplemental Indentures* . Upon the execution of any supplemental indenture under this Article 9, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE 10 CONVERSIONS

Section 10.01. *Right to Convert* . Subject to and upon compliance with the provisions of this Indenture (including Section 3.08 of this Indenture), each Holder of Securities shall have the right, at his or her option, at any time after April 24, 2004 and on or before the close of business on the last Trading Day prior to the Stated Maturity of the Securities (except that, (a) with respect to any Security

or portion thereof which is called for redemption prior to such date, such right shall terminate, except as provided in Article 3, at the close of business on the last Trading Day preceding the date fixed for redemption (unless the Company defaults in payment of the Redemption Price in which case the conversion right will terminate at the close of business on the date such default is cured) and (b) with respect to any Security or portion thereof subject to a duly completed election for repurchase, such right shall terminate at the close of business on the Designated Event Offer Termination Date (unless the Company defaults in the payment due upon repurchase or such holder elects to withdraw the submission of such election to repurchase in accordance with Section 4.05)) to convert the Accreted Value of any Security held by such Holder, or any portion of a Security, into that number of fully paid and non-assessable shares of Common Stock (as such shares shall then be constituted) obtained by dividing (i) the Accreted Value or portion thereof to be converted (a) as of such date, in the case of a Conversion Date on or after October 15, 2007 or (b) as of the Accretion Measurement Date immediately preceding the Conversion Date (or, if the Conversion Date is an Accretion Measurement Date, as of the Conversion Date), in the case of a Conversion Date prior to October 15, 2007 by (ii) the Conversion Price in effect at such time, by surrender of the Security so to be converted in whole or in part in the manner provided in Section 10.02. Notwithstanding anything in this Indenture to the contrary, in no event shall a Holder convert a portion of a Security unless such portion of the Security has a

principal amount at maturity of \$1,000 (assuming no exercise by the Company of its right to elect to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007) or an integral multiple thereof. A Holder of Securities is not entitled to any rights of a holder of Common Stock until such Holder of Securities has converted his or her Securities to Common Stock, and then only to the extent such Securities are deemed to have been converted to Common Stock under this Article 10.

Section 10.02. Exercise of Conversion Privilege; Issuance of Common Stock on Conversion; No Adjustment for Interest, Accretion or Dividends . To exercise, in whole or in part, the conversion privilege with respect to any Security, the Holder of such Security shall surrender such Security, duly endorsed, at an office or agency maintained by the Company pursuant to Section 4.02, accompanied by the funds, if any, required by the last paragraph of this Section 10.02, and shall give written notice of conversion in the form provided on the Securities (or such other notice which is acceptable to the Company) to the office or agency that the Holder of Securities elects to convert such Security or such portion thereof specified in said notice. Such notice shall also state the name or names (with address or addresses) in which the certificate or certificates for shares of Common Stock which are issuable on such conversion shall be issued, and shall be accompanied by transfer taxes, if required pursuant to Section 10.06. Each such Security surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as the registration of such Security, be duly endorsed by, or be accompanied by instruments of transfer in form satisfactory to the Company duly executed by, the Holder or his or her duly authorized attorney. The Holder of such Securities will not be required to pay any tax or duty which may be payable in respect of the issue or delivery of Common Stock on conversion, but will be required to pay any tax or duty which may be payable in respect of any transfer involved in the issue or delivery of Common Stock in a name other than the same name as the registration of such Security.

As promptly as practicable after satisfaction of the requirements for conversion set forth above, the Company shall issue and shall deliver to such holder at the office or agency maintained by the Company for such purpose pursuant to Section 4.02, a certificate or certificates for the number of full shares of Common Stock (including any full shares as a result of rounding fractional shares up to a full number of shares pursuant to Section 10.03) issuable upon the conversion of such Security or portion thereof in accordance with the provisions of this Article 10 and (i) a check or cash (which payment, if any, shall be paid no later than five Business Days after satisfaction of the requirements for conversion set forth above) or (ii) fractional shares (if not rounded up to a full number of shares pursuant to Section 10.03), in each case in respect of any fractional interest in respect of a share of Common Stock,

pursuant to Section 10.03. Certificates representing shares of Common Stock may have notations, legends or endorsements required by law, stock exchange rule or usage; provided that any such notation, legend or endorsement required by usage is in a form acceptable to the Company. Certificates representing shares of Common Stock will not be issued or delivered unless all taxes and duties, if any, payable by the holder have been paid. In case any Security of a denomination of an integral multiple greater than \$1,000 is surrendered for partial conversion, and subject to Section 2.04, the Company shall execute, and the Trustee shall authenticate and deliver to the holder of the Security so surrendered, without charge to him or her, a new Security or Securities in authorized denominations in an aggregate Accreted Value equal to the unconverted portion of the surrendered Security.

Each conversion shall be deemed to have been effected as to any such Security (or portion thereof) on the date on which the requirements set forth above in this Section 10.02 have been satisfied as to such Security (or portion thereof), and the Person in whose name any certificate or certificates for shares of Common Stock are issuable upon such conversion shall be deemed to have become on said date the holder of record of the shares represented thereby; *provided , however ,* that any such surrender on any date when the Company's stock transfer books are closed shall constitute the Person in whose name the certificates are to be issued as the record holder thereof for all purposes on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date upon which such Security is surrendered.

Any Security or portion thereof surrendered for conversion during the period from the close of business on the Regular Record Date for any interest payment through the close of business on the last Trading Day immediately preceding such Interest Payment Date shall (unless such Security or portion thereof being converted has been called for redemption on a date during the period from the close of business on such Regular Record Date to the close of business on the last Trading Day immediately preceding the corresponding Interest Payment Date pursuant to a notice of redemption mailed by the Company to the holders in accordance with the provisions of Section 3.04 of this Indenture) be accompanied by payment, in funds acceptable to the Company, of an amount equal to the interest otherwise payable on such Interest Payment Date on the Accreted Value being converted; *provided , however ,* that such payment may be reduced by the amount of any existing payment default in respect of such Securities. An amount equal to such payment shall be paid by the Company on such Interest Payment Date to the holder of such Security at the close of business on such Regular Record Date. Except as provided above in this Section 10.02, no adjustment shall be made for interest accrued or for any accretion that occurs after the applicable Accretion Measurement Date on any Security converted or for dividends on any shares issued upon the conversion of such Security as provided in this Article 10. If any Security or portion thereof that has been called for redemption on a date during the period from the close of business on a Regular Record Date to the close of business on the last Trading Day immediately preceding the corresponding Interest Payment Date is converted after such Regular Record Date for the payment of interest and prior to such corresponding Interest Payment Date, interest payable on such Interest Payment Date shall be payable notwithstanding such conversion, and such interest shall be paid to the holder of such Security on the applicable Regular Record Date.

Section 10.03. Cash Payments in Lieu of Fractional Shares . If more than one Security shall be surrendered for conversion at one time by the same holder, the number of full shares which shall be issuable upon conversion shall be computed on the basis of the aggregate Accreted Value of the Securities (or specified portions thereof to the extent permitted hereby) so surrendered for conversion (a) as of such date, in the case

of a Conversion Date on or after October 15, 2007 or (b) as of the Accretion Measurement Date immediately preceding the Conversion Date (or, if the Conversion Date is an Accretion Measurement Date, as of the Conversion Date), in the case of a Conversion Date prior to October 15, 2007. In respect of any fractional share of stock that otherwise would be issuable upon the conversion of any Security or Securities, the Company shall make an adjustment therefor in cash based upon the current market price thereof or, the Company shall, at its option, (i) round such

fraction up to the nearest full number of shares for issuance upon conversion or (ii) if permitted by law and relevant Nasdaq or stock exchange rules, issue such fractional shares. For purposes of this Section 10.03, the "current market price" of a share of Common Stock shall be the Closing Sale Price on the last Business Day immediately preceding the day on which the Securities (or specified portions thereof) are deemed to have been converted.

Section 10.04. *Adjustment of the Conversion Price* . The Conversion Price shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall hereafter pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect at the opening of business on the date following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution by a fraction,

(i) the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination; and

(ii) the denominator of which shall be the sum of the number of shares of Common Stock outstanding at the close of business on the date fixed for the determination of stockholders entitled to receive such dividend or other distribution plus the total number of shares of Common Stock constituting such dividend or other distribution,

such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purpose of this paragraph (a), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company. If any dividend or distribution of the type described in this Section 10.04 is declared but not so paid or made, the Conversion Price shall again be adjusted to the Conversion Price that would then be in effect if such dividend or distribution had not been declared.

(b) In case the Company shall issue rights or warrants to all holders of its outstanding shares of Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price on the date fixed for determination of stockholders entitled to receive such rights or warrants, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date fixed for determination of stockholders entitled to receive such rights or warrants by a fraction,

(i) the numerator of which shall be the sum of the number of shares of Common Stock outstanding at the close of business on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the number of shares that the aggregate offering price of the total number of shares so offered would purchase at such Current Market Price, and

(ii) the denominator of which shall be the number of shares of Common Stock outstanding on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the total number of additional shares of Common Stock offered for subscription or purchase.

Such adjustment shall be successively made whenever any such rights or warrants are issued, and shall become effective immediately after the opening of business on the day following the date fixed for determination of stockholders entitled to receive such rights or warrants. To the extent that shares of Common Stock are not delivered after the expiration of such rights or warrants, the Conversion Price shall be readjusted to the Conversion Price that would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered. If such rights or warrants are not so issued, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such date fixed

for the determination of stockholders entitled to receive such rights or warrants had not been fixed. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than such Current Market Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Company for such rights or warrants and any amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the

(c) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(d) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock shares of any class of capital stock of the Company or evidences of its indebtedness or assets, including cash and securities (any such distribution, a "Distribution"; *provided, however*, that the term "Distribution" shall not include, and this Section 10.04(d) shall not apply to, (x) any rights or warrants referred to in Section 10.04(b) and (y) any dividend or distribution referred to in Section 10.04(a)), then, in each such case (unless the Company elects to reserve such Distribution for distribution to the Holders upon the conversion of the Securities so that any such Holder converting Securities will receive upon such conversion, in addition to the shares of Common Stock to which such holder is entitled, the amount and kind of such Distribution which such holder would have received if such holder had converted its Securities into Common Stock immediately prior to the Record Date), the Conversion Price shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Price in effect on the Record Date with respect to such distribution by a fraction,

(i) the numerator of which shall be the Current Market Price on such Record Date less (A) in the case of Distributions other than cash, the Fair Market Value (as determined by the Board of Directors, whose determination shall be conclusive, and described in a resolution of the Board of Directors) on the Record Date of the portion of such Distributions applicable to one share of Common Stock and (B) in the case of Distributions of cash, the amount of such Distributions applicable to one share of Common Stock; and

(ii) the denominator of which shall be the Current Market Price on such Record Date,

such adjustment to become effective immediately prior to the opening of business on the day following such Record Date; *provided, however*, that if the then Fair Market Value (as so determined) of the portion of the Distribution so distributed applicable to one share of Common Stock is equal to or greater than the Current Market Price on the Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each Holder shall have the right to receive upon conversion the amount of Distribution such holder would have received had such holder converted each Security on the Record Date. If such Distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such Distribution had not been declared. If the Board of Directors determines the Fair Market Value of any distribution for purposes of this Section 10.04 by reference to the actual or when issued trading market for any securities, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price on the applicable Record Date. Notwithstanding the foregoing, if the Distribution distributed by the Company to all holders of its Common Stock consists of Capital Stock of, or similar equity interests in, a Subsidiary or other business unit, the Conversion Price shall be reduced so that

the same shall be equal to the price determined by multiplying the Conversion Price in effect on the Record Date with respect to such distribution by a fraction:

(i) the numerator of which shall be the average Closing Sale Price of one share of Common Stock over the Spinoff Valuation Period; and

(ii) the denominator of which shall be the sum of (x) the average Closing Sale Price of one share of Common Stock over the ten consecutive Trading Day period (the "Spinoff Valuation Period") commencing on and including the fifth Trading Day after the date on which "ex-dividend trading" commences on the Common Stock on the New York Stock Exchange or such other national or regional exchange or market on which the Common Stock is then listed or quoted and (y) the average Fair Market Value (as determined by the Board of Directors, whose determination shall be conclusive, and described in a resolution of the Board of Directors) over the Spinoff Valuation Period of the portion of the Distribution so distributed applicable to one share of Common Stock,

such adjustment to become effective immediately prior to the opening of business on the day following such Record Date; *provided, however*, that the Company may in lieu of the foregoing adjustment make adequate provision so that each Holder shall have the right to receive upon conversion the amount of Distribution such holder would have received had such holder converted each Security on the Record Date with respect to such Distribution.

Rights or warrants distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's Capital Stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 10.04 (and no adjustment to the Conversion Price under this Section 10.04 will be required) until the occurrence of the earliest Trigger Event, whereupon such rights and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the

Conversion Price shall be made under this Section 10.04. If any such right or warrant, including any such existing rights or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and record date with respect to new rights or warrants with such rights (and a termination or expiration of the existing rights or warrants without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Price under this Section 10.04 was made, (1) in the case of any such rights or warrants that shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder or holders of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Price shall be readjusted as if such rights and warrants had not been issued.

No adjustment of the Conversion Price shall be made pursuant to this Section 10.04 in respect of rights or warrants distributed or deemed distributed on any Trigger Event to the extent that such rights or warrants are actually distributed, or reserved by the Company for distribution to Holders of Securities upon conversion by such Holders of Securities to Common Stock.

For purposes of this Section 10.04(d) and 10.04(a) and (b), any dividend or distribution to which this Section 10.04(d) is applicable that also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets or shares of capital stock other than such shares of Common Stock or rights or warrants (and any Conversion Price adjustment required by this Section 10.04 with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or warrants (and any further Conversion Price adjustment required by Sections 10.04(a) and (b) with respect to such dividend or distribution shall then be made), except

(A) the Record Date of such dividend or distribution shall be substituted as "the date fixed for the determination of stockholders entitled to receive such dividend or other distribution", "the date fixed for the determination of stockholders entitled to receive such rights or warrants" and "the date fixed for such determination" within the meaning of Section 10.04(a) and (b) and

(B) any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of Section 10.04(a).

(e) In case a tender or exchange offer made by the Company or any Subsidiary for all or any portion of the Common Stock shall expire and such tender or exchange offer (as amended upon the expiration thereof) shall require the payment to stockholders of consideration per share of Common Stock having a Fair Market Value (as determined by the Board of Directors, whose determination shall be conclusive and described in a resolution of the Board of Directors) that as of the last time (the "*Expiration Time*") tenders or exchanges may be made pursuant to such tender or exchange offer (as it may be amended) exceeds the Closing Sale Price of a share of Common Stock on the Trading Day next succeeding the Expiration Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Expiration Time by a fraction,

(i) the numerator of which shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) at the Expiration Time multiplied by the Closing Sale Price of a share of Common Stock on the Trading Day next succeeding the Expiration Time, and

(ii) the denominator of which shall be the sum of (x) the Fair Market Value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted up to any such maximum, being referred to as the "*Purchased Shares*") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) at the Expiration Time and the Closing Sale Price of a share of Common Stock on the Trading Day next succeeding the Expiration Time,

such adjustment to become effective immediately prior to the opening of business on the day following the Expiration Time. If the Company is obligated to purchase shares pursuant to any such tender or exchange offer, but the Company is permanently prevented by applicable law from effecting any such purchases or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such tender or exchange offer had not been made.

(f) The following terms shall have the meaning indicated:

(1) " *Current Market Price* " shall mean the average of the daily Closing Sale Prices per share of Common Stock for the ten consecutive Trading Days immediately preceding the earlier of such date of determination and the day before the "ex" date with respect to the issuance, distribution, subdivision or combination requiring such computation immediately prior to the date in question. For purpose of this paragraph, the term "ex" date, (1) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades, regular way, on the relevant exchange or in the relevant market from which the Closing Sale Price was obtained without the right to receive such issuance or distribution, and (2) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades, regular way, on such exchange or in such market after the time at which such subdivision or combination becomes effective.

If another issuance, distribution, subdivision or combination to which this Section 10.04 applies occurs during the period applicable for calculating " *Current Market Price* " pursuant to the definition in the preceding paragraph, " *Current Market Price* " shall be calculated for such period in a manner determined by the Board of Directors to reflect the impact of such issuance, distribution, subdivision or combination on the Closing Sale Price of the Common Stock during such period.

(2) " *Fair Market Value* " shall mean the amount which a willing buyer would pay a willing seller in an arm's-length transaction.

(3) " *Record Date* " shall mean, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors or by statute, contract or otherwise).

(g) The Company may make such reductions in the Conversion Price, in addition to those required by Section 10.04(a), (b), (c), (d) or (e) as the Board of Directors considers to be advisable to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes.

To the extent permitted by applicable law, the Company from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least twenty (20) days, the reduction is irrevocable during the period and the Board of Directors shall have made a determination that such reduction would be in the best interests of the Company, which determination shall be conclusive. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Company shall mail to holders of record of the Securities a notice of the increase at least fifteen (15) days prior to the date the reduced Conversion Price takes effect, and such notice shall state the increased Conversion Price and the period during which it will be in effect.

(h) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in such price; *provided, however*, that any adjustments that by reason of this Article 10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 10 shall be made by the Company and shall be made to the nearest one-thousandth (1/1,000) of a dollar or to the nearest one-ten thousandth (1/10,000) of a share, as the case may be. No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest. To the extent the Securities become convertible into cash, assets, property or securities (other than capital stock of the Company), no adjustment need be made thereafter as to the cash, assets,

property or such securities. Interest will not accrue on any cash into which the Securities are convertible. The Conversion Price shall be adjusted only once for a single event or occurrence that would require an adjustment under more than one of Section 10.04(a), (b), (c), (d) or (e).

(i) Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly file with the Trustee and any Conversion Agent other than the Trustee an Officers' Certificate setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officers' Certificate, the Trustee shall not be deemed to have actual knowledge of any adjustment of the Conversion Price and may assume that the last Conversion Price of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Price setting forth the adjusted Conversion Price and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Price to the holder of each Security, within twenty (20) days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(j) In any case in which this Section 10.04 provides that an adjustment shall become effective immediately after (1) a record date or Record Date for an event, (2) the date fixed for the determination of stockholders entitled to receive a dividend or distribution pursuant to Section 10.04(a), (3) a date fixed for the determination of stockholders entitled to receive rights or warrants pursuant to Section 10.04(b), or (4) the Expiration Time for any tender or exchange offer pursuant to Section 10.04, (each a " *Determination Date* "), the Company may elect to defer until the occurrence of the applicable Adjustment Event (as hereinafter defined) (x) issuing to the holder of any Security converted after such Determination Date and before the occurrence of such Adjustment Event, the additional shares of Common Stock or other securities issuable upon such conversion by reason of the adjustment required by such Adjustment Event over and above the Common Stock issuable upon

such conversion before giving effect to such adjustment and (y) paying to such holder any amount in cash in lieu of any fraction pursuant to Section 10.03. For purposes of this Section 10.04, the term "Adjustment Event" shall mean:

- (i) in any case referred to in clause (1) hereof, the occurrence of such event,
- (ii) in any case referred to in clause (2) hereof, the date any such dividend or distribution is paid or made,
- (iii) in any case referred to in clause (3) hereof, the date of expiration of such rights or warrants, and
- (iv) in any case referred to in clause (4) hereof, the date a sale or exchange of Common Stock pursuant to such tender or exchange offer is consummated and becomes irrevocable.

(k) For purposes of this Section 10.04, the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

Section 10.05. *Effect of Reclassification, Consolidation, Merger or Sale* . If any of the following events occur: (i) any reclassification or change of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), (ii) any consolidation, merger, share exchange or combination of the Company with another Person or (iii) any sale or conveyance of all or substantially all of the properties and assets of the Company as an entirety or substantially as an entirety, in each case as a result of which holders of Common Stock shall receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, then the Company or the

44

successor or purchasing Person, as the case may be, shall execute with the Trustee a supplemental indenture (which shall comply with the TIA as in force at the date of execution of such supplemental indenture if such supplemental indenture is then required to so comply) providing that the Securities shall be convertible into the kind and amount of shares of stock and other securities or property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, share exchange, combination, sale or, conveyance by a holder of a number of shares of Common Stock issuable upon conversion of the Securities (assuming, for such purposes, a sufficient number of authorized shares of Common Stock available to convert all such Securities) immediately prior to such reclassification, change, consolidation, merger, share exchange, combination, sale or conveyance assuming such holder of Common Stock did not exercise his or her rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such consolidation, merger, share exchange, sale or conveyance provided that, if the kind or amount of securities, cash or other property receivable upon such consolidation, merger, share exchange, sale or conveyance is not the same for each share of Common Stock in respect of which such rights of election have not been exercised ("*Non-electing Share*"), then, for the purposes of this Section 10.05, the kind and amount of securities, cash or other property receivable upon such consolidation, merger, share exchange, sale or conveyance for each Non-electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-electing Shares). Such supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article Sixteen. If, in the case of any such reclassification, change, consolidation, merger, share exchange, combination, sale or conveyance, the stock or other securities and assets receivable thereupon by a holder of shares of Common Stock includes shares of stock or other securities and assets of a person other than the successor or purchasing person, as the case may be, in such reclassification, change, consolidation, merger, share exchange, combination, sale or conveyance, then such supplemental indenture shall also be executed by such other person and shall contain such additional provisions to protect the interests of the holders of the Securities as the Board of Directors shall reasonably consider necessary by reason of the foregoing.

The Company shall cause notice of the execution of such supplemental indenture to be mailed to each holder of Securities within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

The above provisions of this Section 10.05 shall similarly apply to successive reclassifications, changes, consolidations, mergers, share exchanges, combinations, sales and conveyances.

If this Section 10.05 applies to any event or occurrence, Section 10.04 shall not apply.

Section 10.06. *Taxes on Shares Issued* . The issue of stock certificates on conversions of Securities shall be made without charge to the converting Holder for any tax in respect of the issue thereof. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of stock in any name other than that of the holder of any Security converted, and the Company shall not be required to issue or deliver any such stock certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

Section 10.07. *Reservation of Shares; Shares to Be Fully Paid; Listing of Common Stock* . The Company shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient shares to provide for the conversion of the Securities from time to time as such Securities are presented for conversion. Before taking any action which would cause an adjustment reducing

the Conversion Price below the then par value, if any, of the shares of Common Stock issuable upon conversion of the Securities, the Company shall take all corporate action which may, in

the opinion of its counsel, be necessary in order that the Company may validly and legally issue shares of such Common Stock at such adjusted Conversion Price.

The Company covenants that all shares of Common Stock issued upon conversion of Securities will be fully paid and nonassessable by the Company and free from all taxes, liens and charges with respect to the issue thereof.

The Company further covenants that as long as the Common Stock is quoted on the Nasdaq National Market, or its successor, the Company shall cause all Common Stock issuable upon conversion of the Securities to be eligible for such quotation in accordance with, and at the times required under, the requirements of such market, and if at any time the Common Stock becomes listed on the New York Stock Exchange or any other national securities exchange, the Company shall cause all Common Stock issuable upon conversion of the Securities to be so listed and remain listed.

Section 10.08. *Responsibility of Trustee* . The Trustee and any Conversion Agent shall have no duty, responsibility or liability to any Holder to determine whether any facts exist which may require any adjustment of the Conversion Price, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. Neither the Trustee nor any Conversion Agent shall be accountable with respect to the registration under securities laws, listing, validity or value (or the kind or amount) of any shares of Common Stock, or of any other securities or property, which may at any time be issued or delivered upon the conversion of any Security, and neither the Trustee nor any Conversion Agent makes any representation with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to make any cash payment or to issue, transfer or deliver any shares of stock or stock certificates or other securities or property upon the surrender of any Security for the purpose of conversion; and the Trustee and any Conversion Agent shall not be responsible for any failure of the Company to comply with any of the covenants of the Company contained in this Article 10.

Section 10.09. *Notice to Holders Prior to Certain Actions* . If:

- (a) the Company declares a dividend (or any other distribution) on its Common Stock (other than in cash out of retained earnings);
- (b) the Company authorizes the granting to the holders of its Common Stock of rights or warrants to subscribe for or purchase any share of any class of Common Stock or any other rights or warrants (other than rights or warrants referred to in the second paragraph of Section 10.04 (d));
- (c) there is any reclassification of the Common Stock (other than a subdivision or combination of outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation, merger or share exchange to which the Company is a party, or of the sale or transfer of all or substantially all of the assets of the Company; or
- (d) there is any voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then the Company shall cause to be filed with the Trustee and at the office or agency maintained for the purpose of conversion of the Securities pursuant to Section 4.02 shall caused to be mailed to each holder of Securities, at their last addresses as they shall appear on the Security Register of the Company as promptly as possible but in any event at least 10 days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend or distribution of rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend or distribution are to be determined or (y) the date on which such reclassification, consolidation, merger, share exchange, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their

Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, share exchange, sale, transfer; dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, share exchange, sale, transfer, dissolution, liquidation or winding-up. Such notice shall also be published by and at the expense of the Company not later than the aforesaid filing date at least once in an Authorized Newspaper.

Section 11.01. *Trust Indenture Act Controls* . If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

Section 11.02. *Notices* . Any request, demand, authorization, notice, waiver, consent or communication shall be in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows, or transmitted by facsimile transmission (confirmed in writing) to the following facsimile numbers:

if to the Company, to:

Level 3 Communications, Inc.
1025 Eldorado Boulevard
Broomfield, Colorado 80021
Attn.: General Counsel
Facsimile: (720) 888-5619

with a copy to:

Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019
Attention: John S. D'Alimonte
Facsimile No.: (212) 728-8111

if to the Trustee, to:

The Bank of New York
101 Barclay Street, 8W
New York, New York 10286
Attention: Corporate Trust Administration
Facsimile No.: (212) 815-5707

The Company or the Trustee by notice given to the other in the manner provided above may designate additional or different addresses for subsequent notices or communications.

Any notice or communication given to a Holder shall be mailed to the Holder, by first-class mail, postage prepaid, at the Holder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not received by the addressee.

If the Company mails a notice or communication to the Holders, it shall mail a copy to the Trustee and each Registrar, Paying Agent, Conversion Agent or co-registrar.

Section 11.03. *Communication by Holders with Other Holders* . Holders may communicate pursuant to TIA Section 312(b) with other Holders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar, the Paying Agent, the Conversion Agent and anyone else shall have the protection of TIA Section 312(c).

Section 11.04. *Certificate and Opinion as to Conditions Precedent* . Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such eligible and qualified Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating the information on which counsel is relying unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 11.05. *Statements Required in Certificate or Opinion* .

Each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include:

- (a) a statement that each person making such Officers' Certificate or Opinion of Counsel has read such covenant or condition;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;
- (c) a statement that, in the opinion of each such person, he has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement that, in the opinion of such person, such covenant or condition has been complied with.

Section 11.06. *Separability Clause* . In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 11.07. *Rules by Trustee, Paying Agent, Conversion Agent and Registrar* . The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar, the Conversion Agent and the Paying Agent may make reasonable rules for their functions.

Section 11.08. *Legal Holidays* . A " Legal Holiday " is any day other than a Business Day. If any specified date (including a date for giving notice) is a Legal Holiday, the action shall be taken on the next succeeding day that is not a Legal Holiday, and, if the action to be taken on such date is a payment in respect of the Securities, no interest (including contingent interest, if any) or Special Interest, if any, shall accrue for the intervening period.

Section 11.09. *Governing Law* . THIS INDENTURE AND EACH SECURITY SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 11.10. *No Recourse Against Others* . A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

Section 11.11. *Successors* . All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

Section 11.12. *Multiple Originals* . This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the undersigned, being duly authorized, have executed this Indenture on behalf of the respective parties hereto as of the date first above written.

LEVEL 3 COMMUNICATIONS, INC.

By: /s/ THOMAS C. STORTZ

Name: Thomas C. Stortz
Title: Group Vice President

THE BANK OF NEW YORK, as Trustee

By: /s/ VAN K. BROWN

Name: Van K. Brown
Title: Vice President

50

EXHIBIT A-1

{FORM OF FACE OF GLOBAL SECURITY}

FOR U.S. FEDERAL INCOME TAX PURPOSES, THIS SECURITY WAS ISSUED WITH "ORIGINAL ISSUE DISCOUNT." THE TOTAL AMOUNT OF ORIGINAL ISSUE DISCOUNT IS 29.527% OF ITS PRINCIPAL AMOUNT AT MATURITY, THE ISSUE DATE IS OCTOBER 24, 2003 AND THE YIELD TO MATURITY ON THE ISSUE DATE IS 9%, COMPOUNDED SEMIANNUALLY.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO LEVEL 3 COMMUNICATIONS, INC. (THE "COMPANY") OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS TO NOMINEES OF THE DEPOSITORY TRUST COMPANY, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS SECURITY, AND THE COMMON STOCK DELIVERABLE UPON CONVERSION HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) IN AN OFFSHORE TRANSACTION TO NON-U.S. PERSONS THAT OCCURS OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (IV) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT INCLUDING THE EXEMPTION PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY

A-1-1

PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

LEVEL 3 COMMUNICATIONS, INC.**9% Convertible Senior Discount Notes Due 2013**

No.: _____ CUSIP: _____

Issue Date: _____, 2003 Principal Amount at Maturity: \$ _____

LEVEL 3 COMMUNICATIONS, INC., a Delaware corporation, promises to pay to Cede & Co., or registered assigns, the principal amount at maturity as set forth on Schedule I hereto, on October 15, 2013, subject to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. This Security is convertible as specified on the other side of this Security.

Interest Payment Dates: April 15 and October 15, commencing April 15, 2008 (unless the Company elects to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007).

Record Dates: April 1 and October 1, commencing April 1, 2008.

LEVEL 3 COMMUNICATIONS, INC.

By: _____

Name: _____

Title: _____

A-1-3

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The Bank of New York, as Trustee, certifies that this is one of the Securities referred to in the within-mentioned Indenture.

By: _____
Authorized Signatory

Dated: _____

A-1-4

{FORM OF REVERSE SIDE OF SECURITY}**Level 3 Communications, Inc.****9% CONVERTIBLE SENIOR DISCOUNT NOTE DUE 2013**

1. **PRINCIPAL AMOUNT AT MATURITY.** Level 3 Communications, Inc., a Delaware corporation (the "Company"), promises to pay the principal sum of _____ Dollars on October 15, 2013, at the office or agency of the Company referred to below.
2. **INTEREST.** Level 3 Communications, Inc., a Delaware corporation (the "Company"), promises to pay interest on the principal amount at maturity of this Security at the rate per annum shown above. The Company will pay interest semi-annually in arrears on April 15 and October 15 of each year, beginning April 15, 2008, and cash interest accruing from October 15, 2007, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, at the rate of 9% per annum, until the principal amount at maturity hereof is paid or duly provided for; provided that no cash interest shall accrue on the Accreted Value of this Security prior to October 15, 2007, and no cash interest shall be paid on this Security prior to April 15, 2008, except that the Company may elect, upon not less than

60 days prior notice given in the manner provided for in the Indenture, to commence the accrual of cash interest (at the rate shown above) on all outstanding Securities on or after October 15, 2004, in which case the outstanding principal amount at maturity of this Security shall on such commencement date be reduced to the Accreted Value of this Security as of such commencement date and cash interest shall be payable with respect to this Security on each April 15 and October 15 thereafter. The Company shall pay interest on overdue Accreted Value at the rate borne by the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

3. **SPECIAL INTEREST.** The Holder of this Security is entitled to the benefits of a Registration Agreement, dated as of October 24, 2003, between the Company and the Initial Purchasers named therein (the "Registration Agreement"). Capitalized terms used in this paragraph but not defined herein have the meanings assigned to them in the Registration Agreement. In the event that (i) the Shelf Registration Statement has not been filed with the SEC on or prior to October 24, 2004, (ii) the Shelf Registration Statement has not been declared effective on or prior to December 23, 2004, or (iii) after the Shelf Registration Statement has been declared effective, such Registration Statement thereafter ceases to be effective or usable in connection with resales of the Securities at any time that the Company is obligated to maintain the effectiveness thereof pursuant to the Registration Agreement (each such event referred to in clauses (i) through (iii) above being referred to herein as a "Registration Default"), interest (the "Special Interest") shall accrue (in addition to stated interest, if any, on the Securities) from and including the date on which the first such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured, at a rate per annum equal to 0.50% of the Accreted Value of the Securities; provided, however, that such rate per annum shall increase by 0.25% per annum from and including the 91st day after the first such Registration Default (and each successive 91st day thereafter) unless and until all Registration Defaults have been cured; provided further, however, that in no event shall the Special Interest accrue at a rate in excess of 1.00% per annum. Accrued Special Interest, if any, shall be paid in cash in arrears semiannually on April 15 and October 15 in each year; and the amount of accrued Special Interest shall be determined on the basis of the number of days actually elapsed and the Accreted Value for each such day.
4. **METHOD OF PAYMENT.** The Company will pay interest on the Securities (except defaulted interest) to the person in whose name each Security is registered at the close of business on the April 1 or October 1 immediately preceding the relevant Interest Payment Date (each a "Regular Record Date") (other than with respect to a Security or portion thereof called for redemption on a

A-1-5

Redemption Date, or repurchased in connection with a Designated Event on a repurchase date, during the period from the close of business on a Regular Record Date to (but excluding) the next succeeding Interest Payment Date, in which case accrued interest shall be payable (unless such Security or portion thereof is converted) to the Holder of the Security or portion thereof redeemed or repurchased in accordance with the applicable redemption or repurchase provisions of the Indenture). The Holder must surrender Securities to a Paying Agent to collect payment of Accreted Value. The Company will pay the Accreted Value of and interest on the Securities at the office or agency of the Company maintained for such purpose, in money of the United States that at the time of payment is legal tender for payment of public and private debts. Until otherwise designated by the Company, the Company's office or agency maintained for such purpose will be the principal Corporate Trust Office of the Trustee (as defined below). However, the Company may pay Accreted Value and interest by check payable in such money, and may mail such check to the Holders at their respective addresses as set forth in the Security Register of Holders of Securities.

5. **PAYING AGENT AND REGISTRAR.** The Bank of New York (together with any successor Trustee under the Indenture referred to below, the "Trustee") will act as Paying Agent and Registrar. The Company may change the Paying Agent, Registrar or co-registrar without prior notice. Subject to certain limitations in the Indenture, the Company or any of its subsidiaries may act in any such capacity.
6. **INDENTURE.** This is one of a duly authorized issue of securities of the Company designated as its "9% Convertible Senior Discount Notes Due 2013" issued under an indenture dated as of October 24, 2003 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (the "TIA") as in effect on the date of the Indenture. The Securities are subject to, and qualified by, all such terms, certain of which are summarized hereon, and Holders are referred to the Indenture and the TIA for a statement of such terms. The Securities are unsecured and unsubordinated obligations of the Company limited to (except as otherwise provided in the Indenture) up to \$294,732,000 in aggregate principal amount at maturity. Capitalized terms not defined below have the same meaning as is given to them in the Indenture.
7. **OPTIONAL REDEMPTION.** No sinking fund is provided for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time at the option of the Company in accordance with the Indenture and this Security, provided that the Securities are not redeemable prior to October 15, 2008. If redeemed at the option of the Company, the Securities will be redeemed on the conditions and at the Redemption Prices set forth below.

If the Closing Sale Price of the Common Stock has exceeded the applicable Specified Percentage (as defined below) of the then applicable Conversion Price for at least 20 Trading Days in any consecutive 30-day trading period ending on the Trading Day prior to the mailing of the notice of redemption, the Company may redeem for cash all or a portion of the Securities at any time after October 15, 2008, by providing not less than 30 nor more than 60 days' notice by mail to each Holder of the Securities to be redeemed, at a redemption price in cash equal to 100% of the Accreted Value as of the Redemption Date of the Securities to be redeemed plus accrued and unpaid interest to, but excluding, the Redemption Date.

"Specified Percentage" is equal to (1) 140% if the date of the mailing of the notice of redemption is during the 12-month period beginning October 15, 2008, (2) 140% if the date of the mailing of the notice of redemption is during the 12-month period beginning October 15, 2009, *provided, however*, that if the Initial Purchasers have Transferred 33 ¹ / 3 % or more of the aggregate principal amount at maturity of the Securities (as of the Issue Date) prior to the Trading Day immediately preceding the date of the mailing of the notice of redemption, the Specified Percentage shall be

A-1-6

automatically reduced to 130%, and (3) 140% if the date of the mailing of the notice of redemption is during the 36-month period beginning October 15, 2010, *provided, however*, that if the Initial Purchasers have Transferred 33 ¹ / 3 % or more of the aggregate principal amount at maturity of the Securities (as of the Issue Date) prior to the Trading Day immediately preceding the date of the mailing of the notice of redemption, the Specified Percentage shall be automatically reduced to 120%. For purposes of this definition of "Specified Percentage," any one or more of the following shall be deemed not to constitute a Transfer of Securities by the Initial Purchasers: (i) a Transfer of Securities to any Person directly or indirectly controlled by or under direct or indirect common control with Fairfax Financial Holdings Limited (any such Person a "Fairfax Entity") or (ii) a Transfer of Securities to a trust or other Person for the benefit of one or more Fairfax Entities.

Notice of redemption will be mailed by first class mail at least 30 days but not more than 60 days before the date fixed for redemption to each Holder of Securities to be redeemed at his or her registered address. Securities in denominations larger than \$1,000 principal amount at maturity may be redeemed in part but only in integral multiples of \$1,000 (assuming no exercise by the Company of its right to elect to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007). If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed by a method that complies with the requirements of the principal national securities exchange, if any, on which the Securities are listed or quoted, or, if the Securities are not so listed, on a pro rata basis by lot or by any other method that the Trustee considers fair and appropriate. On and after the Redemption Date, interest ceases to accrue on Securities or portions thereof called for redemption (unless the Company defaults in the payment of the Redemption Price). If this Security is redeemed on a date which is also an Interest Payment Date, the interest due on such date will be paid to the person in whose name this Security is registered at the close of business on the relevant Regular Record Date.

8. **DESIGNATED EVENT.** Upon the occurrence of a Designated Event, the Company shall make a Designated Event Offer to repurchase all outstanding Securities at a price equal to 101% of the aggregate Accreted Value of the Securities as of the Designated Event Payment Date, plus accrued and unpaid interest to, but excluding, the date of repurchase, such offer to be made as provided in the Indenture. To accept the Designated Event Offer, the Holder hereof must comply with the terms thereof, including surrendering this Security, with the "Option of Holder to Elect Repurchase" portion hereof completed, to the Company, a depository, if appointed by the Company, or a Paying Agent, at the address specified in the notice of the Designated Event Offer mailed to Holders as provided in the Indenture, prior to the Designated Event Offer Termination Date.
9. **DENOMINATIONS, TRANSFER, EXCHANGE.** The Securities are in registered form without coupons in denominations of \$1,000 principal amount at maturity and integral multiples of \$1,000. The transfer of Securities may be registered and Securities may be exchanged as provided in the Indenture. As a condition of transfer, the Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents, and the Company and the Registrar may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company or the Registrar need not exchange or register the transfer of any Security or portion of a Security selected for redemption or submitted for repurchase or surrendered for conversion. Also, the Company or the Registrar need not exchange or register the transfer of any Security for a period of 15 days before the mailing of a notice of redemption for such Securities to be redeemed.
10. **PERSONS DEEMED OWNERS.** The registered Holder of a Security shall be treated as its owner for all purposes.

A-1-7

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11. **AMENDMENTS AND WAIVERS.** Subject to certain exceptions, the Indenture or the Securities may be amended or supplemented with the consent of the Holders of at least a majority in principal amount at maturity of the then outstanding Securities, and any existing default may be waived with the consent of the Holders of a majority in principal amount at maturity of the then outstanding Securities.

Without the consent of any Holder, the Indenture or the Securities may be amended to: (a) to comply with Article 5 or Section 10.05; (b) to cure any ambiguity, omission, defect or inconsistency, or to make any other change that does not adversely affect the rights of any Securityholder; (c) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities; or (d) to comply with the provisions of the TIA, or with any requirement of the SEC arising as a result of the qualification of this Indenture under the TIA.

Without the written consent of each Securityholder affected, the Company may not: (a) change the Stated Maturity of the Accreted Value

of, or any installment of interest (including contingent interest, if any), if any, on, any Security; (b) reduce the Accreted Value of, or the rate or amount of interest (including contingent interest), if any, on, any Security, whether upon acceleration, redemption or otherwise, or alter the manner of calculation of interest, if any, or the rate or amount of accrual thereof on any Security; (c) change the currency for payment, Accreted Value of, or interest (including contingent interest, if any), on any Security or change any Place of Payment where the Accreted Value of or interest on any Security is payable; (d) impair the right to institute suit for the enforcement of any payment of any amount with respect to any Security when due; (e) adversely affect the conversion rights provided in Article 10; (f) modify the provisions of the Indenture requiring the Company to make an offer to repurchase Securities upon a Designated Event in a manner adverse to the Holders; (g) reduce the percentage of principal amount at maturity of the outstanding Securities necessary to modify or amend this Indenture or to consent to any waiver provided for in this Indenture; (h) waive a Default or Event of Default in the payment of any amount with respect to any Security when due (except as provided in Section 6.02 or 6.04); (i) make any changes in Section 9.02 of the Indenture; (j) make any change in the provisions of the Indenture permitting Holders of a majority in aggregate principal amount at maturity of Securities to waive past Defaults or Events of Default or the rights of Holders to receive payments of Accreted Value of or interest on the Securities or to bring suit to enforce such payment; or (k) modify any provision of the Indenture relating to the calculation of Accreted Value with respect to the Securities.

12. **DEFAULTS AND REMEDIES.** An Event of Default is: (a) default in payment of the Accreted Value of the Securities, when due at maturity, upon repurchase, upon acceleration or otherwise; (b) default for 30 days or more in payment of any installment of interest on the Securities; (c) default in the payment of the Designated Event Payment in respect of the Securities on the date thereof; (d) failure to provide timely notice of a Designated Event; (e) default by the Company (other than a default set forth in clause (a), (b), (c) or (d) above) for 60 days or more after notice in the observance or performance of any other covenants in the Indenture; (f) default under any credit agreement, mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any of its Material Subsidiaries (or the payment of which is guaranteed or secured by the Company or any of its Material Subsidiaries), whether such indebtedness or guarantee exists on the date of the Indenture or is created thereafter, which default (i) is caused by a failure to pay when due any principal of such indebtedness within the grace period provided for in such indebtedness, which failure continues beyond any applicable grace period (a "Payment Default"), or (ii) results in the acceleration of such indebtedness prior to its express maturity (without such acceleration being rescinded or annulled) and, in each case, the principal amount of such

A-1-8

indebtedness, together with the principal amount of any other such indebtedness under which there is a Payment Default or the maturity of which has been so accelerated, aggregates \$25,000,000 or more and such Payment Default is not cured or such acceleration is not annulled within 10 days after notice; or (g) failure by the Company or any Material Subsidiary of the Company to pay final, nonappealable judgments (other than any judgment as to which a reputable insurance company has accepted full liability) aggregating in excess of \$25,000,000, which judgments are not stayed, bonded or discharged within 60 days after their entry; or (h) certain events involving bankruptcy, insolvency or reorganization of the Company or any Material Subsidiary. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount at maturity of the then outstanding Securities may declare the then Accreted Value of and accrued and unpaid interest on all Securities then outstanding to be due and payable immediately, except that in the case of an Event of Default arising from certain events of bankruptcy, insolvency, or reorganization with respect to the Company, the then Accreted Value of all outstanding Securities becomes due and payable without further action or notice. Holders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require an indemnity reasonably satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, Holders of a majority in principal amount at maturity of the then outstanding Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of Accreted Value or interest) if it determines that withholding notice is in their interests. The Company must furnish annual compliance certificates to the Trustee.

13. **TRUSTEE DEALINGS WITH THE COMPANY.** The Trustee or any of its Affiliates, in their individual or any other capacities, may make or continue loans to or guaranteed by, accept deposits from and perform services for the Company or its Affiliates and may otherwise deal with the Company or its Affiliates as if it were not Trustee.
14. **NO RECOURSE AGAINST OTHERS.** No director, officer, employee, shareholder or Affiliate, as such, of the Company shall have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Holder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the Securities.
15. **AUTHENTICATION.** This Security shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.
16. **ABBREVIATIONS.** Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN CO = tenants in common, TEN ENT = tenants by the entireties, JT TEN = joint tenants with right of survivorship and not as tenants in common, CUST = Custodian and U/G/MA = Uniform Gifts to Minors Act.
17. **CONVERSION.** Subject to and upon compliance with the provisions of the Indenture, the registered Holder of this Security has the right at any time after April 24, 2004 and on or before the close of business on the last Trading Day prior to the Maturity Date (or in case this Security or any portion hereof is (a) called for redemption prior to such date, before the close of business on the last Trading Day

preceding the date fixed for redemption (unless the Company defaults in payment of the Redemption Price in which case the conversion right will terminate at the close of business on the date such default is cured) or (b) subject to a duly completed election for repurchase, on or before the close of business on the Designated Event Offer Termination Date (unless the Company defaults in payment due upon repurchase or such Holder elects to withdraw the submission of such election to repurchase) to convert the Accreted Value hereof, or any portion of such Accreted Value, into that number of fully paid and non-assessable shares of common stock of the Company ("Common Stock") obtained by dividing (i) the Accreted Value or

A-1-9

portion thereof (a) as of such date, in the case of a Conversion Date on or after October 15, 2007 or (b) as of the Accretion Measurement Date immediately preceding the Conversion Date (or, if the Conversion Date is an Accretion Measurement Date, as of the Conversion Date), in the case of a Conversion Date prior to October 15, 2007 by (ii) the conversion price of \$9.991 per share (the "Conversion Price"), as adjusted from time to time as provided in the Indenture, upon surrender of this Security to the Company at the office or agency maintained for such purpose (and at such other offices or agencies designated for such purpose by the Company), accompanied by written notice of conversion duly executed (and if the shares of Common Stock to be issued on conversion are to be issued in any name other than that of the registered Holder of this Security by instruments of transfer, in form satisfactory to the Company, duly executed by the registered Holder or its duly authorized attorney) and, in case such surrender shall be made during the period from the close of business on the Regular Record Date immediately preceding any Interest Payment Date through the close of business on the last Trading Day immediately preceding such Interest Payment Date (unless this Security or the portion thereof being converted has been called for redemption on a date in such period), also accompanied by payment, in funds acceptable to the Company, of an amount equal to the interest otherwise payable on such Interest Payment Date on the principal amount of this Security then being converted. Subject to the aforesaid requirement for a payment in the event of conversion after the close of business on a Regular Record Date immediately preceding an Interest Payment Date, no adjustment shall be made on conversion for interest accrued or accretion hereon or for dividends on Common Stock delivered on conversion. The right to convert this Security is subject to the provisions of the Indenture relating to conversion rights in the case of certain consolidations, mergers, share exchanges or sales or transfers of substantially all the Company's assets. In no event shall a Holder convert a portion of this Security unless such portion of this Security has a principal amount at maturity of \$1,000 (assuming no exercise by the Company of its right to elect to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007) or an integral multiple thereof.

The Company shall, in respect of fractional shares representing fractions of shares of Common Stock upon any such conversion, (i) make an adjustment in cash based upon the current market price of the Common Stock on the last Trading Day prior to the date of conversion, (ii) round such fraction up to the nearest whole number of shares or (iii) if permitted by law and relevant Nasdaq or stock exchange rules, issue fractional shares.

The Company will furnish to any Holder upon written request and without charge a copy of the Indenture. Requests may be made to: Level 3 Communications, Inc., 1025 Eldorado Blvd., Broomfield, CO 80021, Attention: Vice President, Investor Relations, or by telephone at (720) 888-2500.

18. **GOVERNING LAW. THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

A-1-10

FORM OF CONVERSION NOTICE

To: Level 3 Communications, Inc.

The undersigned owner of the Security hereby irrevocably exercises the option to convert this Security, or portion hereof (which is \$1,000 principal amount at maturity or an integral multiple thereof (assuming no exercise by the Company of its right to elect to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007)) below designated, into shares of Common Stock of Level 3 Communications, Inc., in accordance with the terms of the Indenture referred to in this Security, and directs that the shares issuable and deliverable upon the conversion, together with any check in payment for fractional shares and Securities representing any unconverted principal amount at maturity hereof, be issued and delivered to the owner hereof unless a different name has been indicated below. If shares or any portion of this Security not converted are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest and taxes accompanies this Security.

Dated:

Fill in for registration of shares if to be delivered, and Securities if to be issued, other than to and in the name of the owner

(Please Print):

(Name)

(Street Address)

(City, State and Zip Code)

Signature Guarantee:

Signatures must be guaranteed by an eligible Guarantor Institution (banks, brokers, dealers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if shares are to be issued, or Securities are to be delivered, other than to and in the name of the registered Holder.

A-1-11

ASSIGNMENT FORM

To assign this Security, fill in the form below:

(I) or (we) assign and transfer this Security to

(Insert assignee's social security or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint _____ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Your Signature:

(Sign exactly as your name appears on the other side of this Security)

Date:

Medallion Signature Guarantee:

OPTION OF HOLDER TO ELECT REPURCHASE

If you wish to have this Security repurchased by the Company pursuant to Section 4.05 of the Indenture, check the Box: ☐

If you wish to have a portion of this Security purchased by the Company pursuant to Section 4.05 of the Indenture, state the principal amount at maturity (in multiples of \$1,000): \$.

Date: _____

Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

Medallion Signature Guarantee: _____

SCHEDULE I

LEVEL 3 COMMUNICATIONS, INC.
9% Convertible Senior Discount Notes Due 2013

Date	Principal Amount at Maturity	Notation
_____	_____	_____

EXHIBIT A-2

{Form of Certificated Security}

FOR U.S. FEDERAL INCOME TAX PURPOSES, THIS SECURITY WAS ISSUED WITH "ORIGINAL ISSUE DISCOUNT." THE TOTAL AMOUNT OF ORIGINAL ISSUE DISCOUNT IS 29.527% OF ITS PRINCIPAL AMOUNT AT MATURITY, THE ISSUE DATE IS OCTOBER 24, 2003 AND THE YIELD TO MATURITY ON THE ISSUE DATE IS 9%, COMPOUNDED SEMIANNUALLY.

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS SECURITY AND THE COMMON STOCK DELIVERABLE UPON CONVERSION HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) IN AN OFFSHORE TRANSACTION TO NON-U.S. PERSONS THAT OCCURS OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (IV) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT INCLUDING THE EXEMPTION PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

LEVEL 3 COMMUNICATIONS, INC.**9% Convertible Senior Discount Notes Due 2013**

No.: _____ CUSIP: _____

Issue Date: _____, 2003 Principal Amount at Maturity: \$ _____

LEVEL 3 COMMUNICATIONS, INC., a Delaware corporation, promises to pay to _____ or registered assigns, the principal amount at maturity of \$ _____, on October 15, 2013, subject to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. This Security is convertible as specified on the other side of this Security.

Interest Payment Dates: April 15 and October 15, commencing April 15, 2008 (unless the Company elects to commence the accrual of cash interest on the Securities on or after October 15, 2004 and prior to October 15, 2007).

Record Dates: April 1 and October 1, commencing April 1, 2008.

LEVEL 3 COMMUNICATIONS, INC.

By: _____

Name: _____

Title: _____

A-2-2

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The Bank of New York, as Trustee, certifies that this is one of the Securities referred to in the within-mentioned Indenture.

By: _____
Authorized Signatory

Dated: _____

A-2-3

{FORM OF REVERSE SIDE IS IDENTICAL TO EXHIBIT A-1}

A-2-4

EXHIBIT B**Transfer Certificate**

In connection with any transfer of any of the Securities within the period prior to the expiration of the holding period applicable to the sales thereof under Rule 144(k) under the Securities Act of 1933, as amended (the "*Securities Act* ") (or any successor provision), the undersigned registered owner of this Security hereby certifies with respect to \$ _____ principal amount at maturity of the above-captioned Securities presented or surrendered on the date hereof (the "*Surrendered Securities* ") for registration of transfer, or for exchange or conversion

where the securities deliverable upon such exchange or conversion are to be registered in a name other than that of the undersigned registered owner (each such transaction being a "transfer"), that such transfer complies with the restrictive legend set forth on the face of the Surrendered Securities for the reason checked below:

- ☐ A transfer of the Surrendered Securities is made to the Company or any subsidiaries; or
- ☐ The transfer of the Surrendered Securities complies with Rule 144A under the Securities Act; or
- ☐ The transfer of the Surrendered Securities complies with Regulation S under the Securities Act; or
- ☐ The transfer of the Surrendered Securities is pursuant to an effective registration statement under the Securities Act; or
- ☐ The transfer of the Surrendered Securities is pursuant to another available exemption from the registration requirement of the Securities Act; and unless the box below is checked, the undersigned confirms that, to the undersigned's knowledge, such Securities are not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act (an " *Affiliate* ").
- ☐ The transferee is an Affiliate of the Company.

DATE:

Signature(s)

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

Signature Guarantee

Participant in a Recognized Signature
Guarantee Medallion Program

By:

Authorized Signatory

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Exhibit 21

Level 3 Communications, Inc.
Level 3 Financing, Inc.
Eldorado Marketing, Inc.
Software Spectrum, Inc.
Level 3 Communications, LLC
BTE Equipment, LLC
Level 3 International, Inc.
Level 3 Holdings, B.V.
Level 3 Communications Limited (UK)
Level 3 Holdings, Inc.
KCP, Inc.
SR91 Holding LLC

QuickLinks

[Exhibit 21](#)

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Level 3 Communications, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-53914, 333-91899, 333-68887 and 333-71713) on Forms S-3 and the registration statements (Nos. 333-79533, 333-42465, 333-68447, 333-58691 and 333-52697) on Forms S-8 of Level 3 Communications, Inc. and subsidiaries of our report dated March 1, 2004, with respect to the consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, cash flows, changes in stockholders' equity (deficit), and comprehensive loss for the years then ended, which report appears in the December 31, 2003 annual report on Form 10-K of Level 3 Communications, Inc. and subsidiaries.

Our report refers to a change in the method of accounting for goodwill effective January 1, 2002, upon adoption of Statement of Financial Accounting Standards No. 142, and a change in the method of accounting for asset retirement obligations on January 1, 2003, upon adoption of Statement of Financial Accounting Standards No. 143.

/s/ KPMG LLP

Denver, Colorado
March 12, 2004

[QuickLinks](#)

[INDEPENDENT AUDITORS' CONSENT](#)

Information Regarding Consent of Arthur Andersen LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

Level 3 Communications, Inc. ("Level 3") dismissed Arthur Andersen LLP ("Andersen") as its independent auditors, effective June 14, 2002. For additional information, see Level 3's Report on Form 8-K dated June 21, 2002. After reasonable efforts, Level 3 has been unable to obtain Andersen's written consent to the incorporation by reference into Level 3's registration statements on Forms S-3 (File Nos. 333-53914, 333-91899, 333-68887 and 333-71713) and on Forms S-8 (File Nos. 333-79533, 333-42465, 333-68447, 333-58691 and 333-52697) (collectively the "Registration Statements") of Andersen's audit report with respect to Level 3's consolidated financial statements as of December 31, 2001 and for the year then ended. Under these circumstances, Rule 437a under the Securities Act permits Level 3 to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in Level 3 securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act.

[QuickLinks](#)

[Information Regarding Consent of Arthur Andersen LLP](#)

CERTIFICATIONS*

I, James Q. Crowe, certify that:

1. I have reviewed this Annual Report on Form 10-K of Level 3 Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ JAMES Q. CROWE

James Q. Crowe
Chief Executive Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

CERTIFICATIONS*

I, Sunit S. Patel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Level 3 Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ SUNIT S. PATEL

Sunit S. Patel
Chief Financial Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Level 3 Communications, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Q. Crowe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES Q. CROWE

James Q. Crowe
Chief Executive Officer
March 15, 2004

[QuickLinks](#)

[Exhibit 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-
OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Level 3 Communications, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sunit S. Patel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SUNIT S. PATEL

Sunit S. Patel
Chief Financial Officer
March 15, 2004

QuickLinks

[Exhibit 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-
OXLEY ACT OF 2002](#)