

Kel RS

TC 99-015

DOCKET NO.

In the Matter of _____ IN THE MATTER OF THE
_____ APPLICATION OF LEVEL 3
_____ COMMUNICATIONS, LLC FOR A
_____ CERTIFICATE OF AUTHORITY TO
_____ PROVIDE TELECOMMUNICATIONS
_____ SERVICES, INCLUDING LOCAL
_____ EXCHANGE SERVICE, IN SOUTH
_____ DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
2/16 99	Filed and Racketed;
2/18 99	Weekly Filings;
4/15 99	Revised Tariffs;
4/19 99	Letter Concerning Application;
5/5 99	Order Granting COA;
10/18 99	Surety Bond;
10/28 99	Revised Surety Bond;
11/2 99	Sent COA;
11/2 99	Racket Closed



TC 99-015
RECEIVED

FEB 16 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

February 12, 1999

VIA OVERNIGHT DEL. VERY

William Bullard, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol Ave.
State Capitol Building, First Floor
Pierre, South Dakota 57501

Re: Application of Level 3 Communications, LLC.

Dear Mr. Bullard:

Enclosed for filing on behalf of Level 3 Communications, LLC ("Level 3") are an original and ten (10) copies of Level 3's application for a Certificate of Authority to Provide Switched and Dedicated, Resold and Facilities Based Local Exchange and Interexchange Telecommunications Services in South Dakota. Also, please find enclosed a check for \$250, made payable to the South Dakota Public Utilities Commission, to cover the requisite filing fee.

Please date-stamp the enclosed extra copy of this letter and return it in the self-addressed, postage-paid envelope attached. Should you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Very truly yours,

Thomas C. Stortz
Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC

Enclosure

cc: Sue E. Weiske
Abby Jensen

BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

RECEIVED

FEB 16 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

In the Matter of the Application of)
)
Level 3 Communications, LLC)
)
a Certificate of Authority to Provide)
Switched and Dedicated, Resold and)
Facilities-Based Local Exchange)
and Interexchange Intrastate)
Telecommunications Services)

PUC Docket No. _____

APPLICATION FOR CERTIFICATE OF AUTHORITY

Level 3 Communications, LLC ("Level 3" or "Applicant"), hereby submits its Application for a Certificate of Authority to provide switched and dedicated, resold and facilities-based local exchange and interexchange telecommunications services pursuant to Section 49-31-3 of the South Dakota Codified Laws and the Rules of the Public Utilities Commission.

In support of its application for a certificate of authority, pursuant to Section 20:10:24:02 (Interexchange) and Section 20:10:32:03 (Local Exchange) of the Telecommunications Service Rules, Level 3 provides the following information:

1. 20:10:24:02(1) and 20:10:32:03(1). Name, Address, and Telephone Number of Applicant. Applicant's legal name is Level 3 Communications, LLC. Level 3 is a limited liability company and maintains its principal place of business at:

1450 Infinite Drive
Louisville, Colorado 80027
Telephone: (303) 926-3000
Facsimile: (303) 926-3400

Correspondence or communications pertaining to this application should be directed to:

Sue E. Weiske
Fraser, Stryker, Vaughn, Meusey, Olson, Boyer & Bloch, P.C.
7577 W. 103rd Ave.
Westminster, Colorado 80021
Telephone: (303) 635-6904
Facsimile: (303) 635-6965
Electronic Mail: sue.weiske@level3.com

2. 20:10:32:03(2). Name and Address of Each Member. Level 3 Communications, LLC is wholly owned by its member company, PKS Information Systems. The address of PKS Information Systems is:

PKS Information Services, Inc.
13710 FNB Parkway, Suite 400
Omaha, Nebraska 68154

3. 20:10:24:02(2) and 20:10:32:03(3). Name under which applicant will provide services. Level 3 will provide services under its legal name, Level 3 Communications, LLC

4. 20:10:24:02(3) and 20:10:32:03(4). Legal Organization.

a. 20:10:24:02(3)(a) and 20:10:32:03(4)(c)and(d). State of organization, date of organization, and authority to transact business in South Dakota. Applicant is a limited liability company organized under the laws of Delaware on December 1, 1997, and is qualified to do business in South Dakota. A copy of Level 3's Certificate of Formation is attached hereto as Exhibit 1, and a Certificate of Authority to transact business in South Dakota from the Secretary of State is attached as Exhibit 2.

b. 20:10:24:02(3)(b) and 20:10:32:03(4)(a). Location of Principal Office in South Dakota and Registered Agent. Applicant does not currently have an office within South Dakota. Level 3's registered agent in South Dakota is:

CT Corporation System
319 S. Coteau St.
Pierre, South Dakota 57501

c. 20:10:24:02(3)(c) and 20:10:32:03(4)(b). Ownership and Management Interest / Equity Owners of Twenty Percent or More of the Business. As a limited liability company, Level 3 is owned by its member company, PKS Information Services, Inc. PKS Information Services, Inc., is the sole member company of Level 3. PKS Information Services, Inc. is, in turn, wholly owned by Level 3 Communications, Inc.

The names, addresses and telephone numbers of Level 3's officers are as follows:

James Q. Crowe	President, Chief Executive Officer
R. Douglas Bradbury	Executive Vice President, Chief Financial Officer and Treasurer
Kevin J. O'Hara	Executive Vice President
Thomas C. Stortz	Senior Vice President, General Counsel and Secretary
Daniel Caruso	Senior Vice President
Michael Frank	Senior Vice President
Mike Jones	Senior Vice President and Chief Information Officer
Neil J. Eckstein	Vice President, Assistant General Counsel and Assistant Secretary
Matthew J. Johnson	Vice President and Assistant Secretary

The managers of Level 3 are: James Q. Crowe
R. Douglas Bradbury

Mr. Crowe, Mr. Frank and Mr. Johnson may be reached at the following address:

Level 3 Communications, LLC
3555 Farnam St.
Omaha, Nebraska 68131
Telephone: (402) 536-3624
Facsimile: (402) 536-3645

Mr. Bradbury, Mr. Caruso, Mr. Eckstein, Mr. Jones, Mr. O'Hara, and Mr. Stortz may be reached at the following address:

Level 3 Communications, LLC
1450 Infinite Drive
Louisville, Colorado 80027
Telephone: (303) 926-3000
Facsimile: (303) 926-3400

5. 20:10:32:03(9)(a) Education and Experience of Management Personnel. Level 3 is managerially and technically qualified to provide resold and facilities-based local and interexchange telecommunications services in South Dakota. Level 3's officers are well qualified to execute its business plan, to provide its proposed telecommunications services and to operate and maintain Level 3's facilities over which such services will be deployed. Level 3's management team has over forty years of experience in the telecommunications industry. Descriptions of the extensive telecommunications and managerial experience of Level 3's key personnel are attached hereto as Exhibit 3.

6. 20:10:24:02(4). Partnership Information. Applicant is not a partnership.

7. 20:10:24:02(10). Current Authority to Provide Service, 20:10:32:03(5) Applicant's Experience, and 20:10:32:03(17) States Where Applicant is Certified. Level 3 has not previously provided telecommunications service in the State of South Dakota. Level 3 recently began offering Private Line, Managed Modem, and Telephony and Web Collocation services in certain metropolitan

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markets in the states of California, Colorado, Connecticut, the District of Columbia, Illinois, Michigan, Texas, and Washington. Within the past year, Level 3 has obtained authorization to provide local exchange and interexchange telecommunications service in the states of California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Nebraska, Nevada, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, and Wyoming. In addition, Level 3 has pending applications for authority to provide telecommunications service in Alabama, Arizona, Arkansas, Kansas, Louisiana, Maine, Minnesota, Mississippi, North Carolina, Utah, Vermont and Wisconsin. Level 3 has not been refused certification in any state, nor has it had a permit, license, or certificate revoked by any state. Level 3 is in good standing with all appropriate regulatory agencies in the states where it is certified.

8. 20:10:32:03(6). Names and Addresses of Applicant's Affiliates, Subsidiaries, and Parent Organizations. Level 3 is owned by its member company, PKS Information Services, Inc. PKS Information Services, Inc., is the sole member company of Level 3. PKS Information Services, Inc. is, in turn, wholly owned by Level 3 Communications, Inc.

PKS Information Services, Inc.
13710 FNB Parkway, Suite 400
Omaha, Nebraska 68154

Level 3 Communications, Inc.
3555 Farnam Street
Omaha, Nebraska 68131

Level 3 has one subsidiary company, Level 3 International.

Level 3 International, Inc.
6 Braham Street
London, England E1 8EE
United Kingdom

9. 20:10:24:02(5). Proposed Services and 20:10:32:03(7) List and Specific Description of Services and Means by which Services will be Provided. Level 3 seeks authority to provide all forms of facilities-based and resold local exchange services, which will allow its customers to originate and terminate local calls to other customers served by Level 3 as well as customers served by all other authorized local exchange carriers. Level 3 will also provide switched access services to interexchange carriers, which will allow Level 3's customers to originate and terminate intrastate and interstate calls to and from customers of all interexchange carriers.

Exchange services will include, but will not be limited to, the following: (i) local exchange access services to single-line and multi-line customers (including basic access lines, direct inward-outward PBX trunk service, Centrex services, and ISDN); (ii) local exchange usage services to customers of Level 3's end-user access line services; and (iii) switched and special carrier access services to other common carriers. Level 3 intends to offer both inbound and outbound intraLATA services. This will be accomplished through a combination of its own facilities and through the resale of the facilities of purchased and leased assets.

Level 3 also intends to offer intrastate interexchange services to and from all points within South Dakota, including, but not limited to, direct-dialed ("1+") service, and inbound and outbound intraLATA services. This will be accomplished through a combination of its own facilities and through the resale of the facilities of other certificated carriers. Applicant's services will be available on a full-time basis-24 hours a day, seven days a week.

- a. 20:10:32:03(7)(a) Classes of Customers. Level 3 will initially target business customers. Eventually, Level 3 may offer residential service.

b. 20:10:32:03(7)(b) Time-Frame for Provision of Service. Level 3 plans to begin offering Long Distance services in the State of South Dakota by fourth quarter 1999.

c. 20:10:24:02(6). Facilities to be used to provide service and 20:10:32:03(7)(c) Description of Facilities(including underlying carrier's). Initially, Level 3 will provide resold services to its customers, but ultimately will provide services over its own facilities. Level 3 will install state-of-the-art telecommunications equipment and construct fiber-optic network infrastructure, which will be able to provide trunking facilities to the incumbent local exchange carrier ("ILEC") and/or one or more competitive local carriers ("CLEC"). The fiber-optic network infrastructure will be able to connect Level 3's network to major ILEC central offices and customers in the central business district and outlying areas of business concentrations in each market. Level 3's network will also be able to connect to an ILEC tandem switch and certain IXC points of presence ("POPs"). Level 3 will deploy state-of-the-art transmission and multiplexer equipment in each of the ILEC central offices in which it is collocated. As each customer is obtained, service will be provisioned either on Level 3's own internal fiber-optic network or by leasing unbundled loops to other facilities (e.g., T1s) from the ILEC to connect the end user to Level 3's network. Level 3 will also provide around-the-clock network monitoring and customer service centers.

d. 20:10:32:03(7)(d). General Nature of Service Authority Requested. By this application, Level 3 is seeking authority to provide intrastate interexchange, exchange access, and local exchange telecommunication service.

10. 20:10:24:02(7) and 20:10:32:03(8). Geographic area to be served. Level 3 seeks authority to provide its proposed interexchange services to and from all points within South Dakota. Level 3 may be prohibited from serving those rural areas that are served by providers that have been granted a suspension and/or modification under Section 251(f)(2) of TA-96. While Level 3 will not be able to serve all areas within the state immediately upon authorization, it is in the public interest to grant broad certification in order that the benefits of competitive telecommunications services might be brought to all areas of the state and to conserve Commission resources which would otherwise be expended if additional proceedings were required merely to consider expansion of a more limited authorization. Level 3 will initially provide local exchange service in the exchange areas of US WEST and therefore, requests a waiver of the local exchange map requirement.

11. 20:10:32:03(10) Customer Access to 911, Operator Services, Interexchange Services Directory Assistance and Telecommunications Relay Service. Initially, Level 3 will provide resold services to its customers, but ultimately will provide services over its own facilities. During the initial phase of Level 3's operations in South Dakota, Level 3's customers will continue to remain on the ILEC network and continue to have "911" and "0-dialed" emergency calls directed to ILEC Public Safety Answering Points (PSAP), and access to operator services and directory assistance, via the ILEC network. As facilities are constructed, however, and Level 3 customers may be transitioned to service that is delivered over Level 3's facilities, customers also may access these services via Level 3's network, which will be interconnected with the public switched telephone network.

12. 20:10:24:02(8) and 20:10:32:03(11-13). Financial Qualifications, Interconnection Arrangements, and Tariffs. Level 3 is financially qualified to provide local exchange telecommuni-

cations services in South Dakota. In particular, Level 3 has access to the financing and capital necessary to conduct its telecommunications operations as specified in this application. As a start-up company, Level 3 will rely on the financial resources of Level 3 Communications, Inc., its corporate parent, to provide initial capital investment and to fund the start-up phase of operations. Level 3 Communications, Inc., has financed Level 3's initial operations and will continue to provide financial support to Level 3 so long as Level 3 requires additional capital and resources to complete its networks and construct facilities. Level 3 is a start-up operation and therefore does not yet have its own financial statements. Accordingly, Level 3 has attached hereto as Exhibit 4 a copy of Level 3 Communications, Inc.'s most recent Annual Report on SEC Form 10-K/A, and a copy of its quarterly report on SEC Form 10-Q for the period ended September 30, 1998.^{1/} As shown in Level 3 Communications, Inc.'s quarterly report on SEC Form 10-Q, Level 3 Communications, Inc. has over \$4.8 billion dollars in total assets, including over \$600 million in cash and cash equivalents. Level 3 respectfully submits that these documents clearly demonstrate Level 3's financial ability to provide the proposed services and therefore renders the creation and submission of stand-alone financial statements for Level 3 unnecessary.

^{1/} Level 3 Communications, Inc. (formerly known as Kiewit Diversified Group Inc.), previously was a subsidiary of Peter Kiewit Sons', Inc. Level 3 Communications, Inc. subsequently merged into Peter Kiewit Sons', Inc., and the surviving entity changed its name to Level 3 Communications, Inc. Please note that the attached SEC form reflects this name change and has been filed with the SEC as an amendment to the original form filed under the name of Peter Kiewit Sons', Inc.

Because Level 3 has not begun interconnection negotiations, Level 3 requests a waiver of the requirement to file a proposed initial local exchange tariff including proposed rates until such time as negotiations are completed. Level 3 intends to begin negotiations with US WEST during the fourth quarter of 1999.

Attached hereto as Exhibit 5 is an illustrative local exchange tariff, which does not include rates. Also attached, as Exhibit 6, is Level 3's proposed interexchange tariff.

13. 20:10:32:03(16) Rural Carrier Interconnection. Level 3 does not currently seek to offer service in the area of a rural telephone company.

14. 20:10:24:02(9), 20:10:32:03(9)(b), 20:10:32:03(18) and 20:10:32:03(19). Complaint Contact, Re ulatory Contact, Customer Billing and Complaints. All inquiries regarding complaints should be referred to:

Ken Williams
Vice President of Customer Services
Level 3 Communications, LLC
7581 W. 103rd Ave.
Westminster, Colorado 80021
Telephone: (303) 635-9000
Facsimile: (303) 635-9670
Electronic Mail: ken.williams@level3.com

The following toll-free number is available for customer service inquiries:

(877) 4-LEVEL3 ((877) 453-8353).

Questions concerning the ongoing operations of Level 3 following certification should be directed to:

Thomas C. Stortz
Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, Colorado 80027
Telephone: (303) 926-3000
Facsimile: (303) 926-3409
Electronic Mail: thomas.stortz@level3.com

Level 3 provides the following information regarding repair and maintenance. Because service initially will be provided on a resold basis, Level 3 intends to negotiate suitable arrangements with the incumbent local exchange carriers to provide for maintenance and repair of the resold facilities to be used to provide service. If a customer has a service effecting problem, they can call Customer Care at 1-877-4LEVEL3, 24 hours a day, 7 days a week. Customer Care will open a trouble ticket and dispatch/refer the ticket to the Network Operations Center (NOC). If the NOC has to refer the trouble to a LEC/CLEC, they will execute the dispatch. If the trouble needs to be dispatched to one of our Gateway sites, the NOC will also execute this function. The NOC will be responsible for obtaining status and escalating to the LEC/CLEC and Gateway (Field Operations).

Subscribers will either be billed directly by Level 3 or by its intermediary, or charges will be included in the subscriber's regular local telephone bill pursuant to billing and collection agreements established by Level 3 or its intermediary with the applicable local telephone company. Level 3 will render bills monthly and payment is due within 30 days of receipt. For any customer for which there is an outstanding balance that is more than 30 days overdue, Level 3 reserves the right to impose a late payment charge.

15. 20:10:24:02(11) and 20:10:32:03(15). Marketing. Services may be marketed via Internet web advertising, direct mail or through direct sales. In addition, customers desiring to purchase Level 3's services may do so by calling Level 3's toll-free number, (877) 4-LEVEL3 ((877) 453-8353). Level 3 does not intend to use any multi-level marketing program. At this time, Level 3 is still developing its marketing materials for use in South Dakota and does not have any sales brochures.

16. 20:10:24:02(12) and 20:10:32:03(14). Cost support. Level 3's proposed IXC services are competitive services; therefore, Level 3 has not provided cost support for rates shown in its tariff. The rates for Level 3's local exchange services will be determined and supported by the interexchange agreement yet to be negotiated with US WEST.

17. 20:10:32:03(20) Policies regarding Customer Solicitation and Prevention of Unauthorized Customer Switching. Level 3 has never had an incident of slamming or any other form of customer complaint. Level 3 will comply with South Dakota law and the Federal Communications Commission's ("FCC's") regulations regarding how interexchange carriers may change a consumer's Primary Interchange Carrier ("PIC"). Level 3 will also comply with the FCC's forthcoming regulations regarding how carriers may change a consumer's primary local exchange provider.

18. 20:10:24:02(13) and 20:10:32:03(23). Federal Tax Identification Number. Level 3's federal tax identification number is 47-0210602.

19. 20:10:24:02(14) and 20:10:32:03(21). Number and nature of complaints filed against Level 3. There have been no complaints filed against Level 3 with any state or federal regulatory

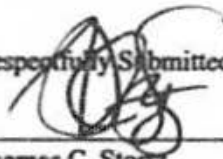
commission regarding the unauthorized switching of a customer's telecommunications provider or the act of charging customers for services that have not been ordered.

20. 20:10:24:02(15) and 20:10:32:03(22). Written request for waiver. Level 3 requests a waiver of the local exchange map requirement, as it will initially be serving in the local exchange service areas of US WEST. (See 20:10:32:03(8).) Level 3 also requests a waiver of the local exchange tariff requirement, as it has not yet entered into negotiations with an Incumbent LEC, and therefore, can not yet determine the rates for its tariff. (See 20:10:32:03(13).)

21. 20:10:24:02(16) and 20:10:32:03(24). Additional information. Level 3 will provide any other information requested by the commission needed to demonstrate that it has sufficient technical, financial, and managerial capabilities to provide the interexchange and local exchange services it intends to offer.

WHEREFORE, Level 3 Communications, LLC, requests that the South Dakota Public Utilities Commission issue it a certificate of public convenience and necessity to provide switched and dedicated, resold and facilities-based, local exchange and interexchange telecommunications services in South Dakota.

Respectfully Submitted,



Thomas C. Stortz
Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, Colorado 80027
Telephone: (303) 926-3000
Facsimile: (303) 926-3400

Dated: 2/4/99, 1999

EXHIBITS

Exhibit 1	Certificate of Formation
Exhibit 2	Certificate of Authority to Transact Business
Exhibit 3	Managerial Qualifications
Exhibit 4	Financial Qualifications
Exhibit 5	Illustrative Local Exchange Tariff
Exhibit 6	Proposed Initial Interexchange Tariff
Verification	

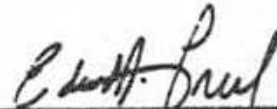
Exhibit 1

Certificate of Formation

State of Delaware
Office of the Secretary of State PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF
DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT
COPY OF THE CERTIFICATE OF LIMITED LIABILITY COMPANY OF "LEVEL 3
COMMUNICATIONS, LLC", FILED IN THIS OFFICE ON THE FIRST DAY OF
DECEMBER, A.D. 1997, AT 11 O'CLOCK A.M.




Edward J. Freel, Secretary of State

2827172 8100

971407141

AUTHENTICATION: 8784499

DATE: 12-02-97

**CERTIFICATE OF FORMATION
OF
LEVEL 3 COMMUNICATIONS, LLC**

**I
NAME**

The name of the company shall be Level 3 Communications, LLC ("Company").

**II
REGISTERED AGENT AND OFFICE**

The name and address of the Company's registered agent in Delaware is:

The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, DE 19801 (New Castle County)

IN WITNESS WHEREOF, the undersigned authorized person has caused this Certificate of Formation to be executed this 26th day of November, 1997.

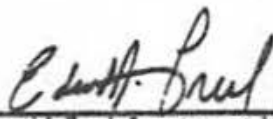
PKS INFORMATION SERVICES, INC.

By: [Signature]
Title: Director

130138.02

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "LEVEL 3 COMMUNICATIONS, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SECOND DAY OF DECEMBER, A.D. 1997.




Edward J. Freel, Secretary of State

2827172 8300 ,

971407141

AUTHENTICATION: 8784509

DATE: 12-02-97

Exhibit 2

Certificate of Authority to Transact Business

State of South Dakota



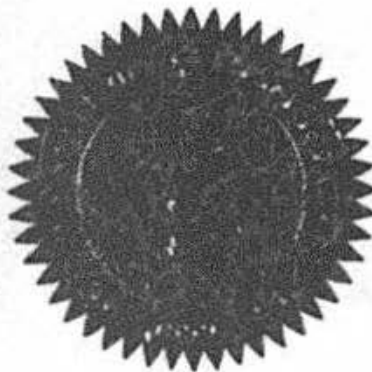
OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

LIMITED LIABILITY COMPANY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of LEVEL 3 COMMUNICATIONS, LLC (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Limited Liability Company Act, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of LEVEL 3 COMMUNICATIONS, LLC



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this March 24, 1998.

A handwritten signature in cursive script, reading "Joyce Hazeltine", is written over a horizontal line.

JOYCE HAZELTINE
Secretary of State

Secretary of State
State of South Dakota
500 E. Capitol
Pierre SD 57501-5070
605-773-4845

RECEIVED
MAR 24 1998

S.D. SEC. OF STATE

Filed this 24th day of March 1998
**CERTIFICATE OF AUTHORITY APPLICATION
OF A
FOREIGN LIMITED LIABILITY COMPANY**

Joseph H. [Signature]
1. Name of the foreign Limited Liability Company is:

Level 3 Communications, LLC

2. The name of the state or country under whose law it is organized is: Delaware

3. The street address of its principal office is:

3555 Farnam Street, Omaha, Nebraska 68131

4. The address of its initial designated office in South Dakota is:

319 S. Coteau Street, Pierre, South Dakota 57501

5. The name and street address of its initial agent for service of process in South Dakota is:

C T Corporation System

319 S. Coteau Street

Pierre, S.D. 57501

6. The period of duration is: Perpetual

7. If the company is manager-managed, rather than member-managed, the name and address of each initial manager:

James Q. Crowe, 3555 Farnam Street, Omaha, Nebraska 68131

R. Douglas Bradbury, 3555 Farnam Street, Omaha, Nebraska 68131

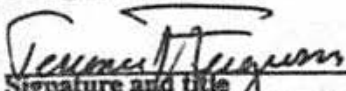
Terrence J. Ferguson, 3555 Farnam Street, Omaha, Nebraska 68131

8. Whether one or more of the members of the company are to be liable for its debts and obligations under a provision similar to section 303(c).

No.

The application must be signed by a member if the company is a member-managed company or by a manager if its a manager-managed company.

Date: March 19, 1998


Signature and title
Terrence J. Ferguson, Manager

Filing Instructions:

- The application for authority must be accompanied by the first annual report.
- One original and one exact or conformed copy must be submitted.
- The application must be accompanied by an original, currently dated Certificate of Good Standing or Existence from the Secretary of State in the state where it is organized.
- Filing fee: see attached annual report

Secretary of State
State of South Dakota
500 E. Capitol
Pierre SD 57501-5070
605-773-4845

RECEIVED

MAR 24 1998

*FILED 2/14/98
March 19 1998
Ferguson*

FIRST ANNUAL REPORT
OF A
LIMITED LIABILITY COMPANY

1. The name of the Limited Liability Company is:
Level 3 Communications, LLC
2. The state or country under whose law it is organized is:
Delaware
3. The address of its registered office and the name and address of its registered agent for service of process in South Dakota is:
319 S. Coteau Street, Pierre 57501
CT Corporation System
4. The address of its principal office is:
3555 Farnam Street, Omaha, Nebraska 68131
5. The names and business addresses of any managers:
James Q. Crowe, 3555 Farnam Street, Omaha, Nebraska 68131
R. Douglas Bradbury, 3555 Farnam Street, Omaha, Nebraska 68131
Terrence J. Ferguson, 3555 Farnam Street, Omaha, Nebraska 68131
6. The dollar amount of the total agreed contributions to the limited liability company is \$1,000.00.

Date: March 19, 1998

Terrence J. Ferguson

Signature & Title
Terrence J. Ferguson, Manager

* FILING FEE:

AGREED CONTRIBUTION	FEE
Not in excess of \$50,000	\$ 90
\$50,001 to \$100,000	\$150
In excess of \$100,000	\$150 for first \$100,000 plus \$.50 for each additional \$1,000

The maximum amount charged may not exceed sixteen thousand dollars.

CT CORPORATION SYSTEM

March 30, 1998

208 South LaSalle Street
Chicago, IL 60604
Tel. 312 345 4332
Fax 312 750 0660

RE: Level 3 Communications, LLC
(Delaware Domestic)
Order #: 1182351

Laurie S. Vik
Peter Kiewit Sons' Inc.
1000 Kiewit Plaza
Omaha Nebraska 68131

Dear Laurie,

I am pleased to enclose official evidence of the Registration of the above mentioned Limited Liability Company in the State of South Dakota effective on March 24, 1998.

Should you have any questions regarding this matter, please give me a call.

Very truly yours,


Geraldine A. McGriff
Associate Customer Specialist

/gam

encls.

Exhibit 3

Managerial Qualifications

Level 3 Key Management Personnel

James Q. Crowe

James Q. Crowe is President and CEO of Level 3 Communications, Inc., formerly known as Kiewit Diversified Group Inc., a wholly owned subsidiary of Peter Kiewit Sons', Inc. (PKS). Level 3 is a diversified corporation with interests in construction, mining, telecommunications, energy and infrastructure privatization and development.

Mr. Crowe previously held the position of Chairman and Chief Executive Officer of MFS Communications Company, Inc. (MFS) from July 1986 until December 1996. When the company merged with WorldCom, Inc. in 1996, he was then elected Chairman of the Board of WorldCom.

MFS was the parent corporation of a family of companies serving the communications needs of business and government, and was a unit of PKS until September 1995 when it was spun off and became an independent, publicly owned corporation. Prior to founding MFS, Mr. Crowe was Group Vice President of Morrison Knudsen Corporation.

Mr. Crowe presently serves on the board of directors of Level 3 Communications, Inc., Peter Kiewit Sons' Inc., RCN Corporation, Commonwealth Telephone Enterprises, Inc., and Inacom Communications, Inc.

Mr. Crowe graduated from Rensselaar Polytechnic Institute with a bachelor of science degree in mechanical engineering. He also holds a master of business administration degree from Pepperdine University.

R. Douglas Bradbury

R. Douglas Bradbury has been Executive Vice President and Chief Financial Officer of Level 3 Communications, Inc., since August 1, 1997. Prior to joining Level 3, Mr. Bradbury was the Chief Financial Officer (1992-1996), Executive Vice President (1995-1996), and Senior Vice President (1992-1995) of MFS Communications Company, Inc. He was Senior Vice President-Corporate Affairs for MFS Telecom from 1988 to 1992.

Before joining MFS in 1988, Mr. Bradbury served as Executive Vice President and Chief Operating Officer at American Pioneer Telephone, Inc., a regional long distance carrier based in Orlando, Florida, and as Vice President of Manufacturers Hanover Trust Company in New York and Milan, Italy.

Daniel P. Caruso

Mr. Caruso is responsible for Level 3's network services organization. This organization designs, engineers, constructs, and operates Level 3's communications network.

Prior to joining Level 3, Mr. Caruso was responsible for WorldCom's Local Service network planning and service delivery organization. This organization was charged with developing new local markets, implementing CLEC networks in WorldCom's local markets, planning for the local switch and fiber networks, developing business support systems to enable scaling of local switched services, and providing local switched service.

Prior to this assignment, Mr. Caruso managed network development groups. These groups were responsible for driving MFS's network expansions into new geographical markets in the northeast and central regions of the United States. Mr. Caruso's responsibilities included overseeing the business plan and "build versus buy" analysis, securing franchise and right-of-way agreements; acquiring start-up competitive access providers, negotiating joint venture agreements, and overseeing network construction.

Before joining MFS in January 1993, Mr. Caruso spent several years at Ameritech. His most recent position at Ameritech was with their corporate development group, where he analyzed Ameritech's entry in cable TV, security alarm services, and other ventures. Mr. Caruso also held several engineering, operations, and financial positions within Ameritech's operating units.

Mr. Caruso holds a master of business administration degree from the University of Chicago and a bachelor of science degree in engineering from the University of Illinois at Champaign-Urbana.

Mike Jones

Mr. Jones is Senior Vice President and Chief Information Officer for Level 3 Communications. Mr. Jones's organization is responsible for the development, support and operations of all of Level 3's information and network management systems.

Prior to joining Level 3, Mr. Jones was Vice President and Chief Information Officer for Corporate Express, Inc., in Broomfield, Colorado. Corporate Express is a \$4 billion international corporation providing essential business products and services to large organizations.

Prior to joining Corporate Express, Mr. Jones was the director of billing systems for Sprint International, and an associate partner with Andersen Consulting.

Mr. Jones has a degree in accounting and computer science from Southwestern Oklahoma State University.

Michael R. Frank

Mr. Frank is currently Senior Vice President of Human Resources for Level 3 Communications. Prior to this assignment he was Senior Vice President of Human Resources for MFS Communications from 1994 to 1997. Additionally he has held senior level human resources positions at the Walt Disney Company, Pepsico, and General Mills over the past 20 years.

Mr. Frank has been active in numerous industry, functional and civic organizations and is an occasional speaker for those organizations. Mr. Frank received his bachelor's degree from Creighton University in Omaha.

Matthew J. Johnson

Since January 1998, Matthew J. Johnson has been Vice President, Corporate Legal, of Level 3 Communications, Inc. From 1995, Mr. Johnson was Vice President, Legal, of Peter Kiewit Sons', Inc., one of North America's largest and most respected construction organizations. From 1991-1994 Mr. Johnson served as corporate counsel for Peter Kiewit Sons', Inc.

Mr. Johnson received his law degree from the University of Texas in 1980, and received a bachelor of arts degree from the University of Nebraska in 1978.

Thomas C. Stortz

Thomas C. Stortz joined Level 3 as Senior Vice President and General Counsel effective September 1, 1998. He succeeded Terrence J. Ferguson, who continues with Level 3 as Special Counsel to the company.

Prior to joining Level 3, Mr. Stortz was General Counsel of Peter Kiewit Sons', Inc., (PKS). Stortz joined PKS as an attorney in 1981 and served as vice president and general counsel for PKS and Kiewit Construction Group, Inc., since 1991.

He currently sits on the board of directors of PKS and the Nebraska Methodist Hospital Foundation. He has served as a director of RCN Corporation, C-TEC Corporation, Kiewit Diversified Group, Inc., and CCL Industries, Inc.

He earned his law degree at Creighton University School of Law and holds a bachelor of business administration degree from the University of Iowa.

Neil J. Eckstein

Since January 1998, Mr. Eckstein has been Vice President and Assistant General Counsel of Level 3 Communications, Inc. Mr. Eckstein is also Vice President of Level 3 Communications, LLC. From September 1989 until January 1998, Mr. Eckstein was an associate in the corporate department of Willkie Farr & Gallagher, an international law firm headquartered in New York. While an associate at Willkie Farr & Gallagher, Mr. Eckstein concentrated in the areas of corporate finance, mergers and acquisitions, and general corporate representations, with an emphasis on representing clients in the competitive telecommunications industry.

Mr. Eckstein received his law degree from Fordham University School of Law in 1989, and received a bachelor of arts degree, *cum laude*, with high honors in politics from Brandeis University in 1986.

Kevin J. O'Hara

Kevin J. O'Hara is the Executive Vice President and Chief Operating Officer of Level 3 Communications, Inc., and he is responsible for expanding Level 3's presence in the telecommunications industry. Level 3's emphasis is on establishing an end-to-end facilities-based network optimized for Internet protocol (IP). Level 3's products and services are targeted at the business community.

Prior to joining Level 3, Mr. O'Hara was President and Chief Executive Officer of MFS Global Network Services (GNS). GNS was the MFS service arm responsible for the planning, development, engineering, and operations of all MFS networks and services worldwide. Previously, Mr. O'Hara held the position of President of MFS Development and Vice President of Network Services for MFS Telecom.

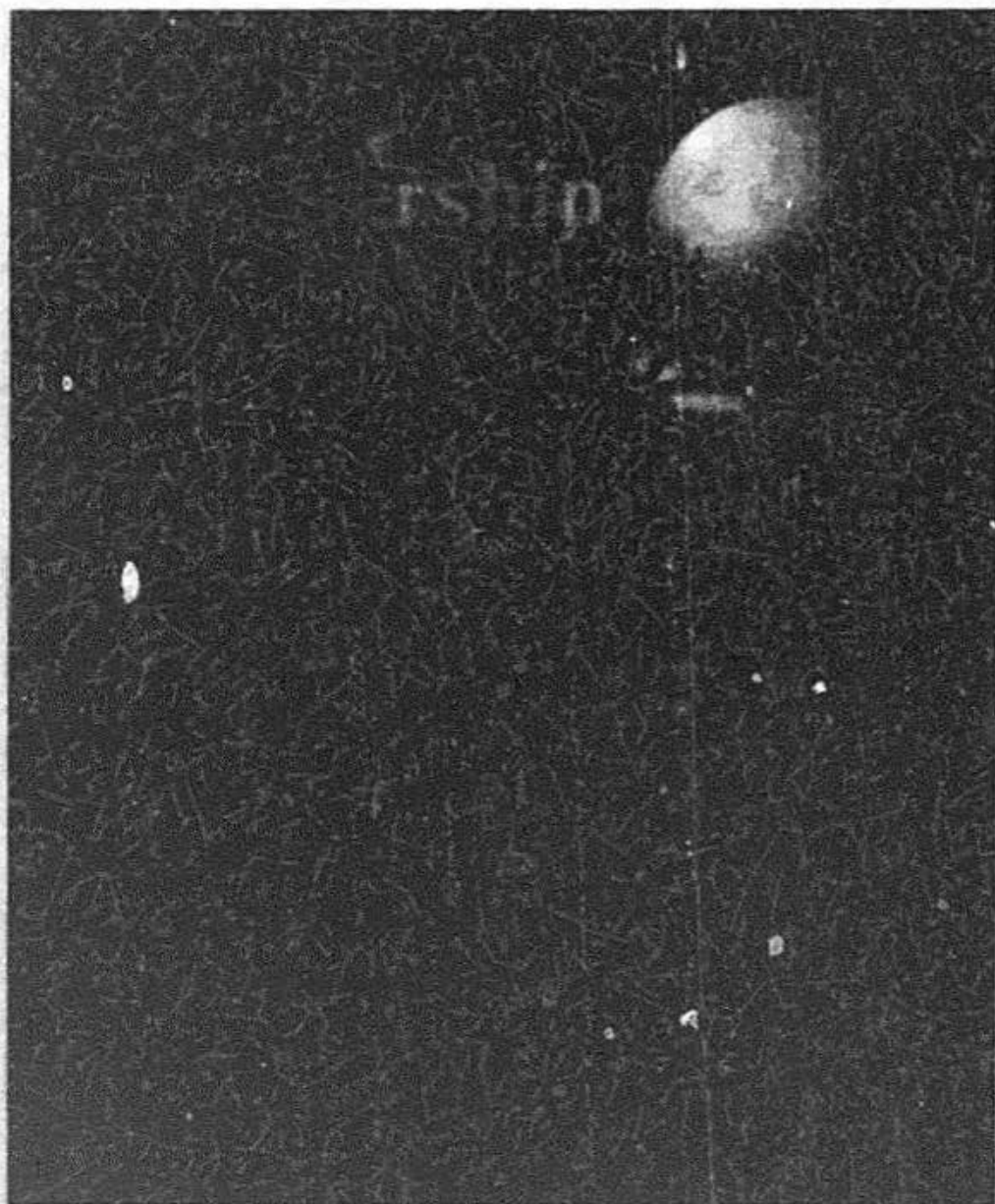
Prior to joining MFS at the end of 1989, Mr. O'Hara held management positions with Peter Kiewit Sons', Inc. in Omaha, Nebraska, for nine years. In his last position before joining MFS, Mr. O'Hara served as the area manager for Kiewit Network Technologies, Inc., with responsibility for the physical construction of the MFS networks. Mr. O'Hara earned a bachelor of science degree in electrical engineering from Drexel University, Philadelphia, and a master's degree in business administration from the University of Chicago.

Exhibit 4

Financial Qualifications

1997 Annual Report and Quarterly Report for the period ended September 30, 1998
of Applicant's Parent, Level 3 Communications, Inc.

LEVEL 3 COMMUNICATIONS



1997 ANNUAL REPORT

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**"The best way to
predict the future is
to help shape it."**

1997 FINANCIAL PERFORMANCE

1997 was a significant year for the company. Late in the year, a new business plan was established to focus on the provision of communications services using the framework of Kiewit Diversified Group Inc. (KDG) as the foundation. The company was renamed Level 3 Communications, Inc. The letter to stockholders, which begins on the facing page, addresses that plan and the potential for Level 3 Communications going forward.

For 1997, the company's revenues decreased to \$332 million during the 12 month period from \$652 millions in 1996. The accounting for the reorganization of the C-TEC Companies, completed on September 30, 1997, significantly affected this number. (For more detail, see pages K-7.) Earnings for 1997 were \$93 million, or \$0.66 per share, compared with \$113 million, or \$0.90 per share, for the same period a year earlier. The decline was attributable to, among other things: decreases in revenues from KDG's coal mining activities; a sharp increase in general and administrative expenses within the expanding information services business; increased losses related to equity investments in various developing telecommunications concerns; and an upswing in interest expense. Notably, at the end of the year, the company's working capital had increased 106 percent over 1996 to \$762 million as a result of cash generated by operations and significant financing activities.

Prior to establishing its new business plan, KDG's assets consisted of investments in a variety of companies, comprising the non-construction holdings of Peter Kiewit Sons', Inc. Among those non-construction businesses was a 24% interest in CalEnergy Company, Inc., which on January 2, 1990, was sold to CalEnergy. (For more information, see page K-11.)

LEVEL 3 COMMUNICATIONS¹ SELECTED FINANCIAL DATA

	Fiscal Year Ended	
(dollars in millions, except per share amounts)	1997	1996
Results of Operations		
Revenue	\$ 332	\$ 652
Earnings from continuing operations	83	104
Net earnings	248	221
Per Common Share		
Earnings from continuing operations		
Basic	.66	.90
Diluted	.66	.90
Net earnings		
Basic	.74	.97
Diluted	.74	.97
Dividends	—	.10
Book value	11.65	10.85
Financial Position		
Total assets	2,127	2,504
Current portion of long-term debt	3	57
Long-term debt, less current portion	137	320
Stockholders' equity	1,578	1,257

¹ On January 19, 1998, Kiewit Diversified Group Inc. (KDG), a subsidiary of Peter Kiewit Sons', Inc., changed its name to Level 3 Communications, Inc. This table is drawn from the enclosed 10-K/A filed with the Securities and Exchange Commission by Peter Kiewit Sons', Inc. for the fiscal year ending December 27, 1997 and reflects the results of KDG.

TO OUR STOCKHOLDERS

Today, in the communications industry, one of the great opportunities in American business is unfolding. A fundamental technological shift is occurring that we believe is as important as the shift from telegraph to telephone, from mainframe to personal computer, or from vacuum tubes to transistors and integrated circuits. This fundamental shift in technology is already changing the industry and creating a huge opportunity for new entrants and entrepreneurial companies with sufficient capital, vision and management strength to move aggressively.

The Opportunity

That fundamental technological change that is redefining the industry at its roots is the move from the 100-year old circuit switching technology — that is still the predominant technology in the traditional telephone company networks — to the newer Internet Protocol (IP) based packet switching technologies. The advantage of these new IP technologies is the power of simple economics. IP networks cost less. The cost of moving information through an IP network is much lower than through a traditional circuit switched network, because IP technology makes much more efficient use of the transmission "pipe" or network.

The circuit switching technology used in a traditional telephone network inefficiently opens and maintains a dedicated line whenever a call is made, regardless of the density of the information being transmitted. The result is wasted capacity or "quiet spots" as the end-to-end connection remains in place even during those moments when no actual information is being transmitted.

Conversely, the newer IP packet technology breaks the information down into pieces, places them into electronic "envelopes" or packets with electronic "addresses," and then fills the pipe with these packets of information. The packets not only fill the pipe, but are also directed along the way by special computers or routers that read the address information and direct each packet along the fastest route to its destination, where all of the pieces of information are reassembled, ready for receipt by fax, computer or laser. All of this takes place in a fraction of a second. (For a more detailed comparison of Circuit Switching and Packet Switching, see page 10.)

To understand the difference between circuit switching and packet switching, another helpful comparison might be to visualize an interstate highway between two cities.

Traditional telephone technology would dedicate or commit an entire lane of the highway to one car for the duration of its trip. The newer IP technology would fill all of the lanes with traffic, with lines of cars in each lane. IP simply makes much more efficient use of the "highway" or transmission path.

Whether packet switching will dominate over the older circuit switched telephone network and is being debated. No one, however, can deny that packet switching technology is improving faster than circuit switching technology. According to Peter Sewell, an analyst with Northeast Consulting Services, circuit switching technologies are doubling their performance/cost ratio every 80 months, while packet switching technologies double this ratio every 20 months — meaning packet switching technologies are improving much faster than circuit switching technologies. That huge improvement difference, says Sewell, "guarantees the triumph of packet switching."

"We're witnessing a fundamental technological shift — as important as the shift from the telegraph to the telephone or from the mainframe to the PC. IP enjoys an enormous cost advantage over the 100-year-old circuit switched networks."

— James Q. Crowe
Level 3 President
and CEO

"IP is the most serious technical challenge to the ubiquitous phone technology, now well into its second century."

—Wall Street Journal
January 20, 1998

Market Largely Untapped

Although there are constraints, primarily with information that is "timing sensitive," such as high-quality voice and real-time video, the majority of information transmitted by corporations today — including taxes, data, audio and video files — is entirely suitable for packet switch transmission.

However, if you add up all of the markets currently addressed by the Internet providers — data services, Internet access or IP telephony and IP virtual private networks — you'll find that the total represents about \$41 billion, less than 10 percent of the available global market today. The really significant market is for high-quality, secure switched telephony and fax, which is not currently addressed by existing IP networks, and that amounts to well over \$540 billion. This is the market Level 3 plans to address.

Rapid Data Growth Overtakes Voice

The traditional telephone networks still use the same fundamental technology that was developed at the turn of the century, primarily to handle voice traffic. Today, voice is a diminishing percentage of communications traffic as we are witnessing much sharper growth in data and fax transmission. In fact, we believe that eventually voice may be offered without usage based charges as part of basic communications access, in much the same way as e-mail is part of basic Internet access.

Moreover, there is not only a fundamental shift in technology, but as a recent article in the WALL STREET JOURNAL noted, the industry is also seeing a "fundamental shift in investments as demand for high-speed data transmission and access to the Internet increase." "Carriers such as AT&T and the Bells must upgrade their networks to handle booming Internet traffic along with traditional voice phone calls," noted the article, which continued:

"The telecommunications industry doesn't have a lot of time. Internet traffic is growing 1,000% a year and data traffic over the public network is doubling annually. Voice calling, by contrast, is expanding at a single-digit rate. Data will account for more than 95% of the traffic on the public network by the year 2005, and this will force public carriers to adopt a new architecture for handling voice, data and video transmission," said Christopher Six, an analyst at Cowen & Co."

Because the new technology makes much more efficient use of the transmission pipe by filling it and moving massive amounts of information faster, IP technology is better able to address the growing demand for capacity. As software companies continue to develop more sophisticated software applications, the need for bandwidth and more efficient networks will only increase.

Economics Drive Change To New Technology

The single, overriding force that will move the industry to the new IP technology is simple economics. The efficiencies made possible by the underlying IP technology are so significant, that the cost implications are enormous and irrefutable.

For example: Today, our analysis of network costs shows that if you want to move the amount of information on a CD ROM — approximately the contents of an eight volume encyclopedia set — from New York to Los Angeles, it will cost a carrier approximately \$27 over a traditional phone network. Over an IP network, it will cost a carrier approximately \$2. With that kind of lower network cost structure, Level 3 believes it will be in an excellent position to offer customers significant savings over its IP network.

Moreover, we believe the marked difference in costs is likely to widen even further as IP technologies continue to improve faster than the alternatives, because most entrepreneurial effort and capital is being focused on IP technologies. As a result, IP networks are improving much faster than the older, legacy telephone networks. In our opinion, newer IP networks are going to displace the traditional telephone network technology over time, because IP is simply cheaper and improving more quickly. Traditional networks certainly will not disappear anytime soon, but we believe the real stockholder value will be created by those who embrace and capitalize on the fundamental change that is occurring.

That is the power of the newer technology. However, no one has yet built a national communications network using the new IP technology end-to-end. There's a real opportunity, for the first time, to build a whole network optimized to Internet Protocol aimed at business. No one today has such a network.

That is the opportunity.

Level 3 Will Be Positioned

We believe Level 3 is exceptionally well positioned to capitalize on this historic opportunity. At this point in time, we have sufficient capital and experience to build a new network using the new technology while, at the same time, not being saddled with a massive investment in the old technology. While other carriers will have to develop their own strategies for managing their legacy networks in the face of the changing technology, Level 3 has an extraordinary opportunity to begin with a "blank canvas" — to build its network from the ground up using the new technology.

We have the capital to do it — approximately four billion dollars in cash to substantially pre-fund the building of our initial U.S. and European networks. We have a seasoned management team that has as much experience as any in the industry in building advanced fiber network infrastructure in large cities, across the U.S. and internationally. And, we have the regulatory experience that many of our team members developed in helping to open the local telephone market to competition.

Level 3's Plan To Capitalize On The Opportunity

We have laid out our strategic plan and we are already moving forward. We have announced that we will build the first national IP network — the first communications network to use the new technology end-to-end, combining local and long distance service. We plan to build local networks in more than 50 cities across the United States, which we plan to interconnect

"Level 3 seems to be a player to watch.

"It has an opportunity to be quite disruptive in the industry," says Mark Bryneau of the consulting firm Renaissance Worldwide. "It's a dream team with a dream network and a killer business plan..."

— USA Today
April 1, 1998

"Level 3's success could lead to applications that help companies make many of their vital legacy apps available to employees and business partners at costs dramatically lower than today's."

- Information Week
January 18, 1998

with a 15,000 mile long distance network. Initial construction of the network in the largest 15 cities is expected to be completed in the first and second quarter of 1999, with phased completion of the remaining U.S. infrastructure occurring by 2001. At the end of the first quarter of 1998, we had secured more than half of the necessary intercity rights-of-way, had filed applications for collocation for 56 central offices in these cities, had begun construction in 52 of these central offices and had initiated interconnection negotiations with each of the Bell Companies.

Additionally, we plan to expand internationally to another 17 cities and interconnect 13 key financial centers with a 3,000 mile pan-European network. (See map on page 14.)

We have a number of key advantages over the traditional carriers that are beginning to deploy the new technology and who are, in fact, layering IP networks on top of the existing networks, not creating new networks from the ground up.

We don't have dated, legacy networks and infrastructure with outmoded cost structures and the large work force necessary to maintain them. We can pursue our objectives without the baggage that so many other companies in telecommunications are saddled with. We are free to tailor every aspect of our company and its objectives precisely to the demands of this new industry, serving our investors by concentrating on the development and application of network assets whose eventual value, we believe, will far outstrip the investments necessary to create them.

Additionally, we have come up with a design that anticipates and embraces the idea that the rapid pace of technological advances will continue. We are designing and building our intercity fiber optic network using at least six to eight conduits. This gives us five to seven times as many open or spare conduits as anyone else in the industry. In fact, most telephone companies have no spares at all. This continuously upgradeable network will be capable of evolving as technology changes and customer demand increases. (See page 16.)

Our plan is ambitious, but building such a network is not new to us. What is new is the opportunity. The new technology. The opportunity to be the first to build our entire network from the ground up with the new technology and with a management team that has the experience and track record to do it.

We Are Moving Quickly

We have taken a number of important steps to implement our strategic plan. Among 1998 first and second quarter highlights:

- **Sale of CalEnergy:** On January 2, Kiewit Diversified closed the sale of its energy assets to CalEnergy Company for \$1.16 billion. The after tax proceeds of this transaction will be used to fund, in part, the Level 3 business plan.
- **National Leased Network:** On March 23, the company entered into an agreement with Frontier Corporation under which we will lease capacity for a period of up to five years on that company's 13,000 mile IP-capable fiber optic network that is currently being deployed. The agreement will allow Level 3 to begin providing services to business

customers in as many as 15 cities, while we build our own network onto which we will migrate existing customers over time.

- **Separation of Companies:** On March 31, the planned separation of the Construction Group of Peter Kiewit Sons', Inc. was completed.
- **Common Stock Listed on Nasdaq:** On April 1, Level 3's common stock began trading on The Nasdaq National Market under the symbol LVL3.
- **Rights-of-Way Agreement:** On April 2, Level 3 announced an agreement with Union Pacific Railroad, granting Level 3 access to rights-of-way along 7,800 miles of Union Pacific's routes west of the Mississippi.
- **Acquisition of Data Base Technologies:** On April 14, Level 3's subsidiary, PKS Systems Integration (PKS-SI) announced the acquisition of Database Technologies. The database expertise of Database Technologies, combined with PKS-SI's international resources and systems integration capability, creates an organization that is particularly well qualified to serve corporations' rapidly expanding database and informational systems needs. Level 3 systems integration skills, together with our planned IP networks, will allow the company to offer a full range of services to businesses seeking to move applications from older, legacy data networks to more efficient IP-based networks.
- **XCOM Merger:** On April 23, Level 3 acquired XCOM Technologies, a Cambridge, Massachusetts based local exchange carrier and communications software developer. In addition to software that will be useful in the company's development of its IP-based network, XCOM's local exchange business operating in Boston, and in development in several other cities running from Boston to Washington, D.C., gives Level 3 an important foothold in the Northeast Corridor market.
- **Capital Raising:** On April 28, Level 3 raised approximately \$2 billion in additional capital through the successful completion of a debt offering.

With these events behind us, we are on track to begin construction of our network during the third quarter of 1998 and to launch service by the end of this calendar year.

Addressing The Needs of Larger Businesses

Our primary focus is on the business market. Many businesses today have enormous investments in legacy software written over the last 25 years — software applications that are mission critical applications. Many chief information officers want to move these applications over to Internet platforms. But, the complexity is enormous. That's where Level 3's subsidiary, PKS Information Services (PKSIS), comes into play.

PKSIS offers a range of services including computer outsourcing, systems integration and year 2000 solutions. But, critical and central to Level 3's business, PKSIS offers a unique approach to WEB enabling of legacy software. In effect, PKSIS helps corporations upgrade their older software so that — using their existing computer systems — they can use the new Internet technologies.

"Level 3 and other rivals have the Bell companies 'running like the devil to reinvent themselves,' says telecom analyst Jeffery Kagan. Question is, can they keep up with Ciena?"

*— Business Week
April 6, 1998*

"The OSO program calls upon the management of our company to put their money where their mouth is."

**- James Q. Crowe
Level 3 President
and CEO**

With this lower risk, lower cost approach, PKSIS provides a front-end for our communications operations because, as PKSIS's customers move their applications to Internet platforms, they will need a network service provider. Because their systems are WEB enabled, the corporations can take full advantage of the cost benefits offered by Level 3's IP network.

Innovative Compensation Program Aligns Management and Stockholder Interests

Level 3 believes its future success is in large part based on attracting, hiring and retaining the highest quality employees. This must be accomplished despite a recognized scarcity of technology workers. Clearly, our ability to attract and retain the best and the brightest people will depend on our ability to apply innovative recruiting and compensation programs. We believe the best entrepreneurs are attracted and retained by companies that provide the opportunity to become owners. We believe employee-owners outperform employees. Employee-owners see things differently and see opportunities others miss. They do what it takes to make the business grow, and they are not satisfied with working at an "average" company. For those reasons we have designed our compensation and reward programs to give every level of employee an opportunity to become an owner.

Investors who are looking to purchase a growth company's stock are interested in earning a superior return on their investment. We are looking for executives with a similar perspective — individuals who want to have a stake in their company and in outperforming the market.

That's why, on the same day Level 3's common stock began trading on Nasdaq, the company announced the first award of options under its new Outperform Stock Option (OSO) program. The strike price for the initial options award was based on the price of Level 3's stock at the end of the first day of trading.

Under the plan, stockholders receive a market return on their investment before executives receive any return on their options. Level 3's OSO program directly aligns 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.

Normally, a stock option gives the holder the right to purchase a share of stock at a fixed price over a specified period of time. Under the Level 3 OSO plan, the exercise price is indexed to the performance of S&P 500. If Level 3's stock price does not outperform the S&P 500 index, the options have no value. The OSO program calls on the management of our company to "put their money where their mouth is." We think this unique program provides a new way to look at compensation and helps align the interests of management with the stockholders of the company.

In Conclusion

Our Chairman, Walter Scott, Jr., has built his businesses on a core philosophy: "Protect the downside, and the upside will take care of itself." Level 3 is taking the same prudent approach of protecting its downside by investing approximately 80 percent of every dollar into its network infrastructure — an asset that we believe will only increase in value over time.

L

We also employ a success-based capital spending strategy in which we defer as much of our spending as possible until we get a firm order from a customer. This pushes spending into the future when we will be able to match it to our revenue flow. We install empty electronics racks in facilities as we build our network, but don't fill the racks with expensive electronics until we have customers ready for service on our network.

This allows us to benefit from "silicon economics," because the equipment that we defer purchasing keeps improving in performance over time and keeps decreasing in price. As a result, we will be able to upgrade the network by purchasing the best equipment at the lowest possible price.

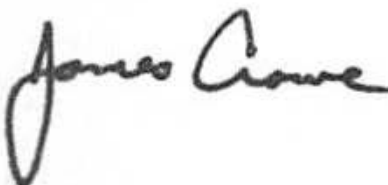
We will also be installing multiple conduits in our network to make it easier to upgrade to new technology or expand existing capacity to meet increasing demand. In effect, our network will be designed to evolve and change as technology evolves and customers' needs change.

From Level 3's perspective, the faster the pace of technological change, the better off we are.

These are prudent steps we are taking to insure our downside is protected. Our upside is limited only by our ability to execute our strategic plan and the degree to which we are able to penetrate the \$500 billion telecommunications market.

The fundamental technological shift that is reshaping the communications industry today is creating a remarkable and historic opportunity. We have developed a business plan aimed squarely at capitalizing on that opportunity. We believe we have the right plan, the right team of executives and the capital to build a groundbreaking communications company. The opportunity is clear. We are as well positioned as anyone in the industry for it.

The challenge for us is to execute our plan well. To manage our growth well. To deploy our capital wisely. To create value for you as our stockholders. To build a company we can all be proud of. We are fully committed to doing just that and truly appreciate your support and trust.



James Q. Crowe
President and Chief Executive Officer

A Fundamental Technological Shift Is Changing The Communications Industry

Industry Moving From 100-Year Old Circuit Switching Technology To Newer IP (Internet Protocol) Technology

A SHIFT AS IMPORTANT AS FROM TELEGRAPH TO TELEPHONE OR FROM MAINFRAME TO PC

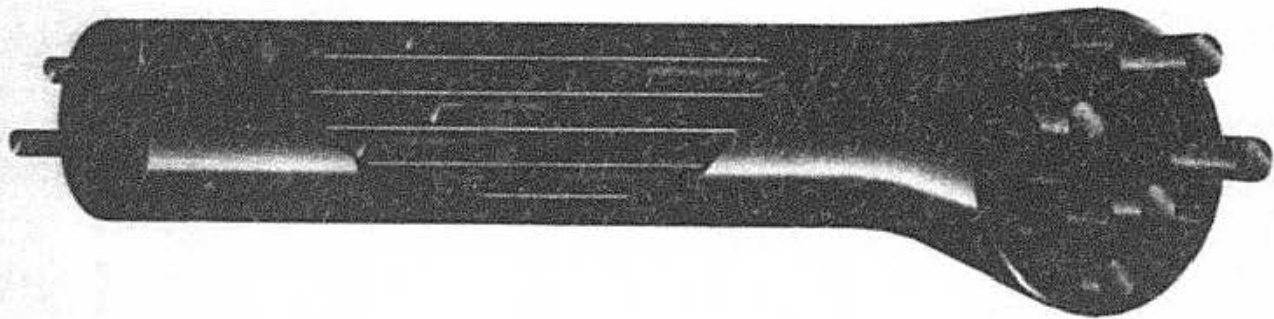
Level 3 shaped its strategy to build an IP-based network from the ground up because of a fundamental shift that is occurring in the communications industry — a shift as important as that from the telegraph to the telephone or from the mainframe to the personal computer. It is a shift that Level 3 and a growing number of industry experts believe will change communications.

"In the long run, if the world keeps buying complex computer end stations, and if they are used for voice traffic, then the circuit switched world, as we know it today, is doomed."

- Business Communications Review
September 1997

That change is a move from the traditional "circuit switched" networks that were designed primarily for voice communications — and which have served customers well for close to a century — to "packet switched" networks using IP. The new technology makes it possible to move information at a much lower cost, because IP makes more efficient use of network capacity.

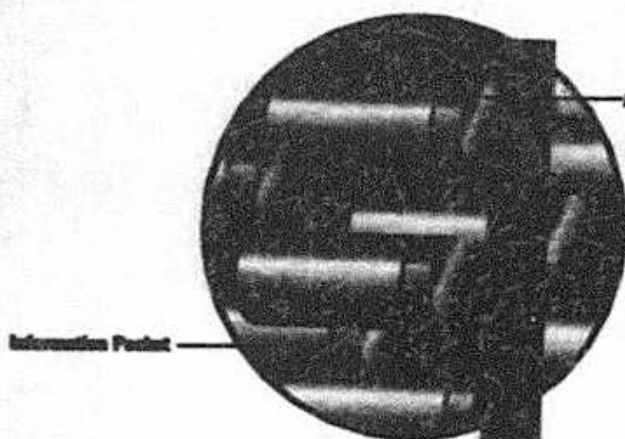
Traditional Telephone Network Uses Circuit Switching



CIRCUIT SWITCHING TECHNOLOGY

The basic design of the telephone network hasn't changed for 100 years. The phone system is a circuit switched network. This technology dedicates a fixed amount of

capacity (a "circuit") for the entire duration of the transmission. So, a telephone call ties up an entire circuit — or portion of the network — for the duration of the call.



Information Packet

Address Header

Packets of Information

Information that moves over the network is broken into pieces known as bits, which are then placed into electronic envelopes or "packets". Each packet is coded with address information for delivery to the proper destination, sent through the network and then reassembled into its original form so the recipient can use the information upon delivery.

PACKET SWITCHING TECHNOLOGY

In a packet switched network, there is no single, end-to-end connection between sender and receiver. When information is sent, it is put into small packets that are mixed with other transmissions, sent over many different routes at the same time, and then

reassembled at the receiving end. Because of packet switching, it is possible to fill the network, it can move massive amounts of information more efficiently and at a lower cost than traditional circuit-switched networks.

Simple Economics Are Driving The Technological Change To Internet Protocol

IP Technology Is Much Less Expensive And Improving Much Faster Than Traditional Phone Network Technology

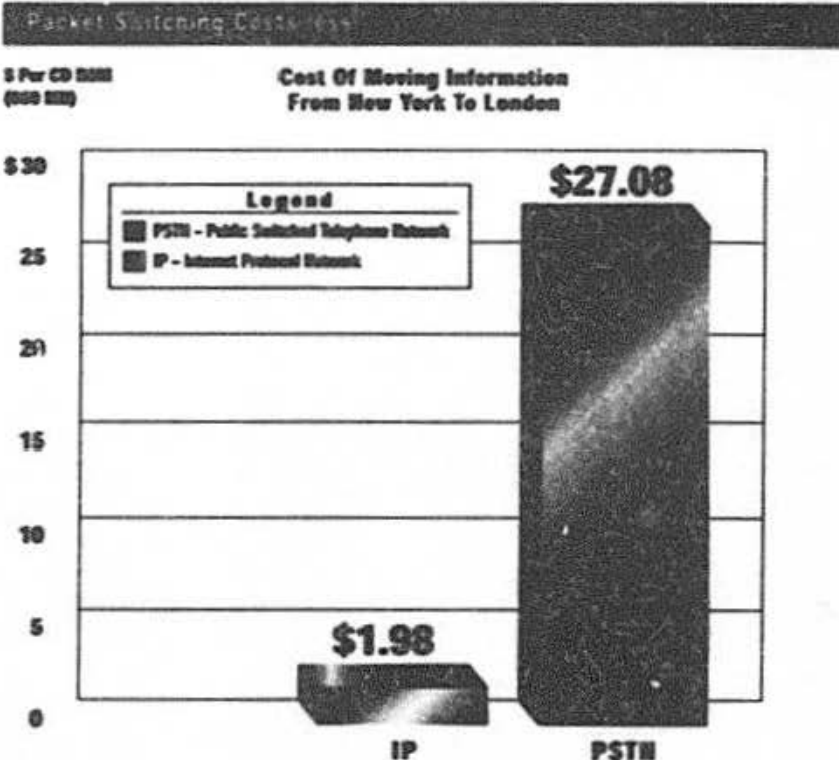
Over time, IP networks are going to displace the traditional telephone network because they are simply cheaper and because IP technology is improving more quickly. IP-based networks are less expensive today for non-timing sensitive information — such as data or fax, which together represent nearly 75 percent of today's business communications.

For example, for a provider with both local and long distance facilities to move a 650-megabit CD ROM worth of information from New York to Los Angeles (the equivalent of the contents of eight encyclopedia volumes) over the traditional public switched telephone network (PSTN) would cost the provider approximately \$27.00.

However, to move the same amount of information over an IP network would only cost the provider about \$2.00. This is the fundamental cost difference or advantage that IP enjoys today. That difference should grow over time because IP technology is advancing so much more rapidly than traditional telephone technology.

"Level 3's approach — running all traffic over a single network is easier, cheaper, and quicker to manage and upgrade."

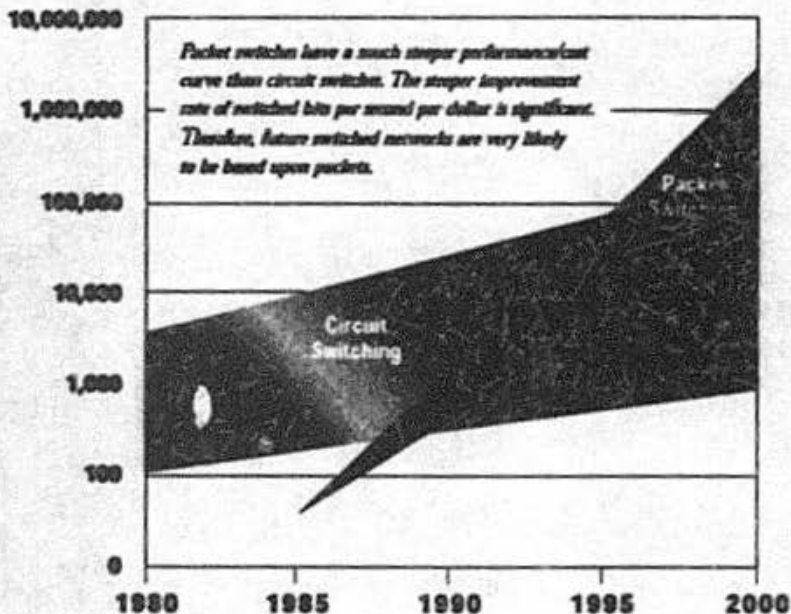
— Information Week
January 19, 1998



Switching Improving Faster

Performance/Cost
(bps per \$)

Rate of Improvement



SOURCE: Peter Sevcik, Analyst, Northeast Consulting Partners, Inc.

PACKET SWITCHING TECHNOLOGIES IMPROVING FASTER THAN CIRCUIT SWITCHING

An easy way to understand the rate of improvement of packet switching technologies versus circuit switching technologies is to measure the time required to double the performance/cost ratio (switched bits/second/dollar). In computer chips, the equivalent ratio doubles every 18 months. This is known as Moore's Law, after Gordon Moore, one of the founders of Intel.

Circuit switching technologies double their performance/cost ratio every 40 to 80 months depending upon the specific nature of the switch. That's impressive until you consider that packet switching technologies double their performance/cost ratio every 10 to 20 months. Again, the range is dependent upon the specific nature and application of packet switches.

These staggering differences in rate of improvement are depicted in the graph above. The steeper the slope, the more rapid the rate of improvement in the technologies performance/cost ratio. And, a steeper improvement rate is more important to the long-term success of a switching technology than its initial performance cost relative to its competing technologies.

"The Internet is doubling in traffic every five to 10 months, depending on whose statistics you believe. Only packet switched technologies, which double in performance/cost every 10 months, have a chance of keeping up... This steep rate of improvement is significant...and it guarantees the triumph of packet switching."

- Peter Sevcik, Analyst
Business Communications Review
September 1997

Level 3's Multi-Conduit Network Is Designed To Be Continuously Upgradeable

Network Can Evolve As Technology Changes And Customer Demand For Capacity Increases

Level 3 recognizes that the "newest" technologies today will be replaced by even newer ones tomorrow. Because Level 3 is a user of these technologies, it wants to ensure that it is able to change and adapt as the technology changes and adapts. For this reason, Level 3 is designing a network that is continuously upgradeable. The physical infrastructure of the network will include installation of six to eight conduits, only one of which will initially have fiber running through it, while the rest will be empty. This is five to seven times as many "spare" conduits as most traditional telephone companies, which typically have a single fiber optic cable "direct buried" or in a conduit.

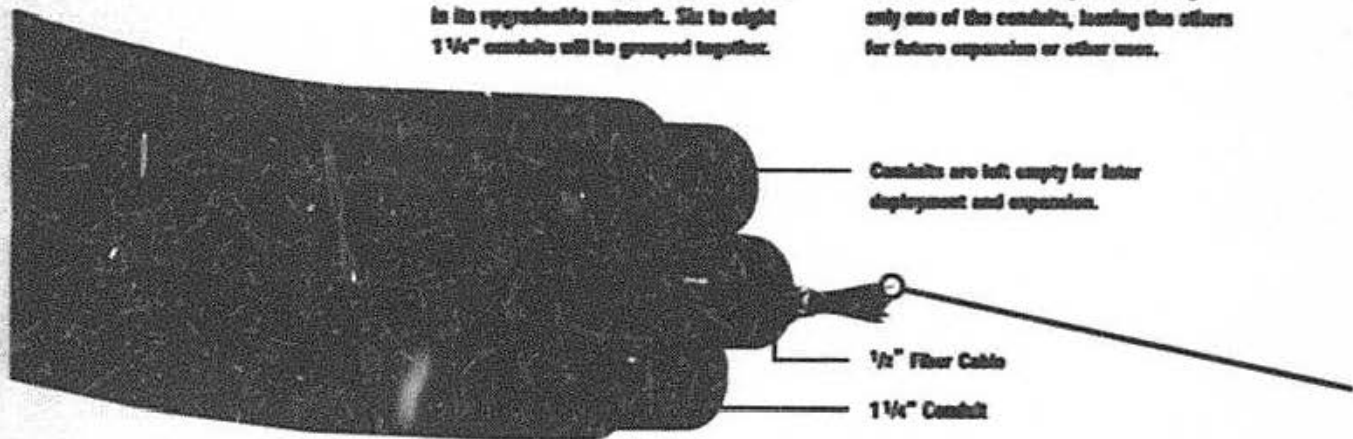
Technology is adapting and changing rapidly — fiber is now in its third generation this decade. This same fast-paced evolution will continue to occur, and by laying a multi-conduit network, Level 3 will be able to adapt to these new changes to give customers quality connections at lower costs without removing old fiber or disrupting service.

Level 3 is taking this same, upgradeable approach to the design of its network electronics and to its software automation systems.

Level 3's Upgradeable Fiber Network

Level 3 will be installing multiple conduits in its upgradeable network. Six to eight 1 1/4" conduits will be grouped together.

Fiber will then be initially drawn through only one of the conduits, leaving the others for future expansion or other uses.



Other Fiber Networks



Most tel. line companies have no spare conduits, or they have a single spare, thereby making it difficult to expand as customer demand and technology changes, without the company having to lay new conduit.

FIBER TECHNOLOGY CONTINUES TO IMPROVE, INCREASING CAPACITY

When Charles Kao and George Hockham first theorized the use of glass fiber as a telecommunications conduit in 1966, they asserted that "enormous" amounts of information — as many as 600 simultaneous phone calls — could be transmitted and received at a distance of more than one-quarter of a mile. Fantastic at the time, their estimates eventually proved too conservative by more than two orders of magnitude.

By 1985, systems capable of transporting more than 8,000 simultaneous telephone calls between regenerator stations spaced 25 miles apart (a "span") were generally available in the marketplace. By 1987, a technique called Wavelength Division Multiplexing (WDM) allowed multiple systems operating at different wavelengths to share the same glass fiber "span," and doubled capacity on some established routes.

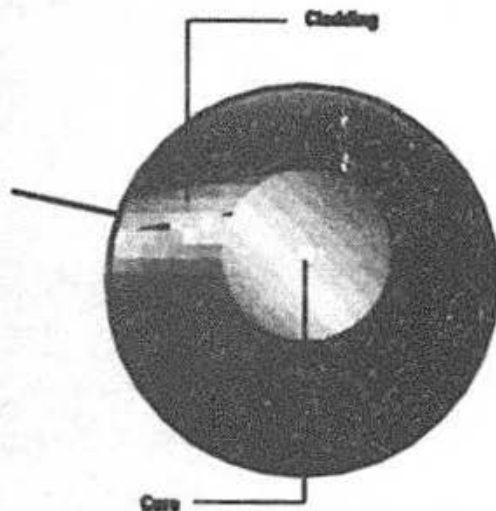
By 1995, Dense Wavelength Division Multiplexing (DWDM), teamed with new higher speed electronic terminals pushed the capacity limit to slightly beyond 160,000 simultaneous telephone calls on longer "spans" of about 30 miles.

And now, active fiber amplifier technology, improved fiber and further advances in DWDM techniques will be combined by Level 3 in a network in which one strand of fiber — about the diameter of a human hair — can carry the equivalent of more than 4 million simultaneous telephone calls along spans of up to 370 miles. This is more than 6,000 times the capacity and nearly 1,500 times the span distance theorized by Kao and Hockham.

The fiber Level 3 will deploy is a new product that enjoys a 10 percent advantage in capacity and/or span distance over similarly priced alternatives.

"Industry observers say it is only a matter of time before Internet Protocol-based networks rival, if not supplant, traditional circuit switched networks for carrying voice traffic."

*- Interactive Week
March 10, 1998*



THE FIBER OPTIC STRAND

The basic design of a single optical fiber has changed little since the late 1970s. A fiber strand is about .0024 inches in diameter, about the width of a human hair. Of that, a central core about 1/2000 of an inch in size is where the light wave actually travels. The remainder of the fiber is protective cladding.

Level 3 To Offer Full Range Of Services — Including High-Quality Voice — Over Its IP Network

Level 3 Will Offer Public Network Quality Voice Services Using IP

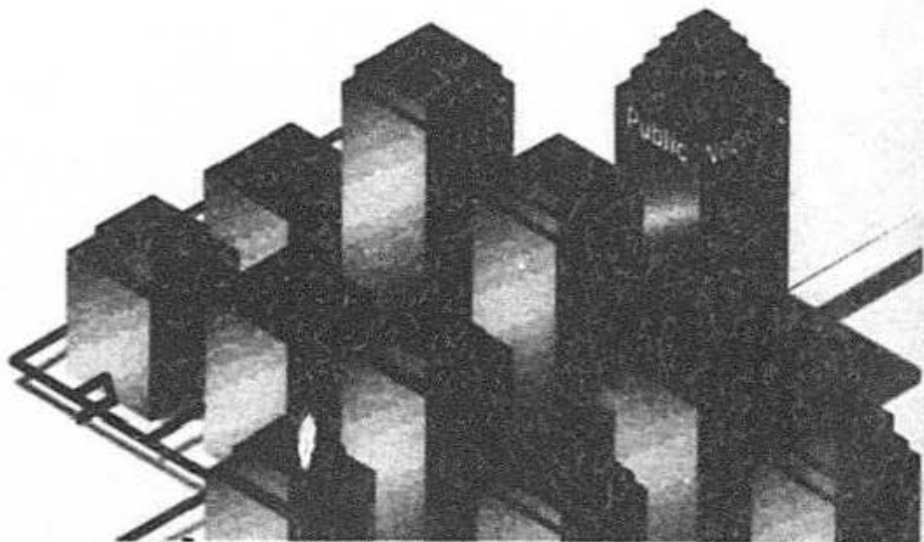
COMPANY WILL CONNECT DIRECTLY WITH THE PUBLIC SWITCHED TELEPHONE NETWORK, ENABLING SEAMLESS, UBIQUITOUS SERVICE

Today, "Voice over IP" providers operate in a very similar manner to the way long distance carriers operated in the early days of long distance competition, prior to Equal Access Implementation. Before a customer can place a call over a packet-based network, the IP provider must purchase local lines from an incumbent local carrier and then their customers must dial up to 36 digits to access the network to place a call. Level 3 has introduced an Industry Initiative promoting IP Equal Access, that once achieved, will allow seamless integration between the public switched telephone network (PSTN) and IP-based networks, allowing IP-based carriers to provide customers with standard 10 digit dialing, using their existing telephone equipment, over a lower cost packet-based network.

Just as Equal Access Implementation opened the long distance market to competition 15 years ago, IP Equal Access will facilitate the deployment of lower-cost, packet-based networks to provide all types of communications services, and eliminate the need for businesses to maintain multiple communication networks. IP Equal Access will also facilitate the development of new applications and services such as multimedia networking, electronic commerce, virtual private networking, remote collaboration, applications outsourcing, unified messaging, video streaming, web-enabled telephony, high-fidelity audio networking and more yet to be thought of services. The rapid innovation characteristic of IP-based networks will ensure the rapid development of new and value-added services delivered by these networks.

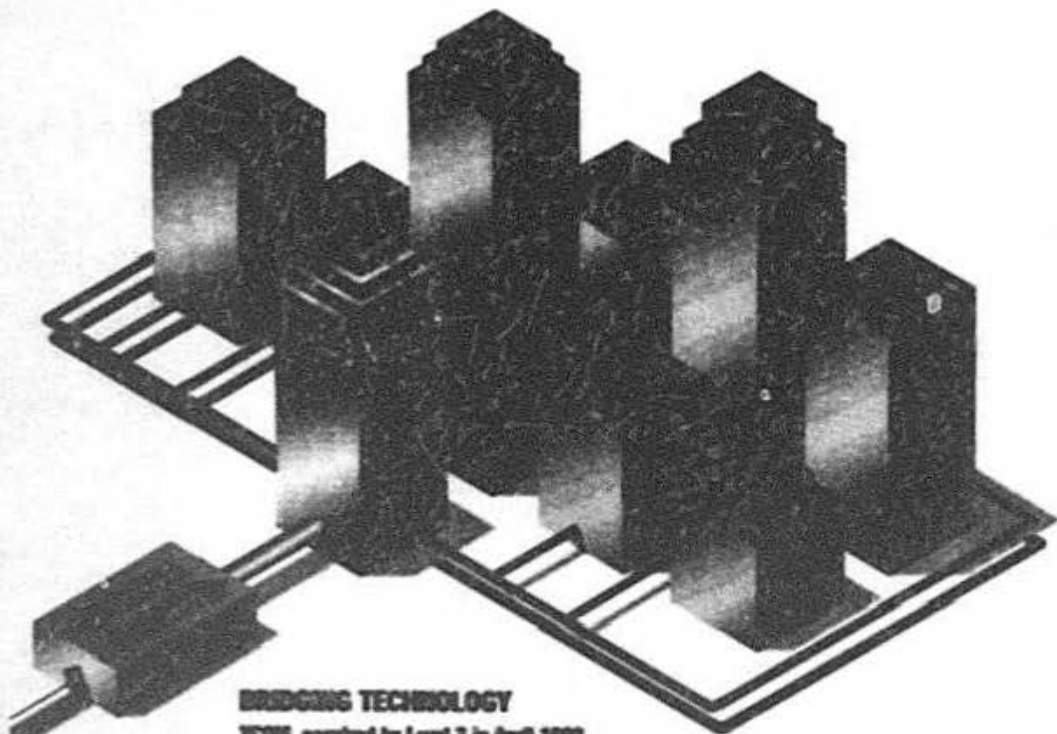
"The pricing differential will be so astronomical that the established carriers will have to react. These guys [Level 3] are really going to have an impact." Frank Darabach, president, Communications Network Architects, Inc.

- Network World
January 26, 1998



In addition to the initiative, Level 3 was instrumental in the formation of a Technical Advisory Council, consisting of a number of leading communications equipment manufacturers and service providers. The goal of this group is to establish open device control standards for the equipment deployed on IP networks. Such protocols will form the foundation for the company's integrated voice and data communications network and are a key technical development milestone on the path toward IP Equal Access.

IP Equal Access will help unlock the vast potential of IP networking. Customers will be able to enjoy the benefits of low cost and the robust capabilities of IP networks using their existing telephone equipment and without changing dialing patterns or adding additional devices. Equal access among IP network providers will ensure the availability of low-cost, high-quality IP-based communication services, and will drive the continued development of new, innovative IP-based services.



BRIDGING TECHNOLOGY

XCOS, acquired by Level 3 in April 1999, has developed a series of components necessary to interconnect an IP-based network with the traditional telephone network without the use of switches and using instead server-based, data communications equipment.

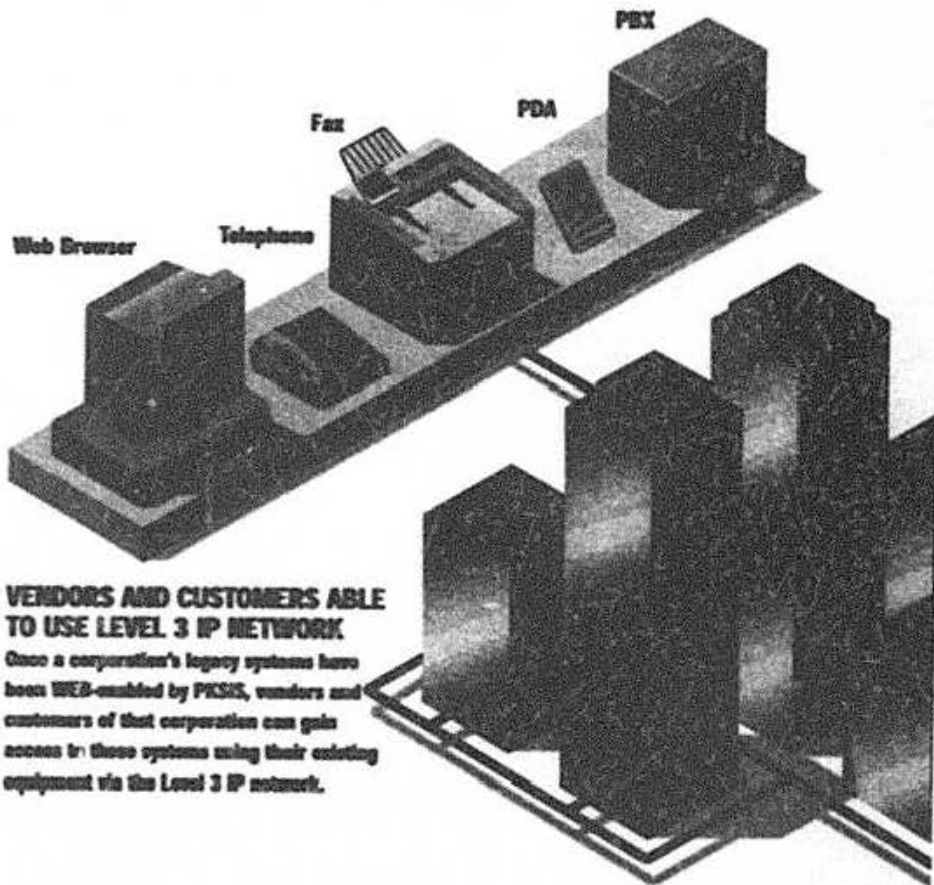
Using Their Existing Computer Systems, Customers Can Access Level 3's Network

*A Level 3 Subsidiary, PKS Information Services, Specializes In Helping Companies Gain
The Cost Benefits Of Internet Technology*

Today, many companies run their critical business applications, such as customer order entry, purchasing, billing and payroll on a wide variety of older, legacy computer hardware and software platforms, some of which can be decades old. These legacy platforms were usually designed as stand-alone, closed systems, with little ability to communicate with each other. However, one of the key benefits of an IP network is that it gives a customer the ability to link together virtually any type of computer hardware and software platform with high-quality communications.

**"Seventy percent of
the world's business
information resides
on legacy systems
— software on
outdated computing
environments —
built at a cost of
\$1 to \$5 trillion."**

— Raul Pupo
President, CEO
PKS Information Services, Inc.

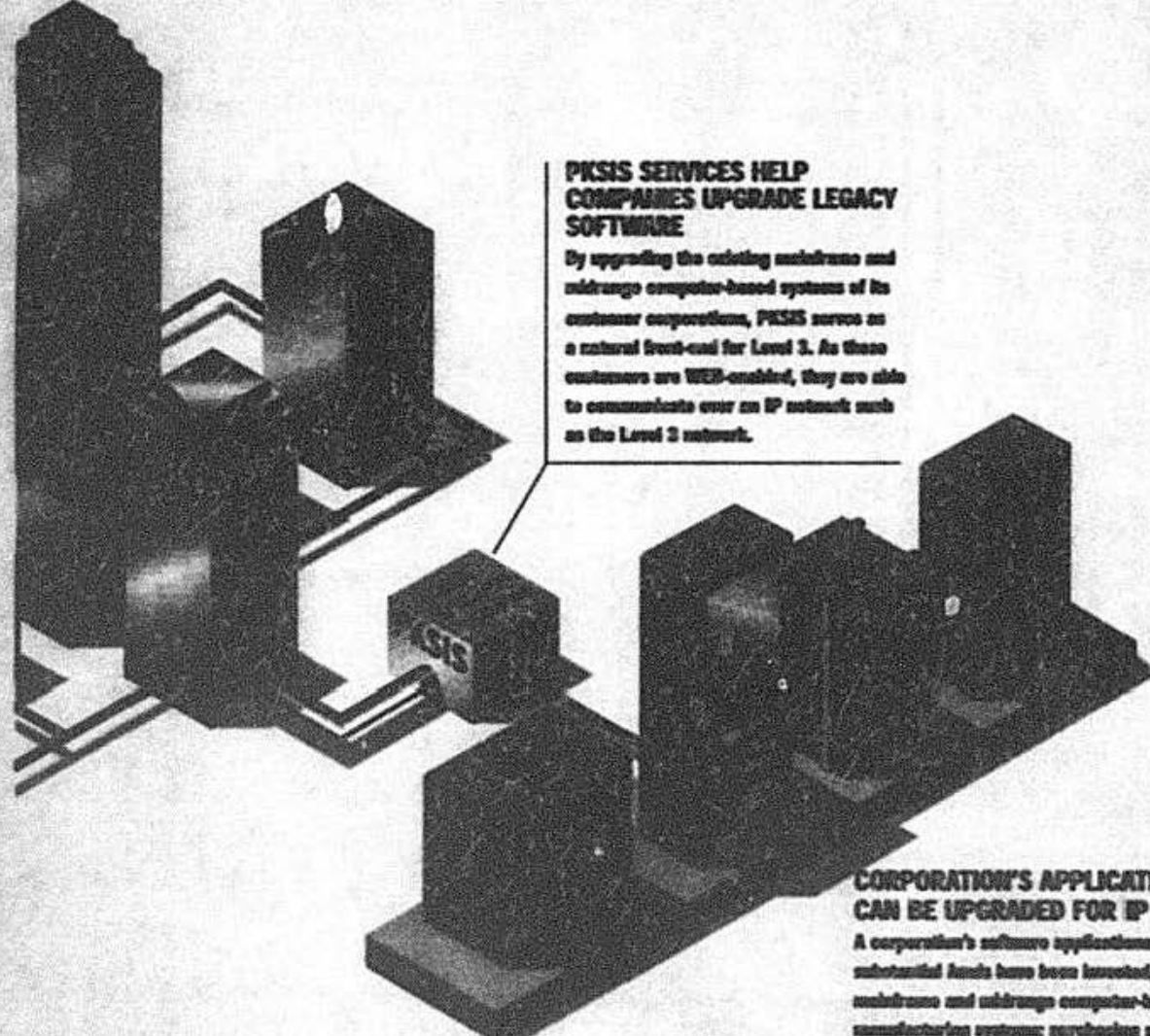


VENDORS AND CUSTOMERS ABLE TO USE LEVEL 3 IP NETWORK

Once a corporation's legacy systems have been WEB-enabled by PKSIS, vendors and customers of that corporation can gain access to those systems using their existing equipment via the Level 3 IP network.

Level 3's subsidiary, PKS Information Services (PKSIS), provides custom tailored Enterprise Internet Services allowing companies to preserve their investments in older, legacy computer hardware and software, while leveraging the benefits of IP networks. PKSIS' system integration organization develops cost-effective methods to connect stand-alone and closed legacy platforms for users worldwide. In effect, PKSIS helps corporations upgrade their existing systems so these systems are compatible with the newer Internet technologies.

These "WEB-enabling" services pave the way for these customers to use Level 3's network. Combined, Level 3 and PKSIS give corporate customers the capability to open their legacy systems — in which they have a substantial investment — to employees, to their customers and vendors as needed and to enjoy the cost, speed and security benefits of Level 3's IP network.



PKSIS SERVICES HELP COMPANIES UPGRADE LEGACY SOFTWARE

By upgrading the existing mainframe and midrange computer-based systems of its customer corporations, PKSIS serves as a natural front-end for Level 3. As these customers are WEB-enabled, they are able to communicate over an IP network such as the Level 3 network.

CORPORATION'S APPLICATIONS CAN BE UPGRADED FOR IP

A corporation's software applications, in which substantial funds have been invested, include such mainframe and midrange computer-based systems as: manufacturing systems; purchasing systems; billing and payroll systems; order entry systems and more.

LEVEL 3 COMMUNICATIONS, INC.

Effective January 19, 1998, Kiewit Diversified Group Inc. changed its name to Level 3 Communications, Inc. For the 1997 fiscal year, the company had consolidated revenues of \$332 million. Following the sale of its CalEnergy interests and bond sale, Level 3 had approximately \$4 billion in cash and cash equivalents, and \$5 billion in total asset value. As the parent corporation, Level 3 Communications, Inc. has a number of operating subsidiaries, including:

Level 3 Communications, LLC

Known as "the network company," Level 3 Communications, LLC, is building an advanced Internet Protocol (IP) technology-based network across the U.S. that is expected to be completed in phases by the year 2001. To provide service in the interim, the company has signed an agreement to lease capacity on a national network over which it will be able to offer advanced IP-based services in selected cities beginning in the third quarter of 1998. Level 3 will be the first company to combine both local and long distance IP technology-based networks end-to-end across the U.S. The company will focus primarily on the business market using its network to provide a full range of communications services — including local, long distance and data transmission as well as other enhanced services and Internet access services. Plans also call for the company to expand internationally.

PKS Information Services, Inc. (PKSIS)

PKS Information Services, Inc. is a full-service computer outsourcing, systems integration and enterprise Internet solutions company. The company is an acknowledged service leader and has a successful record of providing high-quality, custom-tailored solutions. PKSIS' computing operation offers customers dedicated, low-cost, high-performance computing environments, 24 hours a day, seven days a week.

PKSIS helps customers define, develop and implement cost-effective information systems. A network integration group designs and implements all LAN/WAN topologies and network management platforms. The company's Suite 2000SM service converts customers' date-related information. LexiBridgeSM is a PKSIS solution that helps customers convert older legacy applications to client/server and Internet platforms.

Commonwealth Telephone Enterprises, Inc., Cable Michigan, Inc., and RCN Corporation (collectively, the C-TEC Companies)

Level 3 engages in the telecommunications business through ownership of approximately 48.5 percent of the common stock in Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc., and approximately 46 percent of the common stock in RCN Corporation, which were created as a result of a restructuring transaction completed by C-TEC Corporation on September 30, 1997. The C-TEC Companies have interests in local telephone, video programming, long distance telephone, cable television, communication engineering and competitive telephone businesses.

KCP Inc. (KCP)

The company engages in the coal mining business through ownership by KCP of a 50 percent interest in three coal mines, which are operated and managed by a subsidiary of Peter Kiewit Sons', Inc.

BOARD OF DIRECTORS

Richard Scott, Jr.
Chairman of the Board
Level 3 Communications, Inc.
Chairman Emeritus
Peter Kiewit Sons', Inc.

James B. Owens
President, Chief Executive Officer
Level 3 Communications, Inc.

R. Douglas Bradbury
Executive Vice President &
Chief Financial Officer
Level 3 Communications, Inc.

Robert B. Daugherty
Former Chairman of the Board,
Chief Executive Officer
Valmont Industries, Inc.

William L. Gannett
Vice Chairman
Peter Kiewit Sons', Inc.

Charles M. Hargreaves
Former Chairman of the Board,
Chief Executive Officer
RJR Nabisco Holdings Corp.

Richard B. Lewis
Former President
Kiewit Diversified Group, Inc.

Robert E. Judson
Chairman of the Board
PDS Information Services, Inc.

Douglas C. McCourt
Chairman, Chief Executive Officer
Commonwealth Telephone Enterprises, Inc.
Cable Michigan, Inc. and RCN

Kenneth E. Stinson
Chairman of the Board,
Chief Executive Officer
Peter Kiewit Sons', Inc.

Michael B. Young
Chairman of the Board, President and
Chief Executive Officer
America First Companies LLC.

EXECUTIVE OFFICERS AND OTHER MANAGEMENT

James G. Crowe
*President,
Chief Executive Officer*

R. Douglas Bradbury
*Executive Vice President,
Chief Financial Officer*

Kevin J. O'Wine
*Executive Vice President,
Chief Operating Officer*

Rand Pupo
*President,
Chief Executive Officer
PKS Information Services, Inc.*

Daniel Caruso
*Senior Vice President
Network Services*

Torrance J. Ferguson
*Senior Vice President,
General Counsel*

Michael Frank
*Senior Vice President
Human Resources*

Mark L. Gershon
*Senior Vice President
Sales and Marketing*

Joseph M. Howell, III
*Senior Vice President
Corporate Marketing*

Michael Jones
*Senior Vice President,
Chief Information Officer*

Ronald J. Vidal
*Senior Vice President
New Ventures*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended
December 27, 1997

Commission File
Number 0-15658

PETER KIEWIT SONS', INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-0210602
(I.R.S. Employer)
Identification No.)

1000 Kiewit Plaza, Omaha, Nebraska
(Address of principal executive offices)

68131
(Zip Code)

(402) 342-2052
(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:

Class C Common Stock, par value \$.0625
Class D Common Stock, par value \$.0625

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. ☒

The registrant's Class C stock is not publicly traded, and therefore there is no ascertainable aggregate market value of voting stock held by nonaffiliates. The registrant's Class D stock has been trading on the Nasdaq OTC Bulletin Board. The aggregate market value of the Class D stock held by nonaffiliates as of March 14, 1998 was \$7.3 billion.

As of March 15, 1998, the number of outstanding shares of each class of the Company's common stock was:

Class C 7,681,020
Class D 146,943,752

Portions of the Company's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

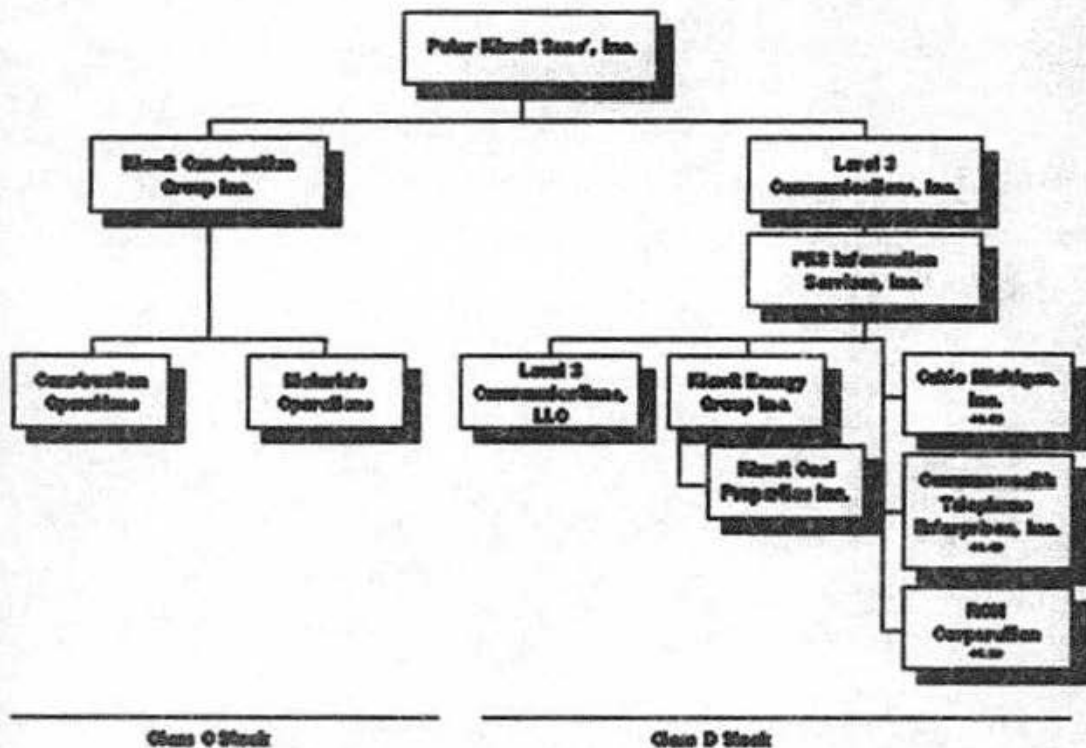
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PART I

ITEM 1. BUSINESS

Peter Kiewit Sons', Inc. ("PKS" or the "Company") is one of the largest construction contractors in North America and also owns information services, telecommunications and coal mining businesses. The Company pursues these activities through two subsidiaries, Kiewit Construction Group Inc. ("KCG") and Level 3 Communications, Inc., formerly known as Kiewit Diversified Group Inc. ("Level 3"). The organizational structure is shown by the following chart.



The Company has two principal classes of common stock, Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class C stock") and Class D Diversified Group Convertible Exchangeable Common Stock par value \$.0625 per share (the "Class D stock"). The value of Class C stock is linked to the Company's construction and materials operations (the "Construction Group"). The value of Class D stock is linked to the operations of Level 3 (the "Diversified Group"), under the terms of the Company's charter (see Item 5

below). All Class C shares and historically most Class D shares have been owned by current and former employees of the Company and their family members. The Company was incorporated in Delaware in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. The Company entered the coal mining business in 1943 and the telecommunications business in 1988. In 1995, the Company distributed to its Class D stockholders all of its shares of MFS Communications Company, Inc. ("MFS") (which was later acquired by WorldCom, Inc.). Through subsidiaries, the Company owns 48.5% of the common stock of Cable Michigan, Inc., 48.4% of Commonwealth Telephone Enterprises, Inc., formerly known as C-TEC Corporation ("C-TEC") and 46.1% of RCN Corporation (collectively, the "C-TEC Companies"), the three companies that resulted from the restructuring of C-TEC, which was completed in September 1997. RCN Corporation, Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc. are publicly traded companies and more detailed information about each of them is contained in their separate Annual Reports on Form 10K. Prior to January 2, 1998, the Company was also engaged in the alternative energy business through its ownership of 24% of the voting stock of CalEnergy Company, Inc. ("CalEnergy") and certain international development projects in conjunction with CalEnergy.

On December 8, 1997, the Company's stockholders ratified the decision of the Company's Board of Directors (the "PKS Board") to separate the business conducted by the Construction Group and the business conducted by the Diversified Group (collectively, the "Business Groups") into two independent companies. In connection with the consummation of this transaction, the PKS Board declared a dividend of eight-tenths of one share of the Company's newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock") with respect to each outstanding share of Class C stock. The Class R stock is convertible in shares of Class D stock pursuant to a defined formula. In addition, the Company has announced that effective March 31, 1998, the Company, through a resolution of the PKS Board, shall cause each outstanding share of Class C stock to be mandatorily exchanged (the "Share Exchange") pursuant to provisions of the PKS Restated Certificate of Incorporation (the "PKS Certificate") for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. ("PKS Holdings"), a recently formed, direct, wholly owned subsidiary of PKS, to which the eight-tenths of one share of Class R Stock would attach (collectively, the "Transaction"). In connection with the consummation of the Transaction, the Company will change its name to Level 3 Communications, Inc. and PKS Holdings, Inc. will change its name to Peter Kiewit Sons', Inc. The Company has announced that the PKS Board has approved in principle a plan to force conversion of all 6,538,231 shares of Class R Stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made at that time. The decision may be made not to force conversion if it were decided that conversion is not in the best interest of the then stockholders of the Company.

The Transaction is intended to separate the Business Groups into two independent companies. The PKS Board believes that separation of the Business Groups will (i) permit Level 3 to attract and retain the senior management and employees needed to implement and develop Level 3's expansion plan (which is discussed below), (ii) enable Level 3 to access the capital markets in order to fund its expansion plan on more advantageous terms than would be available to Level 3 as part of the Company, (iii) enable Level 3 to pursue strategic investments and acquisitions, as part of the expansion plan, which could be foreclosed to Level 3 as part of the Company and (iv) allow the directors and management of each Business Group to focus their attention and financial resources on that Business Group's business. Except for the anticipated effect of the Transaction on the management of the construction business, the PKS Board does not believe that the Transaction will have any other significant effect on the construction business.

For purposes of this filing, the Company has filed as exhibits to this Form 10-K, Financial Statements and Other Information for each of the Construction Group (Exhibit 99.A) and the Diversified Group or Level 3 (Exhibit 99.B). These exhibits generally follow the format of Form 10-K and consist of separate financial statements for each Group and excerpts of other information from this Form 10-K pertaining to each Business Group.

For 1997 results, the Company reports financial information for four business segments: construction; information services; telecommunications; and coal mining. Additional financial information about these segments, including revenue, operating earnings, equity earnings, identifiable assets, capital expenditures, and depreciation, depletion and amortization, as well as foreign operations information, is contained in Note 13 to the Company's consolidated financial statements.

KIEWIT CONSTRUCTION GROUP

CONSTRUCTION OPERATIONS

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc. (collectively, "KCG"). KCG and its joint ventures perform construction services for a broad range of public and private customers primarily in the United States and Canada. New contract awards during 1997 were distributed among the following construction markets: transportation (including highways, bridges, airports, railroads, and mass transit) — 62%, power, heat, cooling — 18%, commercial buildings — 8%, water supply — 2%, mining — 2%, sewage and waste disposal — 1% and other markets — 7%.

KCG primarily performs its services as a general contractor. As a general contractor, KCG is responsible for the overall direction and management of construction projects and for completion of each contract in accordance with terms, plans, and specifications. KCG plans and schedules the projects, procures materials, hires workers as needed, and awards subcontracts. KCG generally requires performance and payment bonds or other assurances of operational capability and financial capacity from its subcontractors.

Contract Types. KCG performs its construction work under various types of contracts, including fixed unit or lump-sum price, guaranteed maximum price, and cost-reimbursable contracts. Contracts are either competitively bid and awarded or negotiated. KCG's public contracts generally provide for the payment of a fixed price for the work performed. Profit on a fixed-price contract is realized on the difference between the contract price and the actual cost of construction, and the contractor bears the risk that it may not be able to perform all the work for the specified amount. Construction contracts generally provide for progress payments as work is completed, with a retainage to be paid when performance is substantially complete. Construction contracts frequently contain penalties or liquidated damages for late completion and infrequently provide bonuses for early completion.

Government Contracts. Public contracts accounted for 74% of the combined prices of contracts awarded to KCG during 1997. Most of these contracts were awarded by government and quasigovernment units under fixed price contracts after competitive bidding. Most public contracts are subject to termination at the election of the government. In the event of termination, the contractor is entitled to receive the contract price on completed work and payment of termination related costs.

Backlog. At the end of 1997, KCG had backlog (anticipated revenue from uncompleted contracts) of \$3.9 billion, an increase from \$2.3 billion at the end of 1996. Of current backlog, approximately \$1.0 billion is not expected to be completed during 1998. In 1997 KCG was low bidder on 226 jobs with total contract prices of \$3.5 billion, an average price of \$15.3 million per job. There were 19 new projects with contract prices over \$25 million, accounting for 76% of the successful bid volume.

Competition. A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, timeliness, experience, and financial strength. The construction industry is highly competitive and lacks firms with dominant market power. In 1997 Engineering News Record, a construction trade publication, ranked KCG as the 9th largest U.S. contractor in terms of 1996 revenue and 12th largest in terms of 1996 new contract awards. It ranked KCG 1st in the transportation market in terms of 1996 revenue.

Joint Ventures. KCG frequently enters into joint ventures to efficiently allocate expertise and resources among the venturers and to spread risks associated with particular projects. In most joint

ventures, if one venture is financially unable to bear its share of expenses, the other ventures may be required to pay those costs. KCG prefers to act as the sponsor of its joint ventures. The sponsor generally provides the project manager, the majority of venture-provided personnel, and accounting and other administrative support services. The joint venture generally reimburses the sponsor for such personnel and services on a negotiated basis. The sponsor is generally allocated a majority of the venture's profits and losses and usually has a controlling vote in joint venture decision making. In 1997 KCG derived 70% of its joint venture revenue from sponsored joint ventures and 30% from non-sponsored joint ventures. KCG's share of joint venture revenue accounted for 28% of its 1997 total revenue.

Demand. The volume and profitability of KCG's construction work depends to a significant extent upon the general state of the economies of the United States and Canada, and the volume of work available to contractors. Fluctuating demand and cycles are typical of the industry, and such cycles determine to a large extent the degree of competition for available projects. KCG's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or governmental action. The volume of available government work is affected by budgetary and political considerations. A significant decrease in the amount of new government contracts, for whatever reasons, would have a material adverse effect on KCG.

Locations. KCG structures its construction operations around 20 principal operating offices located throughout the U.S. and Canada, with headquarters in Omaha, Nebraska. Through its decentralized system of management, KCG has been able to quickly respond to changes in the local markets. At the end of 1997, KCG had current projects in 33 states and 6 Canadian provinces. KCG also participates in the construction of geothermal power plants in the Philippines and Indonesia.

Properties. KCG has 20 district offices, of which 16 are in owned facilities and 4 are leased. KCG owns or leases numerous shops, equipment yards, storage facilities, warehouses, and construction material quarries. Since construction projects are inherently temporary and location-specific, KCG owns approximately 950 portable offices, shops, and transport trailers. KCG has a large equipment fleet, including approximately 4,500 trucks, pickups, and automobiles, and 2,000 heavy construction vehicles, such as graders, scrapers, backhoes, and cranes.

MATERIALS OPERATIONS

Several KCG subsidiaries, primarily in Arizona and Oregon, produce construction materials, including ready-mix concrete, asphalt, sand and gravel. KCG also has quarrying operations in New Mexico and Wyoming, which produce landscaping materials and railroad ballast. Kiewit Mining Group Inc. ("KMG"), a subsidiary of KCG, provides mine management services to Kiewit Coal Properties Inc., a subsidiary of PKS. KMG also owns a 48% interest in an underground coal mine near Pelham, Alabama.

LEVEL 3 COMMUNICATIONS, INC.

Level 3 engages in the information services, telecommunications, coal mining and energy businesses, through ownership of operating subsidiaries, joint venture investments and ownership of substantial positions in public companies. Level 3 also holds smaller positions in a number of development stage or startup ventures.

INFORMATION SERVICES

PKS Information Services, Inc. ("PKSIS") is a full service information technology company that provides computer operations outsourcing and systems integration services to customers located throughout the United States as well as abroad. Utilizing all computing environments from mainframes to client/server platforms, PKSIS offers custom-tailored computer outsourcing services. PKSIS also provides network and systems integration and network management services for various computer platforms. In addition, PKSIS develops, implements and supports applications software. Through its

subsidiary NET Twenty-One, Inc., PKSIS' strategy is to focus on assisting its customers in "Web-enabling" legacy software applications, that is, migrating computer applications from closed computing and networking environments to network platforms using Transmission Control Protocol/Internet Protocol ("TCP/IP") technology that are then accessed using Web browsers.

The computer outsourcing services offered by PKSIS through its subsidiary PKS Computer Services, Inc. include networking and computing services necessary both for older mainframe-based systems and newer client/server-based systems. PKSIS provides its outsourcing services to clients that desire to focus their resources on core businesses, rather than expending capital and incurring overhead costs to operate their own computing environment. PKSIS 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 customer itself, while at the same time reducing the customer's cost for such services. This service is particularly useful for those customers moving from older computing platforms to more modern client/server networks.

PKSIS' systems integration services help customers define, develop and implement cost-effective information services. In addition, through PKS Systems Integration, Inc., PKSIS offers reengineering service, 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 Hypertext Markup Language (HTML)-based browsers ("Web browsers") over the Internet or over private or limited access TCP/IP networks.

PKSIS, through its Suite 2000-SM line of services, provides customers with a multi-phased service for converting programs and application so that date-related information is accurately processed and stored before and after the year 2000. Through the process of converting a customer's legacy software for year 2000 compliance, PKSIS is able to provide additional insight and advice to further stream-line and improve the customer's information systems.

PKSIS has established a software engineering facility at the National Technology Park in Limerick, Ireland, to undertake: large scale development projects; system conversions; and code restructuring and software re-engineering. PKSIS has also established relationships with domestic and international partners to provide such activities as well as establishing recently a joint venture in India.

PKSIS' subsidiary, LexiBridge Corporation of Shelton, Connecticut, provides customers with a combination of workbench tools and methodology that provide a complete strategy for converting mainframe-based application systems to client/server architecture, while at the same time ensuring year 2000 compliance.

In 1997, 93% of PKSIS' revenue was from external customers and the remainder was from affiliates.

Level 3 recently has determined to increase substantially the emphasis it places on and the resources devoted to its information services business, with a view to becoming a facilities-based provider (that is, a provider of information services that owns or leases a substantial portion of the plant, property and equipment necessary to provide those services) of a broad range of integrated information services to business (the "Expansion Plan"). Pursuant to the Expansion Plan, Level 3 intends to expand substantially its current information services business, through both the expansion of the business of PKSIS and the creation, through a combination of construction, purchase and leasing of facilities and other assets, of a substantial, facilities-based communications network that utilizes Internet Protocol or IP technology.

In order to grow and expand substantially the information services it provides, Level 3 has developed a comprehensive plan to construct, purchase and lease local and backbone facilities necessary to provide a wide range of communications services over a network that uses Internet Protocol based technology. These services include:

- A number of business-oriented communications services using a combination of network facilities Level 3 would construct, purchase and lease from third parties, which services may include fax services that are transmitted in part over an Internet Protocol network and are offered at a lower price than public circuit-switched telephone network-based fax service and voice message storing and forwarding that are transmitted in part over the same Internet Protocol technology based network; and

- After construction, purchase and lease of local and backbone facilities, a range of Internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security.

Level 3 believes that, over time, a substantial number of businesses will convert existing computer application systems (which run on standalone or networked computing platforms utilizing a wide variety of operating systems, applications and data repositories) to computer systems that communicate using Internet Protocol and are accessed by users employing Web browsers. Level 3 believes that such a conversion will occur for the following reasons:

- Internet Protocol has become a *de facto* networking standard supported by numerous hardware and software vendors and, as such, provides a common protocol for connecting computers utilizing a wide variety of operating systems;
- Web browsers can provide a standardized interface to data and applications and thus help to minimize costs of training personnel to access and use these resources; and
- As a packet-switched technology, in many instances, Internet Protocol utilizes network capacity more efficiently than the circuit-switched public telephone network. Consequently, certain services provided over an Internet Protocol network may be less costly than the same services provided over public switched telephone network.

Level 3 further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to Internet access with requisite quality and security levels.

Pursuant to the Expansion Plan, Level 3's strategy will be to attempt to meet this customer need by: (i) growing and expanding its existing capabilities in computer network systems, consulting, outsourcing, and software reengineering, with particular emphasis on conversion of legacy software systems to systems that are compatible with Internet Protocol networks and Web browsers access; and (ii) creating a national end-to-end Internet Protocol based network through a combination of construction, purchase and leasing of assets. Level 3 intends to optimize its international network to provide Internet based communications services to businesses at low cost and high quality, and to design its network, to the extent possible, to more readily include future technological upgrades than older, less flexible networks owned by competitors.

To implement its strategy, Level 3 has formulated a long term business plan that provides for the development of an end-to-end network optimized for the Internet Protocol. Initially, Level 3 will offer its services over facilities, both local and national, that are in part leased from third parties to allow for the offering of services during the construction of its own facilities. Over time, it is anticipated that the portion of Level 3's network that includes leased facilities will decrease and the portion of facilities that have been constructed, and are owned, by Level 3 will increase. Over the next 4 to 6 years, it is anticipated that the Level 3 network will encompass local facilities in approximately 40 North American markets, leased backbone facilities in approximately 10 additional North American markets, a national or inter-city network covering approximately 15,000 miles, the establishment of local facilities in approximately 10 European and 4 Asian markets and an inter-city network covering approximately 2,000 miles across Europe. Level 3 intends to design and construct its inter-city network using multiple conduits. Level 3 believes that the spare conduits will allow it to deploy future technological innovations and expand capacity without incurring significant overbuild costs. The foregoing description of the Level 3 network and the Expansion

Plan constitutes a forward-looking statement. The actual configuration of the network, including the number of markets served and the expanse of the inter-city networks will depend on a variety of factors including Level 3's ability to: access markets; design fiber optic network backbone routes; attract and retain qualified personnel; design, develop and deploy enterprise support systems that will allow Level 3 to build and operate a packet switched network that interconnects with the public switched network; install fiber optic cable and facilities; obtain rights-of-way, building access rights, unbundled loops and required government authorizations, franchises and permits; and to negotiate interconnection and peering agreements.

The operations to be conducted as a result of the Expansion Plan will be subject to extensive federal and state regulation. Federal laws and Federal Communications Commission regulations apply to interstate telecommunications while state regulatory authorities exercise jurisdiction over telecommunications both originating and terminating within a state. Generally, implementation of the Expansion Plan will require obtaining and maintaining certificates of authority from regulatory bodies in most states where services are to be offered.

With respect to the Expansion Plan, Level 3 is devoting substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, the management of Level 3 has been conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services businesses as a result of the Expansion Plan. For example, the management of Level 3 negotiated the sale of its energy interests (see "CalEnergy" below) because it believed that the ongoing ownership by Level 3 of an interest in an energy business was not compatible with its focus on the information services business, and because sale of those assets provided a substantial portion of the money necessary to fund the early stages of the Expansion Plan.

In addition, the Construction Group and Level 3 are currently discussing a restructuring of the current mine management arrangement between the two Business Groups. Level 3 also is reviewing its involvement in a number of start-up and development stage businesses and recently completed the sale of its interest in United Infrastructure Company ("UIC"). Level 3 is also currently discussing with the Construction Group the sale of Kiewit Investment Management Corp. to the Construction Group. Level 3 has no current intention, however, to sell, dispose or otherwise alter its ownership interest in the C-TEC Companies.

C-TEC COMPANIES

On September 30, 1997, C-TEC completed a tax-free restructuring, which divided C-TEC into three public companies: C-TEC, which changed its name to Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan").

Businesses of the C-TEC Companies. Commonwealth Telephone owns the following businesses: Commonwealth Telephone Company (the rural local exchange carrier business); Commonwealth Communications (the communications engineering business); the Pennsylvania competitive local exchange carrier business; and long distance operations in certain areas of Pennsylvania. RCN owns the following businesses: its competitive telecommunications services operations in New York City and Boston; its cable television operations in New York, New Jersey and Pennsylvania; its 40% interest in Megacable S.A. de C.V., Mexico's second largest cable operator; and its long distance operations (other than the operations in certain areas of Pennsylvania). Cable Michigan owns and operates cable television systems in the State of Michigan and owns a 62% interest in Mercom, Inc., a publicly held Michigan cable television operator.

Ownership of the C-TEC Companies. In connection with the restructuring and as a result of the conversion of certain shares of C-TEC held by Level 3, Level 3 now holds 13,320,485 shares of RCN common stock, 3,330,119 shares of Cable Michigan common stock, and 8,880,322 shares of Commonwealth Telephone common stock. Such ownership represents 48.5% of the outstanding

common stock of Cable Michigan, 48.4% of the outstanding common stock of Commonwealth Telephone and 46.1% of the outstanding common stock of RCN.

Each of the shares of RCN common stock, Cable Michigan common stock and Commonwealth Telephone Common Stock is traded on the National Association of Securities Dealers, Inc.'s National Market (the "Nasdaq National Market").

In its filings with the Securities and Exchange Commission, the board of directors of C-TEC concluded that the distributions were in the best interests of the shareholders because the distributions will, among other things, (i) permit C-TEC to raise financing to fund the development of the RCN business on more advantageous economic terms than the other alternatives available, (ii) facilitate possible future acquisitions and joint venture investments by RCN and Cable Michigan and possible future offerings by RCN, (iii) allow the management of each company to focus attention and financial resources on its respective business and permit each company to offer employees incentives that are more directly linked to the performance of its respective business, (iv) facilitate the ability of each company to grow in both size and profitability, and (v) permit investors and the financial markets to better understand and evaluate C-TEC's various businesses.

Accounting Method. Since the ownership by Level 3 of the equity and voting rights of each of RCN, Cable Michigan and Commonwealth Telephone at the end of 1997 was less than 50%, under generally accepted accounting principles, Level 3 uses the equity method to account for its investments in each of these companies. Under the equity method, Level 3 reports its proportionate share of each of Commonwealth Telephone's, RCN's and Cable Michigan's earnings, even though it has received no dividends from those companies. Level 3 keeps track of the carrying value of its investment in each of the C-TEC Companies. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. Level 3 purchased its C-TEC Companies shares at a premium over the book value of the underlying net assets. This premium is being amortized over a period of between 30 to 40 years. At December 27, 1997 the carrying value of Level 3's Commonwealth Telephone shares was \$75 million, RCN shares was \$214 million and Cable Michigan shares was \$46 million.

Description of the C-TEC Companies. RCN is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected markets in the Boston to Washington, D.C. corridor. Cable Michigan is a cable television operator in the State of Michigan which, as of December 31, 1997, served approximately 204,000 subscribers. These figures include the approximately 42,000 subscribers served by Mercom, a 62% owned subsidiary of Cable Michigan. Clustered primarily around the Michigan communities of Grand Rapids, Traverse City, Lapeer and Monroe (Mercom), Cable Michigan's systems serve a total of approximately 400 municipalities in suburban markets and small towns. Commonwealth Telephone Company is a Pennsylvania public utility providing local telephone service to a 19 county, 5,067 square mile service territory in Pennsylvania. The telephone company services approximately 259,000 main access lines. The company also provides network access, long distance, and billing and collection services to interexchange carriers. The telephone company's business customer base is diverse in size as well as industry, with very little concentration. 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. Commonwealth Communications Inc. provides telecommunications engineering and facilities management services to large corporate clients, hospitals and universities throughout the Northeastern United States and sells, installs and maintains PBX systems in Pennsylvania and New Jersey. In January 1995, C-TEC purchased a 40% equity position in Megacable, Mexico's second largest cable television operator, serving approximately 174,000 subscribers in 12 cities.

For more information on the business of each of RCN, Cable Michigan and Commonwealth Telephone, please see the individual filings of Annual Reports on Form 10-K for each of such companies as filed with the Securities and Exchange Commission.

COAL MINING

Level 3 is engaged in coal mining through its subsidiary, Kiewit Coal Properties Inc. ("KCP"). KCP has a 50% interest in three mines, which are operated by KCP 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 Union Pacific Resources Group Inc. Walnut Creek Mining Company ("Walnut Creek") is a general partnership with Phillips Coal Company, a subsidiary of Phillips Petroleum Company. The Decker mine is located in southeastern Montana, the Black Butte mine is in southwestern Wyoming, and the Walnut Creek mine is in east-central Texas.

Production and Distribution. The coal mines use the surface mining method. During surface mining operations, topsoil is removed and stored for later use in land reclamation. After removal of topsoil, overburden in varying thicknesses is stripped from above coal seams. Stripping operations are usually conducted by means of large, earth-moving machines called draglines, or by fleets of trucks, scrapers and power shovels. The exposed coal is fractured by blasting and is loaded into haul trucks or onto overland conveyors for transportation to processing and loading facilities. Coal delivered by rail from Decker originates on the Burlington Northern Railroad. Coal delivered by rail from Black Butte originates on the Union Pacific Railroad. Coal is also hauled by trucks from Black Butte to the nearby Jim Bridger Power Plant. Coal is delivered by trucks from Walnut Creek to the adjacent facilities of the Texas-New Mexico Power Company.

Customers. 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 89% of sales are made under longterm contracts, and the remainder are made on the spot market. Approximately 79%, 80% and 80% of KCP's revenues in 1997, 1996 and 1995, respectively, were derived from longterm contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). The primary customer of Walnut Creek is the Texas-New Mexico Power Company.

Contracts. Customers enter into longterm contracts for coal primarily to secure a reliable source of supply at a predictable price. KCP's major longterm contracts have remaining terms ranging from 1 to 30 years. A majority of KCP's longterm contracts provide for periodic price adjustments. The price is typically adjusted through the use of various 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. In most cases, these cost items are directly passed through to the customer as incurred. In most cases the price is also adjusted based on the heating content of the coal.

Decker has a sales contract with Detroit Edison Company that provides for the delivery of a minimum of 36 million tons of low sulphur coal during the period 1998 through 2005, with annual shipments ranging from 5.2 million tons in 1998 to 1.7 million tons in 2005.

KCP and its mining ventures have entered into various agreements with Commonwealth Edison Company ("Commonwealth"), which stipulate delivery and payment terms for the sale of coal. The agreements as amended provide for delivery of 88 million tons during the period 1998 through 2014, with annual shipments ranging from 1.8 million tons to 13.1 million tons. These deliveries include 15 million tons of coal reserves previously sold to Commonwealth. Since 1993, the amended contract between Commonwealth and Black Butte provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte mine, but with coal purchased from three unaffiliated mines in the Powder River Basin of Wyoming. The contract amendment allows Black Butte to purchase alternate source coal at a price below its production costs, and to pass the cost savings through to Commonwealth while maintaining the profit margins available under the original contract.

The contract between Walnut Creek and Texas-New Mexico Power Company provides for delivery of between 42 and 90 million tons of coal during the period 1989 through 2027. The actual tons

provided will depend on the number of power units constructed and operated by TNP. The maximum amount KCP is expecting to ship in any one year is between 1.6 and 3.2 million tons.

KCP also has other sales commitments, including those with Sierra Pacific, Idaho Power, Solvay Minerals, Pacific Power & Light, Minnesota Power, and Mississippi Power, that provide for the delivery of approximately 13 million tons through 2005.

Coal Production. Coal production began at the Decker, Black Butte, and Walnut Creek mines in 1972, 1979, and 1983, respectively. KCP's share of coal mined in 1997 at the Decker, Black Butte, and Walnut Creek mines was 5.9, 1.0, and .9 million tons, respectively.

Revenue. KCP's total revenue in 1997 was \$222 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities was \$114 million, \$89 million, and \$17 million, respectively.

Under a 1992 mine management agreement, KCP pays a KCG subsidiary an annual fee equal to 30% of KCP's adjusted operating income. The fee in 1997 was \$32 million.

Backlog. At the end of 1997, the backlog of coal to be sold under KCP's longterm contracts was approximately \$1.4 billion, based on December 1997 market prices. Of this amount, \$213 million is expected to be sold in 1998.

Reserves. At the end of 1997, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 111.39, and 31 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 46, 2, and 23 million tons, respectively. Assigned reserves represent coal that can be mined using KCP's current mining practices. Committed reserves (excluding alternate source coal) represent KCP's maximum contractual amounts. These coal reserve estimates represent total proved and probable reserves.

Leases. The coal reserves and deposits of the mines are held pursuant to leases with the federal government through the Bureau of Land Management, with two state governments (Montana and Wyoming), and with numerous private parties.

Competition. 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 1996, KCP's production represented 1.5% 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 sulphur coal. KCP's western coal reserves generally have a low sulphur 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 shipping 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 longterm 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, KCP does not expect that it will be able to enter into longterm coal purchase contracts for Black Butte and Decker production

as the current longterm contracts expire. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

Environmental Regulation. 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 in 1997 was \$3.6 million. KCP's share of accrued estimated reclamation costs was \$100 million at the end of 1997. The Company does not expect to make significant capital expenditures for environmental compliance in 1998. 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.

CALENERGY COMPANY, INC.

CalEnergy develops, owns, and operates electric power production facilities, particularly those using geothermal resources, in the United States, the Philippines, and Indonesia. In December 1996, CalEnergy and Level 3 acquired Northern Electric plc, an English electric utility company. CalEnergy is a Delaware corporation formed in 1971 and has its headquarters in Omaha, Nebraska. CalEnergy common stock is traded on the New York, Pacific, and London Stock Exchanges. In 1997, CalEnergy had revenue of \$2.3 billion and a net loss of \$84 million. At the end of 1997, CalEnergy had total assets of \$7.5 billion, debt of \$3.5 billion, and stockholders' equity of \$1.4 billion.

At the end of 1997, Level 3 owned approximately 24% of the common stock of CalEnergy. Under generally accepted accounting principles, an investor owning between 20% and 50% of a company's equity, generally uses the equity method. Under the equity method, Level 3 reports its proportionate share of CalEnergy's earnings, even though it has received no dividends from CalEnergy. Level 3 keeps track of the carrying value of its CalEnergy investment. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investor's earnings, less the amortized portion of goodwill, less any dividends paid. At December 27, 1997 the carrying value of Level 3's CalEnergy shares was \$337 million. On January 2, 1998, Level 3 sold its entire interest in CalEnergy along with its interests in several development projects and Northern Electric plc. to CalEnergy for approximately \$1.16 billion.

OTHER BUSINESSES

SR91 Tollroad. Level 3 has invested \$12 million for a 65% equity interest and \$4.3 million loan to California Private Transportation Company, L.P. which developed, financed, and currently operates the 91 Express Lanes, a ten mile, four lane tollroad in Orange County, California. The fully automated highway uses an electronic toll collection system and variable pricing to adjust tolls to demand. Capital costs at completion were \$130 million, \$110 million of which was funded with limited recourse debt. Revenue collected over the 35-year franchise period is used for operating expenses, debt repayment, and profit distributions. The tollroad opened in December 1995 and achieved operating break-even in 1996. Approximately 100,000 customers have registered to use the tollroad and weekday volumes typically exceed 29,000 vehicles per day.

United Infrastructure Company. UIC was an equal partnership between Kerwin Infrastructure Corp., a wholly owned subsidiary of Level 3, and Bechtel Infrastructure Enterprises, Inc. ("Bechtel"). UIC was formed in 1993 to develop North American infrastructure projects. During 1996, UIC began to focus primarily on water infrastructure projects, principally through U.S. Water, a partnership formed with United Utilities PLC, a U.K. company. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, on December 31, 1997 Level 3 sold its entire interest in UIC to Bechtel for \$10 million.

Keewee Mutual Fund. Keewee Mutual Fund, a Delaware business trust and a registered investment company, was formed in 1994. Initially formed to manage the Company's internal investments, shares in Keewee Mutual Fund are now available for purchase by the general public. The Fund's investors currently include individuals and unrelated companies, as well as Company affiliated joint ventures, pension plans,

and subsidiaries. Kiewit Mutual Fund has six series: Money Market Portfolio, Government Money Market Portfolio, Short-Term Government Portfolio, Intermediate-Term Bond Portfolio, Tax-Exempt Portfolio, and the Equity Portfolio. In February 1997, the Fund adopted a master-feeder structure. Each of the Portfolios invests in a corresponding series of the Kiewit Investment Trust, which now manages the underlying securities holdings. The structure will allow smaller mutual funds and institutional investors to pool their assets with Kiewit Investment Trust, providing lower expense ratios for all participants. The registered investment adviser of Kiewit Investment Trust is Kiewit Investment Management Corp., a subsidiary of Level 3 (60%) and KCG (40%). At the end of 1997, Kiewit Mutual Fund had net assets of \$1.3 billion. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, it is anticipated that Level 3 will sell its interest in Kiewit Investment Management Corp. to the Construction Group.

Other. In February 1997, Level 3 purchased an office building in Aurora, Colorado for \$22 million. By investing in real estate, Level 3 defers taxes on \$40 million of taxable gain otherwise recognizable with respect to the Whitney Benefits litigation settlement in 1995. Level 3 may make additional real estate investments in 1998 with a view toward deferring the balance of that taxable gain. Level 3 has also made investments in several development-stage companies, but does not expect earnings from these companies in 1998.

GENERAL INFORMATION

Year 2000. The Company. The Company has conducted a review of its computer systems to identify those systems that could be affected by the "Year 2000" computer issue, and has developed and is implementing a plan to resolve the issue. The Year 2000 issue results from computer programs written with date fields of two digits, rather than four digits, thus resulting in the inability of the computer programs to distinguish between the year 1900 and 2000.

The Company expects that its Year 2000 compliance project will be completed before the Year 2000 date change. During the execution of this project, the Company has and will continue to incur internal staff costs as well as consulting and other expenses. These costs will be expensed, as incurred, in compliance with GAAP. The expenses associated with this project, as well as the related potential effect on the Company's earnings is not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

PKSIS. PKS Computer Services, Inc., the computer outsourcing subsidiary of PKSIS, has developed a comprehensive approach to address the potential operational risks associated with the Year 2000, and began to implement remediation plans in 1997. As part of its plans PKS Computer Services is: working with its key suppliers to verify their operational viability through the Year 2000; reviewing building infrastructure components that may be affected by the Year 2000 issue, which components include fire alarms systems, security systems, and automated building controls; identifying hardware inventories that are affected by date logic that is not Year 2000 compliant, which hardware includes mainframe computers, mid-range computers, micro-computers, and network hardware. To the extent that vendors identify items that are not Year 2000 compliant, PKS Computer Services will work with the hardware vendor to develop a plan that will enable continuous operations through the Year 2000.

PKS Computer Services is responsible for providing an operating environment in which its customers applications are run. As a result, PKS Computer Services will confirm the system software inventories that it is responsible for managing. PKS Computer Services will then develop a plan with each of its customers that indicate that they intend to be customers in the year 2000 to provide for Year 2000 compliance.

PKS Computer Services believes that many of the required changes for hardware and operating environments will be included in the costs that are incurred for annual maintenance.

PKS Systems Integration LLC provides a wide variety of information technology services to its customers. In fiscal year 1997 approximately 80% of the revenue generated by PKSIS related to projects involving Year 2000 assessment and renovation services performed by PKS Systems Integration for its customers. These contracts generally require PKS Systems Integration to identify date affected fields in certain application software of its customers and, in many cases, PKS Systems Integration undertakes efforts to remediate those date-affected fields so that the applicable applications are able to process date-related information occurring on or before the Year 2000. Thus, Year 2000 issues affect many of the services PKS Systems Integration provides to its customers. This exposes PKS Systems Integration to potential risks that may include problems with services provided by PKS Systems Integration to its customers and the potential for claims arising under PKS Systems Integration customer contracts. PKS Systems Integration attempts to contractually limit its exposure to liability for Year 2000 compliance issues. However, there can be no assurance as to the effectiveness of such contractual limitations.

The expenses associated with this project by PKSIS, as well as the related potential effect on PKSIS's earnings is not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem, and any loss incurred by any customers of PKSIS as a result of the Year 2000 problem will not materially and adversely affect PKSIS and its business.

Environmental Protection. Compliance with federal, state, and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not and is not expected to have a material effect upon the capital expenditures, earnings, or competitive position of the Company and its subsidiaries.

Employees. At the end of 1997, the Company and its majority-owned subsidiaries employed approximately 17,700 people - 16,200 in construction and materials operations, 500 by coal mining companies, 800 at PKSIS, and 200 in corporate and Level 3 positions. This does not include the employees of the C-TEC Companies.

ITEM 2. PROPERTIES.

The properties used in the construction segment are described under a separate heading in Item 1 above. Properties relating to the Company's coal mining segment are described as part of the general business description of the coal mining business. Level 3 has announced that it has acquired 46 acres in the Northwest corner of the Interlocken office park and will build a campus facility that is expected to eventually encompass over 500,000 square feet of office space. Interlocken is located within the City of Broomfield, Colorado, and within Boulder County, Colorado. It is anticipated that the first phase of this facility will be constructed by the end of June 1999. In addition, Level 3 has leased approximately 50,000 square feet of temporary office space in Louisville, Colorado to allow for the relocation of the majority of its employees (other than those of PKSIS) while its permanent facilities are under construction. The Company considers its properties to be adequate for its present and foreseeable requirements.

ITEM 3. LEGAL PROCEEDINGS.

General. The Company and its subsidiaries are parties to many pending legal proceedings. Management believes that any resulting liabilities for 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.

At a special meeting of stockholders held on December 8, 1997, the following matters were submitted to a vote.

1. Ratification of the decision of the PKS Board to separate the construction business of PKS and the diversified business of PKS into two independent companies through the declaration

of a dividend of eight-tenths of one share of newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock"), of PKS with respect to each outstanding share of Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share ("Class C stock"), of PKS, and mandatory exchange of each outstanding share of Class C stock for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. (collectively, the "Transaction").

	Class C stock	Class D stock
Affirmative votes:.....	9,031,714	21,673,495
Negative votes:.....	30,926	185,412
Abstentions:.....	11,020	64,227

2. Approval of amendments to the PKS Certificate (the "Initial Certificate Amendments"), to: (i) create the Class R Stock to be distributed in the Transaction; (ii) increase from 50,000,000 to 500,000,000 the number of shares of Class D Diversified Group Convertible Exchangeable Common Stock, par value \$.0625 per share ("Class D stock"), which PKS is authorized to issue; (iii) designate 10 shares of Class D stock as "Class D Stock, Non-Redeemable Series"; and (iv) eliminate the requirement that the Certificate of Incorporation of PKS Holdings as in effect at the time of the Share Exchange be substantially similar to the PKS Certificate.

	Class C stock	Class D stock
Affirmative votes:.....	9,030,927	21,735,628
Negative votes:.....	28,676	147,676
Abstentions:.....	14,057	39,830

3. Approval of amendments to the PKS Certificate to be effected only if the Transaction is consummated, to: (i) redesignate Class D stock as "Common Stock, par value \$.01 per share", and Class D Stock, Non-Redeemable Series as "Common Stock, Non-Redeemable Series"; (ii) authorize the issuance of series of preferred stock, the terms of which are to be determined by the board of directors; (iii) modify the repurchase rights to which the holders of Class D stock are entitled; (iv) delete the provisions regarding Class C stock; (v) classify the board of directors; (vi) prohibit stockholder action by written consent; (vii) empower the board of directors, exclusively, to call special meetings of the stockholders; (viii) require a supermajority vote of stockholders to amend the by-laws; and (ix) make certain other non-substantive changes consistent with the implementation of the foregoing.

	Class C stock	Class D stock
Affirmative votes:.....	9,011,554	21,472,115
Negative votes:.....	30,696	381,726
Abstentions:.....	31,410	69,293

4. Approval of the amendment and restatement of the Peter Kiewit Sons', Inc. 1995 Class D stock Plan.

	Class C stock	Class D stock
Affirmative votes:.....	8,958,084	21,268,757
Negative votes:.....	70,566	536,914
Abstentions:.....	45,010	117,463

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The table below shows information as of March 15, 1998 about each director and executive officer of the Company, including his business experience during the past five years. The Company's directors and officers are elected annually and each was elected on June 7, 1997 to serve until his successor is elected and qualified or until his death, resignation or removal.

Name	Business Experience	Age	PKS Director Since
Walter Scott, Jr.*	Chairman of the Board and President, PKS (for more than the past five years); also a director of Berkshire Hathaway, Inc., Burlington Resources, Inc., CalEnergy, ConAgra, Inc., Commonwealth Telephone Enterprises, Inc., RCN Corporation, U.S. Bancorp and Valmont Industries, Inc.	66	09/27/79 - Chairman 04/22/64 - Director
Peter Kiewit, Jr.	Attorney, of counsel to the law firm of Gallagher & Kennedy of Phoenix, Arizona (for more than the past five years)	71	01/13/66
William L. Grewcock*	Vice Chairman, PKS (for more than the past five years)	72	01/11/68
Robert B. Daugherty	Director (and formerly Chairman of the Board and Chief Executive Officer) Valmont Industries, Inc. (for more than the past five years)	75	01/08/86
Charles M. Harper	Former Chairman of the Board and Chief Executive Officer of RJR Nabisco Holdings Corp. Currently a director (and formerly Chairman of the Board and Chief Executive Officer) of ConAgra, Inc. and also a director of E.I. DuPont de Nemours and Company, Norwest Corp. and Valmont Industries, Inc.	69	01/08/86
Kenneth E. Stinson*	Executive Vice President, PKS (for more than the past five years); Chairman (since 1993) and CEO (since 1992), KCG; also a director of ConAgra, Inc. and Valmont Industries, Inc.	55	01/07/87
Richard Geary*	Executive Vice President, KCG; President of Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	62	04/29/88
George B. Toll, Jr.*	Executive Vice President, KCG (since 1994); Vice President, Kiewit Pacific Co., a KCG construction subsidiary (1992-1994)	61	06/05/93

Name	Business Experience	Age	PKS Director Since
James Q. Crowe*	President and Chief Executive Officer, Level 3 (since August 1, 1997); Chairman of the Board, WorldCom, Inc., an international telecommunications company (January 1997-July 1997); Chairman of the Board, MFS Communications Company, Inc., an international telecommunications company (1992-1996) (MFS was a Diversified Group subsidiary until 1995); also a director of Commonwealth Telephone Enterprises, Inc., RCN Corporation, and InaCom Communications, Inc.	48	06/05/93
Richard R. Jaros	Executive Vice President (1993-1997) and Chief Financial Officer (1995-1997), PKS; President of Level 3 (1996-1997); President and COO of CalEnergy (1992-1993); also a director of CalEnergy, Commonwealth Telephone Enterprises, Inc., RCN Corporation and WorldCom, Inc.	46	06/05/93
Richard W. Colp*	Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/03/95
Bruce E. Grewcock*	Executive Vice President, KCG (since 1996); Chairman (since 1996), President (1992-1996) and Sr. Vice President (1992) of Kiewit Mining Group Inc.; also a director of Kinross Gold Corporation	44	06/04/94
Tait P. Johnson*	President, Gilbert Industrial Corporation, a KCG construction subsidiary (for more than the past five years); President (1992-1996), Gilbert Southern Corp., a KCG construction subsidiary	48	06/03/95
Allan K. Kirkwood*	Senior Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/07/97

Identified by asterisks are the ten persons currently serving as executive officers of PKS. Executive officers are those directors who are employed by PKS or its subsidiaries. Bruce E. Grewcock is the son of William L. Grewcock.

The PKS Board has an Audit Committee, a Compensation Committee and an Executive Committee.

The Audit Committee members are Messrs. Johnson, Kirkwood and Kiewit. The functions of the Audit Committee are to recommend the selection of the independent auditors; review the results of the annual audit; inquire into important internal control, accounting and financial matters; and report and make recommendations to the full PKS Board. The Audit Committee had four meetings in 1997.

The Compensation Committee members are Messrs. Daugherty, Harper, and Kiewit, none of whom are employees of PKS. This committee reviews the compensation of the executive officers of PKS. This committee has also assumed the functions of the former Management Compensation Committee, the purpose of which was to review the compensation, securities ownership, and benefits of the employees of PKS other than its executive officers. The Compensation Committee had one formal meeting in 1997.

The Executive Committee members are Messrs. Scott (Chairman), William Grewcock, Stinson, and Crowe. This committee exercises the powers of the PKS Board between meetings of the PKS Board, except powers assigned to other committees. During 1997, the Executive Committee had no formal meetings, acted by written consent action in lieu of a meeting on two occasions, and had several informal meetings.

PKS does not have a nominating committee. The PKS Certificate provides that the incumbent directors elected by holders of Class C Stock may nominate a slate of Class C directors to be elected by holders of Class C Stock and the incumbent directors elected by holders of Class D Stock may nominate a slate of directors to be elected by holders of Class D Stock, for election at the annual meeting of stockholders.

The PKS Board had six formal meetings in 1997 and acted by written consent action on six occasions. In 1997, no director attended less than 75% of the meetings of the PKS Board and the committees of which he was a member.

Directors who are employees of PKS or its subsidiaries do not receive directors' fees. Non-employee directors are paid annual directors' fees of \$30,000, plus \$1,200 for attending each meeting of the PKS Board, and \$1,200 for attending each meeting of a committee of the PKS Board.

PART II

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

Market Information. As of December 27, 1997, the Company's common stock is not listed on any national securities exchange or the Nasdaq National Market. However, the Class D stock is currently quoted on the National Association of Securities Dealers, Inc.'s OTC Bulletin Board. During the fourth quarter of 1997, the only quarter during which this trading occurred, the range of the high and low bid information for the Class D stock was \$20.41 to \$29.00. The Company has announced that the common stock of Level 3 Communications, Inc. (renamed from Peter Kiewit Sons', Inc. in connection with the Transaction) will begin trading on the Nasdaq National Market on April 1, 1998.

Company Repurchase Duty. Pursuant to the current terms of the PKS Certificate, the Company is generally required to repurchase shares at a formula price upon demand. Under the PKS Certificate effective January 1992, the Company has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock ("Class B"), Class C stock, and Class D stock. There are no outstanding Class B stock; the last Class B stock were converted into Class D stock on January 1, 1997. Class C stock can be issued only to Company employees and can be resold only to the Company at a formula price based on the yearend book value of the Construction Group. The Company is generally required to repurchase Class C stock for cash upon stockholder demand. Class D stock has a formula price based on the yearend book value of the Diversified Group. The Company must generally repurchase Class D stock for cash upon stockholder demand at the formula price, unless the Class D stock become publicly traded.

Formula values. The formula price of the Class D stock is based on the book value of Level 3 and its subsidiaries, plus one-half of the book value, on a standalone basis, of the parent company, PKS. The formula price of the Class C stock is based on the book value of the Construction Group and its subsidiaries, plus one-half of the book value of the unconsolidated parent company. A significant element

of the Class C formula price is the subtraction of the book value of property, plant, and equipment used in construction activities (\$122 million in 1997).

Conversion. Under the PKS Certificate, Class C stock is convertible into Class D stock at the end of each year. Between October 15 and December 15 of each year a Class C stockholder may elect to convert some or all of his or her shares. Conversion occurs on the following January 1. The conversion ratio is the relative formula prices of Class C and Class D stock determined as of the last Saturday in December, that is, the last day in the Company's fiscal year. Class D stock may be converted into Class C stock only as part of an annual offering of Class C stock to employees. Instead of purchasing the offered shares for cash, an employee owning Class D stock may convert such shares into Class C stock at the applicable conversion ratio.

Restrictions. Ownership of Class C stock is generally restricted to active Company employees. Upon retirement, termination of employment, or death, Class C stock must be resold to the Company at the applicable formula price, but may be converted into Class D stock if the terminating event occurs during the annual conversion period. Class D stock is not subject to ownership or transfer restrictions.

Dividends and Prices. During 1996 and 1997 the Company declared or paid the following dividends on its common stock. The table also shows the stock price after each dividend payment or other valuation event.

Dividend Declared	Dividend Paid	Dividend Per Share	Class	Price Adjusted	Stock Price
Oct. 27, 1995	Jan. 5, 1996	\$0.60	C	Dec. 30, 1995	\$32.40
Apr. 26, 1996	May 1, 1996	0.60	C	May 1, 1996	31.80
Oct. 25, 1996	Jan. 4, 1997	0.70	C	Dec. 28, 1996	40.70
Apr. 23, 1997	May 1, 1997	0.70	C	May 1, 1997	40.00
Oct. 22, 1997	Jan. 5, 1998	0.80	C	Dec. 27, 1997	51.20
Oct. 27, 1995	Jan. 5, 1996	0.50	D	Dec. 30, 1995	9.90*
Oct. 25, 1996	Jan. 4, 1997	0.50	D	Dec. 28, 1996	10.85*
			D	Dec. 27, 1997	11.65*

* All stock prices for the Class D stock reflect a dividend of four shares of Class D stock for each outstanding share of Class D stock that was effective on December 26, 1997.

The Company's current dividend policy is to pay a regular dividend on Class C stock of about 15% to 20% of the prior year's ordinary earnings of the Construction Group, with any special dividends to be based on extraordinary earnings. Although the PKS Board announced in August 1993 that the Company did not intend to pay regular dividends on Class D stock for the foreseeable future, the PKS Board declared a special dividend of \$0.50 per share of Class D stock in both October 1995 and 1996.

A dividend of 4 shares of Class D Stock for each share of Class D Stock was effected on December 26, 1997.

Stockholders. On March 15, 1998, and after giving effect to a dividend of 4 shares of Class D Stock for each outstanding share of Class D stock effected on December 26, 1997, the Company had the following numbers of stockholders and outstanding shares for each class of its common stock:

Class of Stock	Stockholders	Shares Outstanding
B	—	—
C	996	7,681,020
D	2,121	146,943,752

Recent Sales of Unregistered Securities. On April 1, 1997, the Company sold 10,000 shares of Class D stock to Charles Harper and Robert Daugherty and 8,000 shares of Class D stock to Peter Kiewit Jr. at a sale price of \$49.50 per share. Each of Messrs Harper, Daugherty and Kiewit are members of the PKS Board of Directors. The sale was effected pursuant to an exemption from registration under the Securities Act of 1933 contained in Section 4(2) of such Act.

ITEM 6. SELECTED FINANCIAL DATA

PETER KIEWIT SONS', INC. SELECTED CONSOLIDATED FINANCIAL DATA

The Selected Financial Data of Peter Kiewit Sons', Inc., the Kiewit Construction & Mining Group ("C Stock") and the Diversified Group ("D Stock") appear below and on the next two pages. The consolidated data of PKS are presented below with the exception of per common share data which is presented in the Selected Financial Data of the respective Groups.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
Results of Operations:					
Revenue (1)	\$ 332	\$ 652	\$ 580	\$ 537	\$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	248	221	244	110	261
Financial Position:					
Total assets (1)	2,779	3,066	2,945	4,048	3,236
Current portion of long-term debt (1)	3	57	40	30	11
Long term debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (3)	2,230	1,819	1,607	1,736	1,671

- (1) In October 1993, the Company acquired 35% of the outstanding shares of C-TEC Corporation that had 57% of the available voting rights. On December 28, 1996 the Company owned 48% of the outstanding shares and 62% of the voting rights.

As a result of the C-TEC restructuring, the Company owns less than 50% of the outstanding shares and voting rights of the three entities, and therefore accounted for each entity using the equity method in 1997. The Company consolidated C-TEC from 1993 through 1996.

The financial position and results of operations of Kiewit Construction & Mining Group have been classified as discontinued operations due to the pending spin-off from Peter Kiewit Sons', Inc.

In September 1995, the Company dividded its investment in MFS to Class D shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1993 and 1994 balance sheets.

In January 1994, MFS, issued \$500 million of 9.375% Senior Discount Notes.

In September 1997, Level 3 agreed to sell its energy segment to CalEnergy Company, Inc. The transaction closed on January 2, 1998.

- (2) In 1993, through two public offerings, the Company sold 29% of its subsidiary, MFS, resulting in a \$137 million aftertax gain. In 1995 and 1994, additional MFS stock transactions resulted in \$2 million and \$35 million after tax gains to the Company and reduced its ownership in MFS to 66% and 67%.
- (3) The aggregate redemption value of common stock at December 27, 1997 was \$2.1 billion.

**KIEWIT CONSTRUCTION & MINING GROUP
SELECTED FINANCIAL DATA**

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Kiewit Construction & Mining and Diversified Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
Results of Operations:					
Revenue	\$ 2,764	\$ 2,303	\$ 2,330	\$ 2,175	\$ 1,783
Net earnings	155	108	104	77	80
Per Common Share:					
Net earnings					
Basic	15.99	10.13	7.78	4.92	4.63
Diluted	15.35	9.76	7.62	4.86	4.59
Dividends (1)	1.50	1.30	1.05	0.90	0.70
Stock price (2)	51.20	40.70	32.40	25.55	22.35
Book value	64.38	51.02	42.90	31.39	27.43
Financial Position:					
Total assets	1,341	1,038	976	967	889
Current portion of longterm debt	5	-	2	3	4
Longterm debt, less current portion	22	12	9	9	10
Stockholders' equity (3)	652	562	467	505	480

- (1) The 1997, 1996, 1995, 1994 and 1993 dividends include \$.80, \$.70, \$.60, \$.45 and \$.40 for dividends declared in 1997, 1996, 1995, 1994 and 1993, respectively, but paid in January of the subsequent year.
- (2) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.
- (3) Ownership of the Class C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class C Stock at the amount computed, when put to PKS by a stockholder, pursuant to the Certificate of Incorporation. The aggregate redemption value of the Class C Stock at December 27, 1997 was \$527 million.

**DIVERSIFIED GROUP
SELECTED FINANCIAL DATA**

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Diversified Group and Kiewit Construction & Mining Group supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
Results of Operations:					
Revenue (1)	\$ 332	\$ 652	\$ 580	\$ 537	\$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	93	113	140	33	181
Per Common Share:					
Earnings from continuing operations					
Basic	.66	.90	1.17	.27	1.74
Diluted	.66	.90	1.17	.27	1.74
Net earnings					
Basic	.74	.97	1.29	.32	1.82
Diluted	.74	.97	1.29	.32	1.81
Dividends (3)	-	.10	.10	-	.10
Stock price (4)	11.65	10.85	9.90	12.05	11.88
Book value	11.65	10.85	9.90	12.07	11.90
Financial Position:					
Total assets (1)	2,127	2,504	2,478	3,543	2,756
Current portion of longterm debt (1)	3	57	40	30	11
Longterm debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (5)	1,578	1,257	1,140	1,231	1,191

- (1) In October 1993, the Group acquired 35% of the outstanding shares of CTEC Corporation that had 57% of the available voting rights. At December 28, 1996, the Group owned 48% of the outstanding shares and 62% of the voting rights.

As a result of the C-TEC restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each of the three entities, and therefore accounted for each entity using the equity method in 1997. The Company consolidated C-TEC from 1993 to 1996.

In September 1995, the Group divested its investment in MFS to Class D shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1993 and 1994 balance sheets.

In January 1994, MFS issued \$500 million of 9.375% Senior Discount Notes.

In September 1997, the Group agreed to sell its energy segment to CalEnergy Company, Inc. The transaction closed on January 2, 1998.

- (2) In 1993, through two public offerings, the Group sold 29% of MFS, resulting in a \$137 million after-tax gain. In 1995 and 1994, additional MFS stock transactions resulted in \$2 million and \$35 million after-tax gains to the Group and reduced its ownership in MFS to 66% and 67%.

- (3) The 1996, 1995 and 1993 dividends include \$.10 for dividends declared in 1996, 1995 and 1993 but paid in January of the subsequent year.
- (4) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.
- (5) Unless Class D Stock becomes publicly traded, PKS is generally committed to purchase all Class D Stock at the amount computed, in accordance with the Certificate of Incorporation, when put to PKS by a stockholder. The aggregate redemption value of the Class D Stock at December 27, 1997 was \$1,578 million.

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

This item contains information about Peter Kiewit Sons', Inc. (the "Company") as a whole. Separate reports containing management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and the Diversified Group have been filed as Exhibits 99.A and 99.B to this Form 10-K. A copy of Exhibit 99.A will be furnished without charge upon the written request of a stockholder addressed to: Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131. Exhibit 99.B can be obtained by contacting: Investor Relations, Level 3 Communications, Inc., 3555 Farnam Street, Omaha, Nebraska 68131.

The following discussion of Results of Operations should be read in conjunction with the segment information contained in Note 13 of the Consolidated Financial Statements.

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 the Company. When used in this document, the words "anticipate", "believe", "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.

Results of Operations 1997 vs. 1996

Coal Mining. Revenue from the Group's coal mines declined 5% in 1997 compared to 1996. Alternate source coal revenue declined by \$16 million in 1997. The mine's primary customer, Commonwealth Edison, accelerated its contractual commitments in 1996 for alternate source, thus reducing its obligations in 1997. In addition to the decline in tonnage shipped, the price of coal sold to Commonwealth declined 1%. Revenue attributable to other contracts increased by approximately \$4 million. The actual amount of coal shipped to these customers increased 5% in 1997, but the price at which it was sold was 4% lower than 1996.

Margin, as a percentage of revenue, declined 11% from 1996 to 1997. Margins in 1996 were higher than normal due to the additional high margin alternate source coal sold to Commonwealth in 1996 and the refund of premiums from a captive insurance company that insured against black lung disease. The decline in Commonwealth shipments and an overall decline in average selling price, adversely affected the results for 1997. If current market conditions continue, the Group expects a decline in coal revenue and earnings after 1998 as certain long-term contracts begin to expire.

Information Services. Revenue increased by 124% to \$94 million in 1997 from \$42 million in 1996. Revenue from computer outsourcing services increased 20% to \$49 million in 1997 from \$41 million in 1996. The increase was due to new computer outsourcing contracts signed in 1997. Revenue for systems integration grew to \$45 million in 1997 from less than \$1 million in 1996. Strong demand for Year 2000 renovation services fueled the growth for systems integration's revenues.

Margin, as a percent of revenue, decreased to 28% in 1997 from 41% in 1996 for the computer outsourcing business. The reduction of the gross margin was due to up-front migration costs associated with new contracts and significant increases in personnel costs due to the tightening supply of computer professionals. Gross margin for the systems integration business was approximately 40% in 1997. A comparison to 1996 gross margin is not meaningful due to the start-up nature of the business.

General and Administrative Expenses. Excluding C-TEC, general and administrative expenses increased 20% to \$114 million in 1997. The increase was primarily attributable to a \$41 million increase in the information services business' general and administrative expenses. The majority of the increase is attributable to additional compensation expense that was incurred due to the conversion of a subsidiary's option and SAR plans to the Class D Stock option plan. The remainder of the increase relates to the increased expenses for new sales offices established in 1997 for the systems integration business and the additional personnel hired in 1997 to implement the expansion plan.

Exclusive of the information services business, general and administrative expenses decreased 26% to \$62 million in 1997. A decrease in professional services and the mine management fees were partially offset by increased compensation expense. Due to the favorable resolution of certain environmental and legal matters, costs that were previously accrued for these issues were reversed in 1997. Partially offsetting this reduction were legal, tax and consulting expenses associated with the CalEnergy transaction and the separation of the Construction and Mining Group and Diversified Group.

Equity Losses. The losses for the Group's equity investments increased from \$9 million in 1996 to \$43 million in 1997. Had the C-TEC entities been accounted for using the equity method in 1996, the losses would have increased to \$13 million. The expenses associated with the deployment and marketing of the advanced fiber networks in New York, Boston and Washington D.C., and the costs incurred in connection with the buyout of a marketing contract with minority shareholders are primarily responsible for the increase in equity losses attributable to RCN from \$6 million in 1996 to \$26 million in 1997. The Group's share of Cable Michigan's losses decreased to \$6 million in 1997 from \$8 million in 1996. This improvement is attributable to the gains recognized on the sale of Cable Michigan's Florida cable systems. Commonwealth Telephone's earnings were consistent with that of 1996. The Group recorded equity earnings of \$9 million in each year attributable to Commonwealth Telephone. The Group also recorded equity losses attributable to several developing businesses.

Investment Income. Investment income increased 7% in 1997 after excluding C-TEC's \$14 million of investment income in 1996. Gains recognized on the sale of marketable securities, primarily within the Kiewit Mutual Fund ("KMF"), increased from \$3 million in 1996 to \$9 million in 1997. In 1997, KMF repositioned the securities within its portfolios to more closely track the overall market. Partially offsetting these additional gains was a decline in interest income due to an overall reduction of yield earned by the KMF portfolios.

Interest Expense. Interest expense increased significantly in 1997 after excluding \$28 million of interest attributable to C-TEC in 1996. CPTC, the owner-operator of a privatized tollroad in California, incurred interest costs of approximately \$9 million and \$11 million in 1996 and 1997. In 1996, interest of \$5 million was capitalized due to the construction of the tollroad. Construction was completed in August 1996, and all interest incurred subsequent to that date was charged against earnings. Interest associated with the financing of the Aurora, Colorado property of \$1 million, also contributed to the increase in interest expense.

Other Income. Other income in 1996 includes \$2 million of other expenses attributable to C-TEC. Excluding these losses, other income declined from \$8 million in 1996 to \$1 million in 1997. The absence of gains on the sale of timberland properties and other assets, which accounted for \$6 million of income in 1996, is responsible for the decline.

Income Tax (Provision) Benefit. The effective income tax rate for 1997 is less than the expected statutory rate of 35% due primarily to prior year tax adjustments, partially offset by the effect of nondeductible compensation expense associated with the conversion of the information services option and SAR plans to the Class D Stock plan. In 1996, the effective rate was also lower than the statutory rate due to prior year tax adjustments. These adjustments were partially offset by nondeductible costs associated with goodwill amortization and taxes on foreign operations. In 1997 and 1996, the Group settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

Discontinued Operations - Construction. The Construction and Mining Group's operations can be separated into two components; construction and materials. Construction revenues increased \$414 million during 1997 compared to 1996. The consolidation of ME Holding Inc. (due to the increase in ownership from 49% to 80%) ("ME Holding") contributed \$261 million, almost two-thirds of the increase. In addition to ME Holding several large projects and joint ventures became fully mobilized during the latter part of the year and were well into the "peak" construction phase.

Material revenues increased 19% to \$290 million in 1997 from \$243 million in 1996. The acquisition of additional plant sites accounts for 22% of the increase in sales. The remaining increase was a result of the strong market for material products in Arizona. This raised sales volume from existing plant sites and allowed for slightly higher selling prices. The inclusion of \$10 million of revenues from the Oak Mountain facility in Alabama also contributed to the increase.

Construction margins increased to 13% of revenue in 1997 as compared to 10% in 1996. The favorable resolution of project uncertainties, several change order settlements, and cost savings or early completion bonuses received during the year contributed to this increase.

Material margins decreased from 10% of revenue in 1996 to 4% in 1997. Losses at the Oak Mountain facility in Alabama were the source of the decrease. The materials margins from sources other than Oak Mountain remained stable as higher unit sales and selling prices were offset by increases in raw materials costs.

General and administrative expenses of the Construction Group increased 11% in 1997 after deducting \$17 million of expenses attributable to ME Holding. Compensation and profit sharing expenses increased \$9 million and \$2 million, respectively, from 1996. The increase in these costs is a direct result of higher construction earnings.

The effective income tax rates in 1997 and 1996 for the Construction Group differ from the expected statutory rate of 35% primarily due to state income taxes and prior year tax adjustments.

Discontinued Operations - Energy. Income from discontinued operations increased to \$29 million in 1997 from \$9 million in 1996. The acquisition of Northern Electric in late 1996 and the commencement of operations at the Mahanadong geothermal facility in July, 1997 were the primary factors that resulted in the increase.

In October 1997, CalEnergy sold approximately 19.1 million shares of its common stock. This sale reduced the Group's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Group's policy to recognize gains or losses on the sale of stock by its investees. The Group recognized an after-tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern Electric, plc. at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted in July, 1997. The total after-tax impact to Level 3, directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

Results of Operations 1996 vs. 1995

Coal Mining. Revenue and net earnings improved primarily due to increased alternate source tons sold to Commonwealth Edison Company in 1996 and the liquidation of a captive insurance company which insured against black lung disease. Upon liquidation, the Group received a refund of premiums paid plus interest in excess of reserves established by the Group for this liability. Since 1993, the amended contract with Commonwealth provided that delivery commitments would be satisfied with coal produced by unaffiliated mines in the Powder River Basin in Wyoming. Coal produced at the Group's mines did not change significantly from 1995 levels.

Information Services. Revenue increased 17% to \$42 million in 1996 from \$36 million in 1995. The increase was primarily due to new computer outsourcing contracts signed in 1996. Less than \$1 million of revenue was generated by the operations of the new systems integration business, started in February, 1996.

Margin, as a percent of revenue, for the outsourcing business decreased to 41% in 1996 from 45% in 1995. The reduction of the margin was primarily due to up-front migration costs for new customers which were recognized as an expense when incurred.

Telecommunications. Revenue for the telecommunications segment increased 13% to \$367 million for fiscal 1996. C-TEC's telephone group's \$10 million, or 8%, increase in sales and C-TEC's cable group's \$33 million or 26% increase in revenue were the primary contributors to the improved results. The increase in telephone group revenue is due to higher intrastate access revenue from the growth in access minutes, an increase of 13,000 access lines, and higher internet access and video conferencing sales. Cable group revenue increased primarily due to higher average subscribers and the effects of rate increases in April 1995 and February 1996. Subscriber counts increased primarily due to the acquisition of Pennsylvania Cable Systems, formerly Twin County Trans Video, Inc., in September 1995, and the consolidation of Mercom, Inc. since August 1995. Pennsylvania Cable Systems and Mercom account for \$23 million of the increase in cable revenue in 1996.

The 1996 operating expenses for the telecommunications business increased \$38 million or 18% compared to 1995. The telephone group experienced a 9% increase in expenses and the cable group's costs increased 31%. The increase for the telephone group was primarily attributable to higher payroll expenses resulting from additional personnel, wage increases and higher overtime. Also contributing to the increase, were fees associated with the internet access services and consulting services for a variety of regulatory and operational matters. The cable group's increase was due to increased depreciation, amortization and compensation expenses associated with the acquisition of Pennsylvania Cable Systems and the consolidation of Mercom's operations. Also contributing to the higher costs were rate increases for existing programming and the costs for additional programming.

General and Administrative Expenses. General and administrative expenses declined 5% to \$181 million in 1996. Decreases in expenses associated with legal and environmental matters were partially offset by higher mine management fees paid to the Construction & Mining Group, the costs attributable to C-TEC and the opening of the SR91 toll road. C-TEC's corporate overhead and other costs increased approximately 13% in 1996. This increase is attributable to costs associated with the development of the RCN business in New York and Boston, the acquisition of Pennsylvania Cable Systems, the consolidation of Mercom and the investigation of the feasibility of various restructuring alternatives.

Equity Earnings, net. Losses attributable to the Group's equity investments increased to \$9 million in 1996 from \$5 million in 1995. The additional losses were attributable to an enterprise engaged in the renewable fuels business and to C-TEC's investment in MegaCable S.A. de C.F., Mexico's second largest cable television operator.

Investment Income, net. Investment income increased 24% in 1996 compared to 1995. Increased gains on the sale of marketable and equity securities and interest income were partially offset by a slight decline in dividend income.

Interest Expense, net. Interest expense in 1996 increased 43% compared to 1995. The increase was primarily due to interest on the CPTC debt that was capitalized through July 1996, and C-TEC's redeemable preferred stock, issued in the Pennsylvania Cable Systems acquisition, that began accruing interest in 1996.

Gain on Subsidiary's Stock Transactions, net. The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Group in 1995.

Other, net. The decline of other income in 1996 was primarily attributable to the 1995 settlement of the Whitney Benefits litigation.

Income Tax Benefit (Provision). The effective income tax rate for 1996 differs from the statutory rate of 35% primarily because of adjustments to prior year tax provisions, partially offset by state taxes and nondeductible amounts associated with goodwill amortization. In 1995, the rate was lower than 35% due primarily to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities originally recognized on gains from MFS stock transactions that were no longer required due to the tax-free spin-off of MFS, and adjustments to prior year tax provisions.

Discontinued Operations - Construction. Revenue from construction decreased 1% to \$2,303 million in 1996. This resulted from the completion of several major projects during the year, while many new contracts were still in the start-up phase. KCG's share of joint venture revenue remained at 30% of total revenues in 1996. Revenue from materials increased by less than 1% in 1996. Increased demand for aggregates in the Arizona market was offset by a decline in precious metal sales. KCG sold its gold and silver operations in Nevada to Kinross Gold Corporation ("Kinross") and essentially liquidated its metals inventory in 1995.

Opportunities in the construction and materials industry continued to expand along with the economy. Because of the increased opportunities, KCG was able to be selective in the construction projects it pursued. Gross margins for construction increased from 8% in 1995 to 10% in 1996. This resulted from the completion of several large projects and increased efficiencies in all aspects of the construction process. Gross margins for materials declined from 13% in 1995 to 10% in 1996. The lack of higher margin precious metals sales in 1996 combined with slightly lower construction materials margins produced the reduction in operating margin.

In 1995, the exchange of KCG's gold and silver operations in Nevada for 4,000,000 shares of common stock of Kinross led to a \$21 million gain for KCG. The gain was the difference between KCG's book value in the gold and silver operations and the market value of the Kinross shares at the time of the exchange. Other income was also primarily comprised of mining management fees from the Diversified Group, of \$37 million and \$30 million in 1996 and 1995, and gains on the disposition of property, plant and equipment and other assets of \$17 million and \$12 million in 1996 and 1995.

The effective income tax rate for 1996 differs from the statutory rate of 35% primarily because of adjustments to prior year tax provisions and state taxes. In 1995, the rate was higher than 35% due primarily to state income taxes.

Discontinued Operations - Energy. Income from discontinued operations declined in 1996 by 36% to \$9 million. Losses attributable to the Group's interest in the Cascan project, additional development expenses for international activities, and the costs associated with the Northern Electric transaction were partially offset by increased equity earnings from CalEnergy.

Financial Condition - December 27, 1997

The Group's working capital, excluding C-TEC and discontinued operations, increased \$392 million or 106% during 1997. This is due to the \$182 million of cash generated by operations, primarily coal operations, and the significant financing activities described below.

Investing activities include \$452 million to purchase marketable securities, \$42 million of investments and \$26 million of capital expenditures, including \$14 million for the existing information services business and \$6 million for a corporate jet. The investments primarily include the Group's \$22 million investment in the Pavilion Towers office complex, located in Aurora, Colorado, and \$15 million of investments in developing businesses. Funding a portion of these activities was the sale of marketable securities of \$167 million.

Sources of financing include \$138 million for the issuance of Class D Stock, \$72 million for the exchange of Class C stock for Class D stock and \$16 million for the financing for Pavilion Towers. Uses consist primarily of \$12 million for the payment of dividends, and \$2 million of payments on long-term debt.

Prior to the execution of an agreement with CalEnergy in September, 1997, the Group invested \$31 million in the Diting, Patuha and Bali power projects in Indonesia.

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitively abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

Level 3 has recently decided to substantially increase its emphasis on and resources to its information services to business. Pursuant to the plan, Level 3 intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

Using this network Level 3 intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at lower prices than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

Level 3 believes that over time, a substantial number of businesses will convert existing computer application systems to computer systems which communicate using TCP/IP and are accessed by users employing Web browsers. Level 3 further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to internet access with requisite quality and security levels.

Level 3 anticipates that the capital expenditures required to implement this expansion plan will be substantial. Level 3 estimates that these costs may be in excess of \$500 million in 1998 and could exceed \$1.5 billion in 1999. Level 3's current financial condition, borrowing capacity and proceeds from the CalEnergy transaction described below should be sufficient for immediate operating, implementation and investing activities. However, Level 3 expects to raise capital from both the equity and debt markets due to the significant capital requirements of the information services expansion plan.

In connection with the Expansion Plan, Level 3 expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, management is conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, Level 3 may dispose of that business.

In January 1998, Level 3 and CalEnergy closed the sale of Level 3's energy assets to CalEnergy. Level 3 received proceeds of \$1,159 million and expects to recognize an after-tax gain of approximately \$324 million in 1998. The after-tax proceeds from this transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

In January 1998, Class C shareholders converted 2.3 million shares, with a redemption value of \$122 million, into 10.5 million shares of Class D Stock.

In February 1998, Level 3 announced that it was moving its corporate headquarters to Broomfield, Colorado, a northwest suburb of Denver. The campus facility is expected to encompass over 500,000 square feet of office space at a construction cost of over \$70 million. Level 3 is leasing space in the Denver area while the campus is under construction. The first phase of the complex is scheduled for completion in the summer of 1999.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVL". The Nasdaq listing will follow the separation of Level 3 and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D Stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of Level 3 and the Construction Group. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by Level 3's Board of Directors at that time. Level 3's Board may choose not to force conversion if it were to decide that conversion is not in the best interests of the stockholders of Level 3. If, as currently anticipated, Level 3's Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If Level 3's Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

Immediately prior to the spin-off of the Kiewit Construction and Mining Group, the Company will recognize a gain equal to the difference between the carrying value of the Construction and Mining Group and its fair value. The Company will then reflect the fair value of Kiewit Construction and Mining Group as a dividend to shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and supplementary financial information for Peter Kiewit Sons', Inc. and Subsidiaries begin on page P1. Separate financial statements and other information pertaining to the Kiewit Construction & Mining Group and the Diversified Group have been filed as Exhibits 99.A and 99.B to this report. The Company will furnish a copy of such exhibits without charge upon the written request of a stockholder addressed to Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131.

The financial statements of an equity method investee (RCN) are required by Rule 3.09 and are incorporated by reference from RCN's Form 10-K for the year ended December 31, 1997, filed under Commission No. 000-22825.

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

None.

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.**

The information required by Part III is incorporated by reference to the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission. However, certain information is set forth under the caption "Directors and Executive Officers of the Registrant" following Item 4 above.

PART IV**ITEM 14. 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 14 are set forth following the index page at page P1.

Exhibits filed as a part of this report are listed below. Exhibits incorporated by reference are indicated in parentheses.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, effective January 8, 1992 (Exhibit 3.1 to Company's Form 10K for 1991).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Peter Kiewit Sons', Inc., effective December 8, 1997.
3.4	Bylaws, composite copy, including all amendments, as of March 19, 1993 (Exhibit 3.4 to Company's Form 10-K for 1992).

- 10.1 Separation Agreement, dated December 8, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc.
- 10.2 Amendment No. 1 to Separation Agreement, dated March 18, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc.
- 21 List of subsidiaries of the Company.
- 23 Consents of Coopers & Lybrand LLP
- 27 Financial data schedules.
- 99.A Kiewit Construction & Mining Group Financial Statements and Other Information.
- 99.B Diversified Group Financial Statements and Other Information.
- (b) No reports on Form 8K were filed by the Company during the fourth quarter of 1997.

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, on the 30th day of March, 1998.

PETER KIEWIT SONS', INC.

By: /s/ Walter Scott, Jr.

Name: Walter Scott, Jr.

Title: Chairman of the Board

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 indicated on the 30th day of March, 1998.

/s/ WALTER SCOTT, JR.

Walter Scott, Jr.

Chairman of the Board and President
(principal executive officer)

/s/ R. Douglas Bradbury

R. Douglas Bradbury

Executive Vice President of Level 3
Communications, Inc.
(principal financial officer)

/s/ ERIC J. MORTENSEN

Eric J. Mortensen

Controller
(principal accounting officer)

/s/ RICHARD W. COLE

Richard W. Cole, Director

/s/ RICHARD R. JAROS

Richard R. Jaros, Director

/s/ JAMES Q. CROWE

James Q. Crowe, Director

/s/ TAIT P. JOHNSON

Tait P. Johnson, Director

/s/ ROBERT B. DAUGHERTY

Robert B. Daugherty, Director

/s/ ALLAN K. KIRKWOOD

Allan K. Kirkwood, Director

/s/ RICHARD GEARY

Richard Geary, Director

/s/ PETER KIEWIT, JR.

Peter Kiewit, Jr., Director

/s/ BRUCE E. GREWCOCK

Bruce E. Grewcock, Director

/s/ KENNETH E. STINSON

Kenneth E. Stinson, Director

/s/ WILLIAM L. GREWCOCK

William L. Grewcock, Director

/s/ GEORGE B. TOLL, JR.

George B. Toll, Jr., Director

/s/ CHARLES M. HARPER

Charles M. Harper, Director

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Index to Financial Statements

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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.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders
Peter Kiewit Sons', Inc.

We have audited the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries as listed in the index on the preceding page of this Form 10-K. These 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 generally accepted auditing standards. 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 Peter Kiewit Sons', Inc. and Subsidiaries as of December 27, 1997 and December 28, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 1997 in conformity with generally accepted accounting principles.

Coopers & Lybrand LLP

Omaha, Nebraska
March 30, 1998

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Revenue	\$ 332	\$ 652	\$ 580
Cost of Revenue	<u>(175)</u>	<u>(384)</u>	<u>(345)</u>
	157	268	235
General and Administrative Expenses	<u>(114)</u>	<u>(181)</u>	<u>(190)</u>
Operating Earnings	43	87	45
Other (Expense) Income:			
Equity losses, net	(43)	(9)	(5)
Investment income, net	45	56	45
Interest expense, net	(15)	(33)	(23)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	<u>1</u>	<u>6</u>	<u>125</u>
	(12)	20	145
Equity Loss in MFS	<u>-</u>	<u>-</u>	<u>(131)</u>
Earnings Before Income Taxes, Minority Interest and Discontinued Operations	31	107	59
Income Tax Benefit (Provision)	48	(3)	79
Minority Interest in Net Loss (Income) of Subsidiaries	<u>4</u>	<u>-</u>	<u>(12)</u>
Income from Continuing Operations	83	104	126
Discontinued Operations:			
Construction, net of income tax (expense) of (\$107), (\$72) and (\$60)	155	108	104
Energy, net of income tax benefit (expense) of \$1, (\$9) and (\$8)	<u>10</u>	<u>9</u>	<u>14</u>
Income from Discontinued Operations	<u>165</u>	<u>117</u>	<u>118</u>
Net Earnings	<u>\$ 248</u>	<u>\$ 221</u>	<u>\$ 244</u>
Earnings Per Share:			
Continuing Operations:			
Class D Stock			
Basic	\$.66	\$.90	\$ 1.17
Diluted	<u>\$.66</u>	<u>\$.90</u>	<u>\$ 1.17</u>
Net Income:			
Class C Stock			
Basic	\$ 15.99	\$ 10.13	\$ 7.78
Diluted	<u>\$ 15.35</u>	<u>\$ 9.76</u>	<u>\$ 7.62</u>
Class D Stock			
Basic	\$.74	\$.97	\$ 1.29
Diluted	<u>\$.74</u>	<u>\$.97</u>	<u>\$ 1.29</u>

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC AND SUBSIDIARIES

Consolidated Balance Sheets

December 27, 1997 and December 28, 1996

(dollars in millions)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 87	\$ 147
Marketable securities	678	372
Restricted securities	22	17
Receivables, less allowance of \$-, and \$3	42	76
Investment in discontinued operations — energy	643	608
Other	22	26
Total Current Assets	1,494	1,246
Property, Plant and Equipment, at cost:		
Land	15	18
Buildings and leasehold improvements	122	159
Equipment	275	810
	412	987
Less accumulated depreciation and amortization	(228)	(345)
Net Property, Plant and Equipment	184	642
Investments	383	189
Investments in Discontinued Operations — Construction	652	562
Intangible Assets, net	21	353
Other Assets	45	74
	<u>\$ 2,779</u>	<u>\$ 3,066</u>

See Note 17 for 1997 pro forma balance sheet information.

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 27, 1997 and December 28, 1996
(continued)

(dollars in millions)	1997	1996
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 31	\$ 79
Current portion of long-term debt:		
Telecommunications	-	55
Other	3	2
Accrued reclamation and other mining costs	19	19
Deferred income taxes	15	5
Other	21	87
Total Current Liabilities	89	247
Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	137	113
Deferred Income Taxes	83	148
Accrued Reclamation Costs	100	98
Other Liabilities	139	216
Minority Interest	1	218
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding in 1997 and 1996	-	-
Common stock, \$.0625 par value, \$2.1 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: — outstanding in 1997 and 263,468 outstanding in 1996	-	-
Class C, authorized 125,000,000 shares: 10,132,343 outstanding in 1997 and 10,743,173 outstanding in 1996	1	1
Class D, authorized 500,000,000 shares: 135,517,140 outstanding in 1997 and 115,901,215 — outstanding in 1996	8	1
Class R, authorized 8,500,000 shares: outstanding in 1997 and 1996	-	-
Additional paid in capital	427	235
Foreign currency adjustment	(7)	(7)
Net unrealized holding gain	2	23
Retained earnings	1,799	1,566
Total Stockholders' Equity	<u>2,230</u>	<u>1,819</u>
	<u>\$ 2,779</u>	<u>\$ 3,066</u>

See Note 17 for 1997 pro forma balance sheet information.
See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the three years ended December 27, 1997

(dollars in millions)	1997	1996	1995
Cash flows from continuing operations:			
Income from continuing operations	\$ 83	\$ 104	\$ 126
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Depreciation, depletion and amortization	24	132	96
Gain on sale of property, plant and equipment, and other investments	(9)	(3)	(7)
Gain on subsidiary's stock transactions, net	-	-	(3)
Compensation expense attributable to stock options	21	-	-
Equity losses, net	43	10	130
Minority interest in subsidiaries	(4)	-	12
Retirement benefits paid	(7)	(6)	(2)
Federal income tax refunds	146	-	35
Deferred income taxes	(103)	(68)	(152)
Change in working capital items:			
Receivables	(9)	(1)	11
Other current assets	(1)	6	-
Payables	(3)	9	(3)
Other liabilities	(5)	13	34
Other	6	-	(4)
Net cash provided by continuing operations	182	196	273
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	167	378	383
Purchases of marketable securities	(452)	(311)	(440)
Increase in restricted securities	(2)	(2)	(2)
Investments and acquisitions, net of cash acquired	(42)	(59)	(136)
Proceeds from sale of property, plant and equipment, and other investments	1	7	14
Capital expenditures	(26)	(117)	(118)
Other	3	(8)	(2)
Net cash used in investing activities	\$ (351)	\$ (112)	\$ (301)

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
 For the three years ended December 27, 1997
 (continued)

(dollars in millions)	1997	1996	1995
Cash flows from financing activities:			
Long-term debt borrowings	\$ 17	\$ 38	\$ 49
Payments on long-term debt, including current portion	(2)	(60)	(49)
Issuances of common stock	138	-	2
Issuances of subsidiaries' stock	-	1	-
Repurchases of common stock	-	(11)	(3)
Dividends paid	(12)	(11)	-
Exchange of Class C Stock for Class D Stock, net	<u>72</u>	<u>20</u>	<u>155</u>
Net cash provided by (used in) financing activities	213	(23)	154
Cash flows from discontinued operations:			
Discontinued energy operations	3	5	8
Investments in discontinued energy operations	(31)	(282)	(101)
Proceeds from sales of discontinued packaging operations	<u>-</u>	<u>-</u>	<u>29</u>
Net cash used in discontinued operations	(28)	(277)	(64)
Cash and cash equivalents of C-TEC in 1997 and MFS in 1995 at beginning of year	(76)	-	(22)
Effect of exchange rates on cash	<u>-</u>	<u>-</u>	<u>2</u>
Net change in cash and cash equivalents	(60)	(216)	42
Cash and cash equivalents at beginning of year	<u>147</u>	<u>363</u>	<u>321</u>
Cash and cash equivalents at end of year	<u>\$ 87</u>	<u>\$ 147</u>	<u>\$ 363</u>
Supplemental disclosure of cash flow information:			
Taxes paid	\$ 62	\$ 55	\$ 132
Interest paid	13	38	33
Noncash investing and financing activities:			
Conversion of CalEnergy convertible debentures to common stock	\$ -	\$ 66	\$ -
Dividend of investment in MFS	-	-	399
Issuance of C-TEC redeemable preferred stock for acquisition	-	-	39

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the three years ended December 27, 1997

(dollars in millions)	Class B&C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 31, 1994	\$ 1	\$ 1	\$ 182	\$ (7)	\$ (8)	\$1,567	\$1,736
Issuances of stock	-	-	\$ 29	-	-	-	29
Repurchases of stock	-	-	\$ (1)	-	-	\$ (5)	\$ (6)
Foreign currency adjustment	-	-	-	\$ 1	-	-	1
Net unrealized holding gain	-	-	-	-	\$ 25	-	25
Net earnings	-	-	-	-	-	\$ 244	244
Dividends: (a)							
Class C (\$1.05 per common share)	-	-	-	-	-	(12)	(12)
Class D (\$.10 per common share)	-	-	-	-	-	(11)	(11)
MFS Dividend Balance at December 30, 1995	-	-	-	-	-	(399)	(399)
	1	1	210	(6)	17	1,384	1,607
Issuances of stock	-	-	\$ 27	-	-	-	27
Repurchases of stock	-	-	(2)	-	-	(14)	(16)
Foreign currency adjustment	-	-	-	(1)	-	-	(1)
Net unrealized holding gain	-	-	-	-	6	-	6
Net earnings	-	-	-	-	-	221	221
Dividends: (b)							
Class C (\$1.30 per common share)	-	-	-	-	-	(13)	(13)
Class D (\$.10 per common share)	-	-	-	-	-	(12)	(12)
Balance at December 28, 1996	\$ 1	\$ 1	\$ 235	\$ (7)	\$ 23	\$1,566	\$1,819

See accompanying notes to consolidated financial statements.

PETER HEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the three years ended December 27, 1997

(continued)

(dollars in millions)	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 28, 1996	\$ 1	\$ 1	\$ 235	\$ (7)	\$ 23	\$ 1,566	\$ 1,819
Issuances of stock	-	-	172	-	-	-	172
Repurchases of stock	-	-	-	-	-	(2)	(2)
Option Activity	-	-	27	-	-	-	27
Class D Stock Split	-	7	(7)	-	-	-	-
Foreign currency adjustment	-	-	-	-	-	-	-
Net unrealized holding loss	-	-	-	-	(21)	-	(21)
Net earnings	-	-	-	-	-	248	248
Dividends: (c) Class C (\$1.50 per common share)	-	-	-	-	-	(13)	(13)
Balance at December 27, 1997	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 427</u>	<u>\$ (7)</u>	<u>\$ 2</u>	<u>\$ 1,799</u>	<u>\$ 2,230</u>

(a) Includes \$.60 and \$.10 per share for dividends on Class C and Class D Stock, respectively, declared in 1995 but paid in January 1996.

(b) Includes \$.70 and \$.10 per share for dividends on Class C and Class D Stock, respectively, declared in 1996 but paid in January 1997.

(c) Includes \$.80 per share for dividends on Class C declared in 1997 but paid in January 1998.

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', 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 Peter Kiewit Sons', Inc. and subsidiaries in which it has control ("PKS" or "the Company"), which are engaged in enterprises primarily related to construction, coal mining, energy generation, information services, and telecommunications. 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, including construction joint ventures and energy projects, are accounted for by the equity method. The Company accounts for its share of the operations of the construction joint ventures on a pro rata basis in the consolidated statements of earnings. All significant intercompany accounts and transactions have been eliminated.

In 1997, the Company agreed to sell its energy assets to CalEnergy Company, Inc. ("CalEnergy") and to spin-off the construction business. Therefore, the assets and liabilities, and results of operations, of both businesses have been classified as discontinued operations on the consolidated balance sheet, statements of earnings and cash flows. (See notes 2 and 3)

On September 5, 1997, C-TEC Corporation ("C-TEC") announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies. The transaction was effective September 30, 1997. As a result of the restructuring plan, the Company owns less than 50% of the outstanding shares and voting rights of each entity, and therefore has accounted for each entity using the equity method as of the beginning of 1997. In accordance with Generally Accepted Accounting Principles, C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 financial statements.

The results of operations of MFS Communications Company, Inc. ("MFS"), (which later merged into WorldCom Inc.) prior to its spin-off on September 30, 1995, have been classified as a single line item on the statements of earnings.

The Company invests in the portfolios of the Kiewit Mutual Fund, ("KMF"), a registered investment company. KMF is not consolidated in the Company's financial statements.

Description of Business Groups

Holders of Class C Stock ("Construction & Mining Group") and Class D Stock ("Diversified Group") are stockholders of PKS. The Construction & Mining Group ("KCG") contains the Company's traditional construction and materials operations performed by Kiewit Construction Group Inc. The Diversified Group through Level 3 Communications, Inc. (formerly Kiewit Diversified Group Inc.) ("Level 3") contains coal mining properties owned by Kiewit Coal Properties Inc., energy investments, including a 24% interest in CalEnergy and a 30% interest in CE Electric UK plc ("CE Electric"), investments in international energy projects, information services businesses, telecommunications companies owned by C-TEC, as well as other assets. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the groups.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Construction Contracts

KCG operates generally within the United States and Canada as a general contractor and engages in various types of construction projects for both public and private owners. Credit risk is minimal with public (government) owners since KCG ascertains that funds have been appropriated by the governmental project owner prior to commencing work on public projects. Most public contracts are subject to termination at the election of the government. In the event of termination, KCG is entitled to receive the contract price on completed work and reimbursement of termination related costs. Credit risk with private owners is minimized because of statutory mechanics liens, which give KCG high priority in the event of lien foreclosures following financial difficulties of private owners.

The construction industry is highly competitive and lacks firms with dominant market power. A substantial portion of KCG's business involves construction contracts obtained through competitive bidding. The volume and profitability of KCG's construction work depends to a significant extent upon the general state of the economies in which it operates and the volume of work available to contractors. KCG's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or other governmental action.

KCG recognizes revenue on longterm construction contracts and joint ventures on the percentage-of-completion method based upon engineering estimates of the work performed on individual contracts. Provisions for losses are recognized on uncompleted contracts when they become known. Claims for additional revenue are recognized in the period when allowed. It is at least reasonably possible that engineering estimates of the work performed on individual contracts will be revised in the near term.

Coal Sales Contracts

Level 3's coal is 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 sales were made under long-term contracts during 1997, 1996 and 1995. 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. As the long-term contracts expire, a higher proportion of Level 3's sales will occur on the spot market.

The coal industry is highly competitive. Level 3 competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than Level 3, but also 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 lower stripping ratios 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 such laws.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Level 3 and its mining ventures have entered into various agreements with its customers which stipulate delivery and payment terms for the sale of coal. Prior to 1993, one of the primary customers deferred receipt of certain commitments by purchasing undivided fractional interests in coal reserves of Level 3 and the mining ventures. Under the agreements, revenue was recognized when cash was received. The agreements with this customer were renegotiated in 1992. In accordance with the renegotiated agreements, there were no sales of interests in coal reserves subsequent to January 1, 1993. Level 3 has the obligation to deliver the coal reserves to the customer in the future if the customer exercises its option. If the option is exercised, Level 3 presently intends to deliver coal from unaffiliated mines. In the opinion of the management, Level 3 has sufficient coal reserves to cover the above sales commitments.

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

Information Services Revenues

Information services revenue is primarily derived from the computer outsourcing business and the systems integration business. Level 3 provides outsourcing service, typically through contracts ranging from 3-5 years, to firms that desire to focus their resources on their core businesses. Under these contracts, Level 3 recognizes revenue in the month the service is provided. The systems integration business helps customers define, develop and implement cost-effective information systems. Revenue from these services is billed on a time and materials basis or percentage of completion basis depending on the extent of the services provided.

Telecommunications Revenues

In 1996 and 1995 C-TEC's most significant operating groups are its local telephone service and cable system operations. C-TEC's telephone network access revenues are derived from net access charges, toll rates and settlement arrangements for traffic that originates or terminates within C-TEC's local telephone company. Revenues from telephone services and basic and premium cable programming services are recorded in the month the service is provided.

The telecommunications industry is subject to local, state and federal regulation. Consequently, the ability of the telephone and cable groups to generate increased volume and profits is largely dependent upon regulatory approval to expand customer bases and increase prices.

Competition for the cable group's services traditionally has come from broadcast television, video rentals and direct broadcast satellite received on home dishes. Future competition is expected from telephone companies.

Concentration of credit risk with respect to accounts receivable are limited due to the dispersion of customer base among geographic areas and remedies provided by terms of contracts and statutes.

As noted previously, the investment in C-TEC has been accounted for using the equity method in 1997.

PETER KIEWIT SONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Depreciation and Amortization.

Property, plant and equipment are recorded at cost. Depreciation and amortization for the majority of the Company's property, plant and equipment are computed on accelerated and straight-line methods. Depletion of mineral properties is provided primarily on an units-of-extraction basis determined in relation to estimated reserves.

Intangible Assets

Intangible assets primarily include amounts allocated upon purchase of existing operations, franchises and subscriber lists. These assets are amortized on a straightline basis over the expected period of benefit, which does not exceed 40 years.

Long Lived Assets

The Company reviews the carrying amount of long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the asset to the net carrying value of the asset.

Reserves for Reclamation

Level 3 follows the policy of providing an accrual for reclamation of mined properties, based on the estimated cost of restoration of such properties, in compliance with laws governing strip mining. It is at least reasonably possible that the estimated cost of restoration will be revised in the near-term.

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 and expenses are translated using average exchange rates prevailing during the year. Gains or losses resulting from currency translation are recorded as adjustments to stockholders' equity.

Subsidiary and Investment Stock Activity

The Company recognizes gains and losses from the sale, issuance and repurchase of stock by its subsidiaries.

Earnings Per Share

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". The Statement establishes standards for computing and presenting earnings per share and requires the restatement of prior per share data presented. 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 stock options and convertible debentures considered to be dilutive common stock equivalents.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Potentially dilutive stock options are calculated in accordance with the treasury stock method which assumes that proceeds from the exercise of all options are used to repurchase common stock at the average market value. The number of shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the options. The potentially dilutive convertible debentures are calculated in accordance with the "if converted" method. This method assumes that the after-tax interest expense associated with the debentures is an addition to income and the debentures are converted into equity with the resulting common shares being aggregated with the weighted average shares outstanding.

The following details the earnings per share calculations for Class C Stock and Class D Stock:

Class C Stock	1997	1996	1995
Net income available to common shareholders (in million) \$	155	\$ 108	\$ 104
Add: Interest expense, net of tax effect associated with convertible debentures	<u>1</u>	<u>—*</u>	<u>—*</u>
Net income for diluted shares	<u>\$ 156</u>	<u>\$ 108</u>	<u>\$ 104</u>
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	9,728	10,656	13,384
Add: Additional dilutive shares assuming conversion of convertible debentures	<u>441</u>	<u>437</u>	<u>312</u>
Total number of shares used to compute diluted earnings per share	<u>10,169</u>	<u>11,093</u>	<u>13,696</u>
Net Income			
Basic earnings per share	<u>\$ 15.99</u>	<u>\$ 10.13</u>	<u>\$ 7.78</u>
Diluted earnings per share	<u>\$ 15.35</u>	<u>\$ 9.76</u>	<u>\$ 7.62</u>

*Interest expense attributable to convertible debentures was less than \$1 million in 1996 and 1995.

PETER KIEWIT SONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

<u>Class D Stock</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Income from continuing operations available to common shareholders (in millions)	\$ 83	\$ 104	\$ 126
Add: Interest expense, net of tax effect associated with convertible debentures	—	—	—*
Income from continuing operations for fully diluted shares	83	104	126
Income from discontinued operations	10	9	14
Net Income	\$.93	\$.113	\$.140
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	124,647	116,006	108,594
Additional dilutive stock options	539	311	—
Additional dilutive shares assuming conversion of convertible debentures	—	—	257
Total number of shares used to compute diluted earnings per share	125,186	116,317	108,851
Continuing Operations:			
Basic earnings per share	\$.66	\$.90	\$ 1.17
Diluted earnings per share	\$.65	\$.90	\$ 1.17
Discontinued Operations:			
Basic earnings per share	\$.08	\$.07	\$.12
Diluted earnings per share	\$.06	\$.07	\$.12
Net Income:			
Basic earnings per share	\$.74	\$.97	\$ 1.29
Diluted earnings per share	\$.74	\$.97	\$ 1.29

*Interest expense attributable to convertible debentures was less than \$1 million in 1995.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Stock Dividend

Effective December 26, 1997, the PKS Board of Directors approved a dividend of four shares of Class D Stock for every one share of Class D Stock held. All share information and per share data have been restated to reflect this dividend.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis 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.

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. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements.

Also in 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data.

These statements are effective for financial statements for periods beginning after December 15, 1997. Management does not expect adoption of these statements to materially affect the Company's financial statements.

Reclassifications

Where appropriate, items within the consolidated financial statements and notes thereto have been reclassified from previous years to conform to current year presentation.

Fiscal Year

The Company's fiscal year ends on the last Saturday in December. There were 52 weeks in fiscal years 1997, 1996 and 1995.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Reorganization

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998. As a result of these events the Company has reflected the financial position and results of operations of the Kiewit Construction and Mining Group as discontinued operations on the consolidated balance sheets and consolidated statements of earnings for all periods presented. The activities of the Construction and Mining Group have been removed from the statements of cash flows. The financial statements of Kiewit Construction and Mining Group can be found in Exhibit 99.A of this document.

The following is summarized financial information of the Kiewit Construction and Mining Group:

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 2,764	\$ 2,303	\$ 2,330
Net income	155	108	104

Financial Position (dollars in millions)	1997	1996
Current assets	\$ 1,057	\$ 764
Other assets	284	274
Total assets	<u>\$ 1,341</u>	<u>\$ 1,038</u>
Current liabilities	579	397
Other liabilities	99	79
Minority interest	11	-
Total liabilities	<u>689</u>	<u>476</u>
Net assets	<u>\$ 652</u>	<u>\$ 562</u>

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PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Reorganization (cont.)

Immediately prior to the spin-off of the Kiewit Construction and Mining Group, the Company will recognize a gain equal to the difference between the carrying value of the Construction and Mining Group and its fair value. The Company will then reflect the fair value of Kiewit Construction and Mining Group as a dividend to shareholders.

Level 3 has recently decided to substantially increase its emphasis on and resources to its information services business. Pursuant to the plan, Level 3 intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network (the "Expansion Plan").

Using the network Level 3 intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at lower prices than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

(3) Discontinued Energy Operations

In connection with the Expansion Plan, Level 3 expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, the management is conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, Level 3 may dispose of that business.

On September 10, 1997, Level 3 and CalEnergy entered into an agreement whereby CalEnergy contracted to purchase Level 3's energy investments for \$1,155 million, subject to adjustments. These energy investments include approximately 20.2 million shares of CalEnergy common stock (assuming the exercise of 1 million options held by Level 3), Level 3's 30% ownership interest in CE Electric and Level 3's investments, made jointly with CalEnergy, in international power projects in Indonesia and the Philippines. The transaction was subject to the satisfactory completion of certain provisions of the agreement and closed on January 2, 1998. These assets comprised the energy segment of Level 3. Therefore, the Company has reflected these assets, the earnings and losses attributable to these assets, and the related cash flow items as discontinued operations on the balance sheets, statements of earnings and cash flows for all periods presented.

In order to fund the purchase of these assets, CalEnergy sold, in October 1997, approximately 19.1 million shares of its common stock at a price of \$37.875 per share. This sale reduced Level 3's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Company's policy to recognize gains or losses on the sale of stock by its investees. Level 3 recognized an after-tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

The Agreement with CalEnergy included a provision whereby CalEnergy and Level 3 shared equally any proceeds from the offering above or below a specified amount. The offering was conducted at a price above that provided in the agreement and therefore, Level 3 received additional proceeds of \$16 million at the time of closing.

Level 3 expects to recognize an after-tax gain on the disposition of its energy assets in 1998 of approximately \$324 million. The after-tax proceeds from the transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

The following is summarized financial information for discontinued energy operations:

Income from Discontinued Operations	1997	1996	1995
Operations			
Equity in:			
CalEnergy earnings, net	\$ 16	\$ 20	\$ 10
CE Electric earnings, net	17	(2)	-
International energy projects earnings, net	5	(5)	6
Investment income from CalEnergy	-	5	6
Income tax expense	(9)	(9)	(8)
Income from operations	<u>\$ 29</u>	<u>\$ 9</u>	<u>\$ 14</u>
CalEnergy Stock Transactions			
Gain on investee stock activity	\$ 68	\$ -	\$ -
Income tax expense	(24)	-	-
	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ -</u>
Extraordinary Loss — Windfall Tax			
Level 3's share from CalEnergy	\$ (39)	\$ -	\$ -
Level 3's share from CE Electric	(58)	-	-
Income tax benefit	34	-	-
Extraordinary loss	<u>\$ (63)</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in Discontinued Operations	1997	1996	
Investment in CalEnergy	\$ 337	\$ 292	
Investment in CE Electric	135	176	
Investment in international energy projects	186	149	
Restricted securities	2	8	
Deferred income tax liability	(17)	(17)	
Total	<u>\$ 643</u>	<u>\$ 608</u>	

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

At December 27, 1997, Level 3 owned 19.2 million shares or 24% of CalEnergy's outstanding common stock and had a cumulative investment in CalEnergy common stock of \$337 million. CalEnergy common stock is traded on the New York Stock Exchange. On December 27, 1997, the market value of Level 3's investment in CalEnergy common stock was \$548 million.

The following is summarized financial information of CalEnergy Company, Inc.:

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 2,271	\$ 576	\$ 399
Income before extraordinary item	52	92	62
Extraordinary item — Windfall tax	(136)	-	-
Level 3's share:			
Income before extraordinary item	18	22	13
Goodwill amortization	(2)	(2)	(3)
Equity in income of CalEnergy before extraordinary item	\$ 16	\$ 20	\$ 10
Extraordinary item — Windfall tax	\$ (39)	\$ -	\$ -

Financial Position (dollars in millions)	1997	1996
Current assets	\$ 2,053	\$ 945
Other assets	5,435	4,768
Total assets	7,488	5,713
Current liabilities	1,440	1,232
Other liabilities	4,494	3,301
Minority interest	134	299
Total liabilities	6,068	4,832
Net assets	\$ 1,420	\$ 881
Level 3's share:		
Equity in net assets	\$ 337	\$ 267
Goodwill	-	25
Investment in CalEnergy	\$ 337	\$ 292

In December 1996, CE Electric, which is 70% owned by CalEnergy and 30% owned by Level 3, acquired majority ownership of the outstanding ordinary share capital of Northern Electric, plc. pursuant to a tender offer (the "Tender Offer") commenced in the United Kingdom by CE Electric in November 1996. As of March 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

As of December 27, 1997, CalEnergy and Level 3 had contributed to CE Electric approximately \$410 million and \$176 million, respectively, of the approximately \$1.3 billion required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The remaining funds necessary to consummate the Tender Offer were provided by a term loan and a revolving facility agreement obtained by CE Electric. Level 3 has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern Electric, plc. at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted in July 1997. The total after-tax impact to Level 3 directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

The following is summarized financial information of CE Electric as of December 31, 1997 and December 31, 1996:

Operations (dollars in millions)	1997	1996
Revenue	\$ 1,564	\$ 37
Income before extraordinary item	58	-
Extraordinary item — Windfall tax	(194)	-
Level 3's share:		
Income before extraordinary item	\$ 17	\$ -
Management fee paid to CalEnergy	-	(2)
	<u>17</u>	<u>(2)</u>
Extraordinary item — Windfall tax	<u>\$ (58)</u>	<u>\$ -</u>
Financial Position (dollars in millions)	1997	1996
Current assets	\$ 419	\$ 583
Other assets	<u>2,519</u>	<u>1,772</u>
Total assets	<u>2,938</u>	<u>2,355</u>
Current liabilities	1,166	785
Other liabilities	1,265	718
Preferred stock	56	153
Minority interest	-	112
Total liabilities	<u>2,487</u>	<u>1,768</u>
Net assets	<u>\$ 451</u>	<u>\$ 587</u>
Level 3's share:		
Equity in net assets	<u>\$ 135</u>	<u>\$ 176</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

CE Electric's 1995 and 1996 operating results prior to the acquisition were not significant relative to Level 3's results after giving effect to certain pro forma adjustments related to the acquisitions, primarily increased amortization and interest expense.

In 1993, Level 3 and CalEnergy formed a venture to develop power projects outside of the United States. Since 1993, construction has begun on the Mahanagdong, Casecnan and Dieng power projects. The Mahanagdong project is a 165 MW geothermal power facility located on the Philippine island of Leyte. The Casecnan project is a combined irrigation and 150 MW hydroelectric power generation facility located on the island of Luzon in the Philippines. Dieng Unit 1 is a 55 MW geothermal facility on the Indonesian island of Java. An additional five units are expected to be constructed on a modular basis at the Dieng site, as geothermal resources are developed. In June 1997, Level 3 and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to Level 3.

Generally, costs associated with the development, financing and construction of the international energy projects have been capitalized by each of the projects and will be amortized over the life of each project.

The following is summarized financial information for the international energy projects:

Financial Position (dollars in millions)	Mahanagdong	Casecnan	Dieng	Other	Total
1997					
Current assets	\$ 42	\$ 334	\$ 87	\$ 67	\$ 530
Other assets	<u>252</u>	<u>148</u>	<u>240</u>	<u>171</u>	<u>811</u>
Total assets	294	482	327	238	1,341
Current liabilities	11	12	88	61	172
Other liabilities	<u>186</u>	<u>372</u>	<u>123</u>	<u>56</u>	<u>737</u>
Total liabilities (with recourse only to the projects)	<u>197</u>	<u>384</u>	<u>211</u>	<u>117</u>	<u>909</u>
Net assets	<u>\$ 97</u>	<u>\$ 98</u>	<u>\$ 116</u>	<u>\$ 121</u>	<u>\$ 432</u>
Level 3's share:					
Equity in net assets	<u>\$ 48</u>	<u>\$ 49</u>	<u>\$ 46</u>	<u>\$ 43</u>	<u>\$ 186</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

Financial Position (dollars in millions)	Mahanagdong	Casacnan	Dieng	Other	Total
1995					
Current assets	\$ 1	\$ 441	\$ 15	\$ 10	\$ 467
Other assets	239	51	118	36	444
Total assets	240	492	133	46	911
Current liabilities	15	9	24	11	59
Other liabilities	153	372	35	-	560
Total liabilities (with recourse only to the projects)	168	381	59	11	619
Net assets	\$ 72	\$ 111	\$ 74	\$ 35	\$ 292
Level 3's share:					
Equity in net assets	\$ 36	\$ 55	\$ 36	\$ 17	\$ 144
Loan to Project	-	-	5	-	5
	\$ 36	\$ 55	\$ 41	\$ 17	\$ 149

In late 1995, the Casacnan joint venture closed financing for the construction of the project with bonds issued by the project company. The difference between the interest expense on the debt and the interest earned on the unused funds prior to payment of construction costs resulted in a loss to the venture of \$12 million in 1997 and 1996. Level 3's share of these losses were \$6 million in each year. The Mahanagdong facility commenced operation in July, 1997. Level 3's proportionate share of the earnings attributable to Mahanagdong was \$7 million 1997. No income or losses were incurred by the international projects in 1995. In addition to the equity earnings and losses, Level 3 has project development and insurance expenses, and received management fee income related to the international projects in all years.

In late 1995, a Level 3 and CalEnergy venture, CE Casacnan Water and Energy Company, Inc. ("CE Casacnan") closed financing and commenced construction of a \$495 million irrigation and hydroelectric power project located on the Philippine island of Luzon. Level 3 and CalEnergy each made \$62 million of equity contributions to the project.

The CE Casacnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. On May 7, 1997, CE Casacnan announced that it had terminated the Hanbo Contract. In connection with the contract termination, CE Casacnan made a \$79 million draw request under the letter of credit issued by Korea First Bank ("KFB") to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request; the matter is being litigated. If KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the CE Casacnan project. Level 3 does not expect the outcome of the litigation to affect its financial position due to the transaction with CalEnergy.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) MFS Spin-off

In September 1995, the PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off") effective on September 30, 1995. Shares were distributed on the basis of approximately .348 shares of MFS Common Stock and approximately .130 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

The net investment in MFS distributed on September 30, 1995 was approximately \$399 million.

Operating results of MFS through September 30, 1995 are summarized as follows:

<u>(dollars in millions)</u>	<u>1995</u>
Revenue	\$ 412
Loss from operations	(176)
Net loss	(196)
Level 3's share of loss in MFS	(131)

Included in the income tax benefit on the statement of earnings for the year ended December 30, 1995, is \$93 million of tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that were not taxed due to the Spin-off.

(5) Gain on Subsidiary's Stock Transactions, net

Stock issuances by MFS for acquisitions and employee stock options, reduced Level 3's ownership in MFS prior to the Spin-off in 1995 to 66% from 67% in 1994. As a result, Level 3 recognized a gain of \$3 million in 1995 representing the increase in Level 3's proportionate share of MFS' equity. Deferred income taxes had been established on this gain prior to the Spin-off.

(6) 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 the Kiewit Mutual Fund-Money Market Portfolio and highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (cont.)

Marketable Securities, Restricted Securities and Non-current Investments

Level 3 has classified all marketable securities, restricted securities and marketable non-current investments not accounted for under the equity method as available-for-sale. Restricted securities primarily include investments in various portfolios of the Kiewit Mutual Fund that are restricted to fund certain reclamation liabilities of its coal mining ventures. Due to the anticipated increase in capital expenditures, Level 3 has reclassified its investments in marketable equity securities from non-current to current in 1997. The amortized 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 on hand or for similar investments. Net unrealized holding gains and losses are reported as a separate component of stockholders' equity, net of tax.

At December 27, 1997 and December 28, 1996 the amortized cost, unrealized holding gains and losses, and estimated fair values of marketable securities, restricted securities and marketable non-current investments were as follows:

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1997:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	\$ 234	\$ -	\$ -	\$ 234
Intermediate term bond	195	3	-	198
Tax exempt	154	3	-	157
Equity	7	4	-	11
Collateralized mortgage obligations	-	1	-	1
Equity securities	48	9	-	57
Other securities	20	-	-	20
	<u>\$ 658</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 678</u>
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 10	\$ -	\$ -	\$ 10
Equity	12	-	-	12
	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>

PETER KIEWIT SOMS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (cont.)

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1996:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	\$ 100	\$ -	\$ -	\$ 100
Intermediate term bond	65	2	-	67
Tax exempt	126	2	-	128
Equity	5	2	-	7
Corporate debt securities (held by C-TEC)	47	-	-	47
Collateralized mortgage obligations	-	1	-	1
Other securities	20	2	-	22
	<u>\$ 363</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 372</u>
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 8	\$ -	\$ -	\$ 8
Equity	7	2	-	9
	<u>\$ 15</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 17</u>
Non-current investments:				
Equity securities	<u>\$ 49</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 75</u>

Other securities consist of bonds issued by the Cascanan project and purchased by Level 3.

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable and equity securities were \$9 million and \$- million in 1997, \$3 million and \$- million in 1996, and \$1 million and \$2 million in 1995.

At December 27, 1997, the contractual maturities of the debt securities are as follows:

(dollars in millions)	Amortized Cost	Fair Value
Other securities:		
10+ years	<u>\$ 20</u>	<u>\$ 20</u>

Maturities for the mutual fund, equity securities and collateralized mortgage obligations have not been presented as they do not have a single maturity date.

Long-term Debt

The fair value of debt was estimated using the incremental borrowing rates of Level 3 for debt of the same remaining maturities. The fair value of the debt approximates the carrying amount.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments

Investments consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
Commonwealth Telephone Enterprises Inc.	\$ 75	\$ -
RCN Corporation	214	-
Cable Michigan	46	-
Pavilion Towers	22	-
Equity securities (Note 6)	-	75
C-TEC investments:		
Megacable S.A. de C.V.	-	74
Other	-	12
Other	26	28
	<u>\$ 383</u>	<u>\$ 189</u>

On September 5, 1997, C-TEC announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies effective September 30, 1997. Under the terms of the restructuring C-TEC shareholders received stock in the following companies:

- Commonwealth Telephone Enterprises, Inc., containing the local telephone group and related engineering business;
- Cable Michigan, Inc., containing the cable television operations in Michigan; and
- RCN Corporation, Inc., which consists of RCN Telecom Services; C-TEC's existing cable systems in the Boston-Washington D.C. corridor; and the investment in Megacable S.A. de C.V., a cable operator in Mexico. RCN Telecom Services is a provider of packaged local and long distance telephone, video, and internet access services provided over fiber optic networks to residential customers in Boston, New York City and Washington D.C.

As a result of the restructuring, Level 3 owns less than 50% of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method as of the beginning of 1997. C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 consolidated financial statements.

PETER KIEWIT SONS*, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments (cont.)

The following is summarized financial information of the three entities created as result of the C-TEC restructuring:

Operations (dollars in millions)	1997	1996	1995
Commonwealth Telephone Enterprises			
Revenue	\$ 197	\$ 186	\$ 174
Net income available to common stockholders	20	20	31
Level 3's share:			
Net income	10	10	15
Goodwill amortization	(1)	(1)	1
Equity in net income	<u>\$ 9</u>	<u>\$ 9</u>	<u>\$ 16</u>
Cable Michigan			
Revenue	\$ 81	\$ 76	\$ 60
Net loss available to common stockholders	(4)	(8)	(10)
Level 3's share:			
Net loss	(2)	(4)	(5)
Goodwill amortization	(4)	(4)	(4)
Equity in net loss	<u>\$ (6)</u>	<u>\$ (8)</u>	<u>\$ (9)</u>
RCH Corporation			
Revenue	\$ 127	\$ 105	\$ 91
Net (loss) income available to common stockholders	(52)	(6)	2
Level 3's share:			
Net (loss) income	(26)	(3)	1
Goodwill amortization	-	(3)	1
Equity in net (loss) income	<u>\$ (26)</u>	<u>\$ (6)</u>	<u>\$ 2</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments (cont.)

Financial Position (in millions)	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
	1997	1996	1997	1996	1997	1996
Current assets	\$ 71	\$ 51	\$ 23	\$ 10	\$ 698	\$ 143
Other assets	<u>303</u>	<u>266</u>	<u>120</u>	<u>139</u>	<u>453</u>	<u>485</u>
Total assets	374	317	143	149	1,151	628
Current liabilities	76	59	16	24	70	57
Other liabilities	260	189	166	190	708	175
Minority interest	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>	<u>16</u>	<u>5</u>
Total liabilities	336	248	197	229	794	237
Net assets (liabilities)	<u>\$ 38</u>	<u>\$ 69</u>	<u>\$ (54)</u>	<u>\$ (80)</u>	<u>\$ 357</u>	<u>\$ 391</u>
Level 3's Share:						
Equity in net assets	\$ 18	\$ 33	\$ (26)	\$ (38)	\$ 173	\$ 189
Goodwill	<u>57</u>	<u>58</u>	<u>72</u>	<u>75</u>	<u>41</u>	<u>41</u>
	<u>\$ 75</u>	<u>\$ 91</u>	<u>\$ 46</u>	<u>\$ 37</u>	<u>\$ 214</u>	<u>\$ 230</u>

On December 27, 1997 the market value of Level 3's investments in Commonwealth Telephone, Cable Michigan and RCN was \$215 million, \$76 million and \$485 million, respectively.

In February 1997, Level 3 purchased the Pavilion Towers office buildings in Aurora, Colorado for \$22 million.

Investments in 1996 also include C-TEC's 40% ownership of Megacable S.A. de C.V., Mexico's second largest cable operator, accounted for using the equity method.

(8) Intangible Assets

Intangible assets consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
CPTC intangibles and other	\$ 23	\$ 23
C-TEC:		
Goodwill	-	198
Franchise and subscriber lists	-	229
Other	<u>-</u>	<u>34</u>
	23	484
Less accumulated amortization	<u>(2)</u>	<u>(131)</u>
	<u>\$ 21</u>	<u>\$ 353</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Long-Term Debt

At December 27, 1997 and December 28, 1996, long-term debt was as follows:

(dollars in millions)	1997	1996
CPTC Long-term Debt (with recourse only to CPTC):		
Bank Note (7.7% due 2008)	\$ 65	\$ 65
Institutional Note (9.45% due 2017)	35	35
OCTA Debt (9.0% due 2006)	8	6
Subordinated Debt (9.5% No Maturity)	<u>6</u> 114	<u>2</u> 108
Other:		
Pavilion Towers Debt (8.4% due 2007)	15	-
Capitalized Leases	6	1
Other	<u>5</u> 26	<u>6</u> 7
C-TEC Longterm Debt (with recourse only to C-TEC):		
Credit Agreement — National Bank for Cooperatives (7.51% due 2009)	-	110
Senior Secured Notes (9.65% due 1999)	-	134
Term Credit Agreement — Morgan Guaranty Trust Company (7% due 2002)	<u>-</u>	<u>18</u>
	<u>-</u>	<u>262</u>
	140	377
Less current portion	<u>(3)</u>	<u>(57)</u>
	<u>\$ 137</u>	<u>\$ 320</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Long-Term Debt (cont.)

CPTC:

In August 1996, CPTC converted its construction financing note into a term note with a consortium of banks ("Bank Debt"). The interest rate on the Bank Debt is based on LIBOR plus a varying rate with interest payable quarterly. Upon completion of the SR91 toll road, CPTC entered into an interest rate swap arrangement with the same parties. The swap expires in January 2004 and fixes the interest rate on the Bank Debt from 9.21% to 9.71% during the term of the swap agreement.

The institutional note is with Connecticut General Life Insurance Company, a subsidiary of CIGNA Corporation. The note converted into a term loan upon completion of the SR91 toll road.

Substantially all the assets of CPTC and the partners' equity interest in CPTC secure the term debt.

Orange County Transportation Authority holds \$8 million of subordinated debt which is due in varying amounts over 10 years. Interest accrues at 9% and is payable quarterly beginning in 2000.

In July 1996, CPTC borrowed from the partners \$2 million to facilitate the completion of the project. In 1997, CPTC borrowed an additional \$4 million from the partners in order to comply with equity maintenance provisions of the contracts with the State of California and its lenders. The debt is generally subordinated to all other debt of CPTC. Interest on the subordinated debt compounds annually at 9.5% and is payable only as CPTC generates excess cash flows.

CPTC capitalized interest of \$- million, \$5 million and \$7 million in 1997, 1996 and 1995.

Other:

In June 1997, a mortgage with Metropolitan Life was established. The Pavilion Towers building in Aurora, CO collateralizes this debt.

Scheduled maturities of long-term debt through 2002 are as follows (in millions): 1998 — \$3; 1999 — \$6; 2000 — \$5; 2001 — \$6 and \$8 in 2002.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Income Taxes

An analysis of the income tax benefit (provision) attributable to earnings from continuing operations before income taxes and minority interest for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Current:			
U.S. federal	\$ (54)	\$ (61)	\$ (66)
Foreign	-	(4)	(4)
State	<u>(1)</u>	<u>(6)</u>	<u>(3)</u>
	(55)	(71)	(73)
Deferred:			
U.S. federal	103	67	145
Foreign	-	-	3
State	<u>-</u>	<u>1</u>	<u>4</u>
	103	68	152
	<u>\$ 48</u>	<u>\$ (3)</u>	<u>\$ 79</u>

The United States and foreign components of earnings from continuing operations for tax reporting purposes, before equity loss in MFS (recorded net of tax), minority interest and income taxes follows:

(dollar in millions)	1997	1996	1995
United States	\$ 31	\$ 106	\$ 187
Foreign	<u>-</u>	<u>1</u>	<u>3</u>
	<u>\$ 31</u>	<u>\$ 107</u>	<u>\$ 190</u>

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the earnings from continuing operations before equity loss in MFS (recorded net of tax), minority interest and income taxes for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Computed tax at statutory rate	\$ (11)	\$ (37)	\$ (67)
State income taxes	(1)	(3)	-
Depletion	3	3	2
Goodwill amortization	-	(3)	(2)
Tax exempt interest	2	2	2
Prior year tax adjustments	62	44	51
Compensation expense attributable to options	(7)	-	-
MFS deferred tax	-	-	93
Taxes on foreign operations	-	(2)	1
Other	<u>-</u>	<u>(7)</u>	<u>(1)</u>
	<u>\$ 48</u>	<u>\$ (3)</u>	<u>\$ 79</u>

During the three years ended December 27, 1997, the Company settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Income Taxes (cont.)

Possible taxes, beyond those provided on remittances of undistributed earnings of foreign subsidiaries, are not expected to be material.

The components of the net deferred tax liabilities for the years ended December 27, 1997 and December 28, 1996 were as follows:

(dollars in millions)	1997	1996
Deferred tax liabilities:		
Investments in securities	\$ 7	\$ 11
Investments in joint ventures	33	45
Asset bases - accumulated depreciation	53	225
Coal sales	41	15
Other	<u>16</u>	<u>16</u>
Total deferred tax liabilities	150	312
Deferred tax assets:		
Compensation — retirement benefits	25	29
Investment in subsidiaries	8	2
Provision for estimated expenses	7	26
Net operating losses of subsidiaries	-	6
Foreign and general business tax credits	3	67
Alternative minimum tax credits	-	16
Other	9	19
Valuation allowances	<u>-</u>	<u>(6)</u>
Total deferred tax assets	<u>52</u>	<u>159</u>
Net deferred tax liabilities	<u>\$ 98</u>	<u>\$ 153</u>

(11) Stockholders' Equity

PKS is generally committed to purchase all common stock in accordance with the Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 27, 1997 were as follows:

	Class B&C Stock	Class D Stock
Shares issued in 1995	1,021,875	530,610
Shares repurchased in 1995	136,057	210,735
Class B&C shares converted to Class D shares	6,092,877	12,847,155
Shares issued in 1996	896,640	-
Shares repurchased in 1996	146,893	1,276,000
Class B&C shares converted to Class D shares	623,475	2,052,425
Shares issued in 1997	893,924	13,113,015
Shares repurchased in 1997	44,256	14,805
Class B&C shares converted to Class D shares	1,723,966	6,517,715

The 1996 activity includes 150,995 Class D shares converting to 47,007 Class C shares. The 1997 activity includes 1,880 Class D shares converting to 510 Class C shares.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Class D Stock Plan

In December 1997, stockholders approved amendments to the 1995 Class D Stock Plan ("the Plan"). The amended plan, among other things, increases the number of shares reserved for issuance upon the exercise of stock based awards to 35,000,000, increases the maximum number of options granted to any one participant to 5,000,000, provides for the acceleration of vesting in the event of a change in control, allows for the grant of stock based awards to directors of Level 3 and other persons providing services to Level 3, and allows for the grant of nonqualified stock options with an exercise price less than the fair market value of Class D Stock.

In December 1997, Level 3 converted both option and stock appreciation rights plans of a subsidiary, to the Class D Stock plan. This conversion resulted in the issuance of 3.7 million options to purchase Class D Stock at \$9 per share. Level 3 recognized an expense, and a corresponding increase in equity, as a result of the transaction. This increase in equity and the conversion of the stock appreciation rights liability to equity are reflected as option activity in the Statement of Changes in Stockholders' Equity. The options vest over three years and expire in December 2002.

Level 3 has elected to adopt only the required disclosure provisions and not the optional expense recognition provisions under SFAS No. 123 "Accounting for Stock Based Compensation", which established a fair value based method of accounting for stock options and other equity instruments. The fair value of the options outstanding was calculated using the Black-Scholes method using risk-free interest rates ranging from 5.5% to 6.77% and expected lives of 75% of the total life of the option. Level 3 used an expected volatility rate of 0%, which is allowed for private entities under SFAS No. 123. Once Level 3's stock is listed, volatility factors will be incorporated in determining fair value. Level 3's net income and earnings per share for 1997 and 1996 would have been reduced to the pro forma amounts shown below had SFAS No. 123 been applied.

	1997	1996
Net Income of Level 3		
As Reported	\$ 93	\$ 113
Pro Forma	93	112
Basic Earnings per Share		
As Reported	\$.74	\$.97
Pro Forma	.74	.97
Diluted Earnings per Share		
As Reported	\$.74	\$.97
Pro Forma	.74	.96

The 1995 historical and pro forma amounts did not vary as the options granted in 1995 had not vested.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Class B Stock Plan (cont.)

Transactions involving stock options granted under the Plan are summarized as follows:

	Shares	Option Price Per Share	Weighted Avg. Option Price
Balance December 31, 1994	-	\$ -	\$ -
Options granted	1,340,000	\$8.08	\$8.08
Options cancelled	-	-	-
Options exercised	-	-	-
Balance December 30, 1995	1,340,000	<u>\$8.08</u>	<u>\$8.08</u>
Options granted	895,000	\$9.90	\$9.90
Options cancelled	(15,000)	8.08	8.08
Options exercised	-	-	-
Balance December 28, 1996	2,220,000	<u>\$8.08 - \$9.90</u>	<u>\$8.81</u>
Options granted	7,495,465	\$9.00 - \$10.85	\$9.93
Options cancelled	(53,000)	9.90	9.90
Options exercised	(2,318,465)	8.08 - 9.90	8.93
Balance December 27, 1997	<u>7,344,000</u>	<u>\$8.08 - \$10.85</u>	<u>\$9.91</u>
Options exercisable			
December 30, 1995	-	\$ -	\$ -
December 28, 1996	265,000	8.08	8.08
December 27, 1997	1,295,269	8.08 - 9.90	8.70

The weighted average remaining life for the 7,344,000 options outstanding on December 27, 1997 is 8.3 years.

(13) Industry and Geographic Data

The Company conducts its continuing operations primarily in three reportable segments: information services, telecommunications and coal mining. Other primarily includes CPTC and corporate overhead not attributable to a specific segment and marketable securities.

Equity earnings is included due to the significant equity investments in the telecommunications business.

In 1997, 1996 and 1995 Commonwealth Edison Company accounted for 43%, 23% and 23% of Level 3's revenues.

Industry and geographic data for the construction and energy businesses have been recorded under discontinued operations.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

A summary of the Company's operations by industry and geographic region is as follows:

(dollars in millions)	Information Services	Telecom- munications (C-TEC Entities)	Coal Mining	Discontinued Other Operations	Consolidated	
1997						
Revenue	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Operating Earnings	(16)	-	82	(23)	-	43
Equity Losses, net	-	(23)	-	(20)	-	(43)
Identifiable Assets	61	336	499	588	1,295	2,779
Capital Expenditures	14	-	3	9	-	26
Depreciation, Depletion & Amortization	8	-	8	8	-	24
1996						
Revenue	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Operating Earnings	(3)	31	94	(35)	-	87
Equity Losses, net	(1)	(1)	-	(7)	-	(9)
Identifiable Assets	29	1,100	387	380	1,170	3,066
Capital Expenditures	11	87	2	17	-	117
Depreciation, Depletion & Amortization	10	106	12	4	-	132
1995						
Revenue	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Operating Earnings	4	37	77	(73)	-	45
Equity Losses, net	-	(3)	-	(2)	-	(5)
Identifiable Assets	34	1,143	368	614	786	2,945
Capital Expenditures	6	72	4	36	-	118
Depreciation, Depletion & Amortization	5	81	7	3	-	96

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

Geographic Data (dollars in millions)	Information Services	Telecom- munications (C-TEC Entities)	Coal Mining	Discontinued Other Operations	Consolidated	
1997						
Revenue:						
United States	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 222</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 332</u>
Operating Earnings:						
United States	\$ (16)	\$ -	\$ 82	\$ (23)	\$ -	\$ 43
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (16)</u>	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ 43</u>
Identifiable Assets:						
United States	\$ 59	\$ 336	\$ 499	\$ 588	\$ 870	\$ 2,352
Other	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425</u>	<u>427</u>
	<u>\$ 61</u>	<u>\$ 336</u>	<u>\$ 499</u>	<u>\$ 588</u>	<u>\$ 1,295</u>	<u>\$ 2,779</u>
1996						
Revenue:						
United States	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 42</u>	<u>\$ 367</u>	<u>\$ 234</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 652</u>
Operating Earnings:						
United States	\$ (3)	\$ 31	\$ 94	\$ (35)	\$ -	\$ 87
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (3)</u>	<u>\$ 31</u>	<u>\$ 94</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ 87</u>
Identifiable Assets:						
United States	\$ 29	\$ 1,100	\$ 387	\$ 380	\$ 761	\$ 2,657
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>409</u>	<u>409</u>
	<u>\$ 29</u>	<u>\$ 1,100</u>	<u>\$ 387</u>	<u>\$ 380</u>	<u>\$ 1,170</u>	<u>\$ 3,066</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

Geographic Data (dollars in millions)	Information Services	Telecom- munications (C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
1995						
Revenue:						
United States	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Other	<u>36</u>	<u>325</u>	<u>216</u>	<u>3</u>	<u>-</u>	<u>580</u>
Operating Earnings:						
United States	\$ 4	\$ 37	\$ 77	\$ (73)	\$ -	\$ 45
Other	<u>4</u>	<u>37</u>	<u>77</u>	<u>(73)</u>	<u>-</u>	<u>45</u>
Identifiable Assets:						
United States	\$ 34	\$ 1,143	\$ 368	\$ 614	\$ 614	\$ 2,773
Other	<u>34</u>	<u>1,143</u>	<u>368</u>	<u>614</u>	<u>172</u>	<u>2,945</u>

(14) Related Party Transactions

Level 3 receives certain mine management services from the Construction & Mining Group. The expense for these services was \$32 million for 1997, \$37 million for 1996 and \$30 million for 1995, and is recorded in general and administrative expenses. The revenue earned by the Construction and Mining Group is included in discontinued operations.

(15) Fair Value of Financial Instruments

The carrying and estimated fair values of Level 3's financial instruments are as follows:

(dollars in millions)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Note 6)	\$ 87	\$ 87	\$ 147	\$ 147
Marketable securities (Note 6)	678	678	372	372
Restricted securities (Note 6)	22	22	17	17
Investment in equity securities (Notes 6 & 7)	-	-	75	75
Investment in C-TEC entities (Note 7)	335	776	355	315
Investments in discontinued operations (Note 3)	643	854	608	960
Long-term debt (Notes 6 & 9)	140	140	377	384

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) C-TEC Restructuring

The following is financial information of the Company had C-TEC been accounted for utilizing the equity method as of December 27, 1997 and December 28, 1996 and for each of the three years ended December 27, 1997. The 1997 financial statements include C-TEC accounted for utilizing the equity method and are presented here for comparative purposes only.

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 332	\$ 285	\$ 255
Cost of Revenue	<u>(175)</u>	<u>(134)</u>	<u>(133)</u>
	157	151	122
General and Administrative Expenses	<u>(114)</u>	<u>(95)</u>	<u>(114)</u>
Operating Earnings	43	56	8
Other (Expense) Income:			
Equity earnings (losses), net	(43)	(13)	7
Investment income, net	45	42	30
Interest expense, net	(15)	(5)	(1)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	<u>1</u>	<u>11</u>	<u>120</u>
	(12)	35	159
Equity Loss in MFS	<u>-</u>	<u>-</u>	<u>(131)</u>
Earnings from Continuing Operations before Income Taxes and Minority Interest	31	91	36
Income Tax Benefit	48	11	90
Minority Interest in Net Loss of Subsidiaries	<u>4</u>	<u>2</u>	<u>-</u>
Income from Continuing Operations	83	104	126
Income from Discontinued Operations	<u>165</u>	<u>117</u>	<u>118</u>
Net Earnings	<u>\$ 248</u>	<u>\$ 221</u>	<u>\$ 244</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) C-TEC Restructuring (cont.)

Financial Position (dollars in millions)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 87	\$ 71
Marketable securities	678	325
Restricted securities	22	17
Receivables	42	34
Investment in Discontinued Operations — Energy	643	608
Other	<u>22</u>	<u>12</u>
Total Current Assets	1,494	1,067
Net Property, Plant and Equipment	184	174
Investments	383	458
Investments in Discontinued Operations — Construction	652	562
Intangible Assets, net	21	23
Other Assets	<u>45</u>	<u>49</u>
	<u>\$ 2,779</u>	<u>\$ 2,333</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 31	\$ 41
Current portion of long-term debt	3	2
Accrued reclamation and other mining costs	19	19
Other	<u>36</u>	<u>27</u>
Total Current Liabilities	89	89
Long-term Debt, less current portion	137	113
Deferred Income Taxes	83	47
Accrued Reclamation Costs	100	98
Other Liabilities	139	163
Minority Interest	1	4
Stockholders' Equity	<u>2,230</u>	<u>1,819</u>
	<u>\$ 2,779</u>	<u>\$ 2,333</u>

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Pro Forma Information (unaudited).

The following information represents the pro forma financial position of Level 3, after reflecting the impact of the transactions with CalEnergy (Note 3), the conversion of Class C shares to Class D shares (Note 19) and transactions related to the spin-off of the Construction and Mining Group (Note 2), all of which took place or are expected to happen in the first quarter of 1998.

(dollars in millions)	1997 Historical	Adjustments	1997 Pro Forma
Current Assets			
Cash & marketable securities	\$ 765	\$ 122 (a) 1,159 (b)	\$ 2,046
Investment in discontinued operations — energy	643	(643) (b)	-
Other current assets	86		86
Total Current Assets	1,494	638	2,132
 Property, Plant & Equipment, net	 184		 184
Investment in Discontinued Operations — Construction	652	(122) (a) 350 (c) (880) (d)	-
Other Non-current assets	449		449
	<u>\$ 2,779</u>	<u>\$ (14)</u>	<u>\$ 2,765</u>
 Current Liabilities	 \$ 89	 \$ 192 (b)	 \$ 281
Non-current Liabilities	459		459
Minority Interest	1		1
Stockholders' Equity	2,230	324 (b) 350 (c) (880) (d)	2,024
	<u>\$ 2,779</u>	<u>\$ (14)</u>	<u>\$ 2,765</u>

(a) Reflect conversion of 2.3 million Class C shares to 10.5 million Class D shares.

(b) Reflect sale of energy assets to CalEnergy and related income tax liability.

(c) Reflect fair value gain on the distribution of the Construction and Mining Group.

(d) Reflect spin-off of the Construction and Mining Group.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Other Matters

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitively abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposit and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a Level 3 subsidiary, received approximately \$135 million in June 1995 and recorded it in other income on the statements of earnings.

The Company is involved in various other lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability, beyond that provided, should not materially affect the Company's financial position, future results of operations or future cash flows.

Level 3 leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 7 years aggregate \$29 million.

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 27, 1997, Level 3 had outstanding letters of credit of approximately \$22 million.

(19) Subsequent Events

In January 1998, approximately 2.3 million shares of Class C Stock, with a redemption value of \$122 million, were converted into 10.5 million shares of Class D Stock.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVLT". The Nasdaq listing will follow the separation of the Level 3 and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of Level 3 and the Construction Group. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Subsequent Events (cont.)

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by Level 3's Board of Directors at that time. Level 3's Board may choose not to force conversion if it were to decide that conversion is not in the best interests of Level 3 stockholders. If, as currently anticipated, Level 3's Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If Level 3's Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2 to

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended
December 27, 1997

Commission File
Number 0-15658

LEVER 3 COMMUNICATIONS, INC.

(formerly known as Peter Kiewit Sons', Inc.)

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-0210602
(I.R.S. Employer)
Identification No.)

1000 Kiewit Plaza, Omaha, Nebraska
(Address of principal executive office)

68131
(Zip Code)

(402) 536-3677
(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

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. ☒

The aggregate market value of the registrant's stock ("Common Stock") held by nonaffiliates as of March 15, 1998 was \$7.3 billion, based on the closing price of the registrant's common stock on the NASDAQ OTC Bulletin Board on that date.

As of March 15, 1998, 146,943,752 shares of the Common Stock were outstanding.

INTRODUCTION

This Form 10-K/A amends the Form 10-K filed by Peter Kiewit Sons', Inc. (the "Company") on March 31, 1998, as amended by a Form 10-K/A Amendment No. 1 to Form 10-K filed by the Company on April 23, 1998. This Form 10-K/A is being filed solely to set forth the information required by Part III (Items 10, 11, 12 and 13) of Form 10-K, because a definitive proxy statement containing such information will not be filed within 120 days after the end of the fiscal year covered by the Company's original Form 10-K filing. This Form 10-K/A amends Part III of the Company's original Form 10-K filing only, and all other portions of the Company's original 10-K filing remain in effect.

On March 31, 1998, the Company exchanged for all of its then outstanding Class C Stock for all of the capital stock of a subsidiary (the "Construction Subsidiary") holding the stock of Kiewit Construction Group Inc. ("KCG"), the construction subsidiary of the Company (the "Split-Off"). In connection with the Split-Off, the Company was renamed "Level 3 Communications, Inc." and the Construction Subsidiary was renamed "Peter Kiewit Sons', Inc." (In this Form 10-K/A, the Construction Subsidiary is referred to as "New PKS").

ITEM 10. MANAGEMENT

Directors and Executive Officers

Set forth below is information as of April 27, 1998 about each director and executive officer of the Company, including his business experience during the past five years.

Name	Age	Position
Walter Scott, Jr.	66	Chairman of the Board
James Q. Crowe	48	President, Chief Executive Officer and Director
R. Douglas Bradbury	47	Executive Vice President, Chief Financial Officer and Director
Kevin J. O'Hara	37	Executive Vice President and Chief Operating Officer
Terrence J. Ferguson	55	Senior Vice President, General Counsel and Secretary
Robert B. Daugherty	75	Director
William L. Grewcock	72	Director
Charles M. Harper	70	Director
Richard R. Jaros	46	Director
Robert E. Julian	58	Director
David C. McCourt	40	Director
Kenneth E. Scinson	55	Director
Michael B. Yanney	63	Director

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 New PKS since the Split-Off. Mr. Scott is also a director of Berkshire Hathaway Inc., Burlington Resources Inc., CalEnergy Company, Inc. ("CalEnergy"), ConAgra, Inc., Commonwealth Telephone Enterprises Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN"), U.S. Bancorp and Valmont Industries, Inc.

James Q. Crowe has been the President and Chief Executive Officer of the Company since August 1997, and a director of the Company since June 1993. 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, Inc. ("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, RCN and InaCom Communications, Inc.

R. Douglas Bradbury has been Executive Vice President and Chief Financial Officer of the Company since August 1997 and a director of the Company since March 1998. Mr. Bradbury served as Chief Financial Officer of MFS from 1992 to 1996, Senior Vice President of MFS from 1992 to 1995, and Executive Vice President of MFS from 1995 to 1996.

Kevin J. O'Hara has been Executive Vice President of the Company since August 1997, and Chief Operating Officer of the Company since March 1998. 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").

Terrence J. Ferguson has been Senior Vice President, General Counsel and Secretary of the Company since August 1997. Prior to that he was a Senior Vice President of MFS from September 1992 to February 1997, General Counsel from January 1992 to February 1997 and Secretary from November 1991 to February 1997.

Robert B. Daugherty has been a director of the Company since January 1986. Mr. Daugherty has been a Director of Valmont Industries, Inc. for more than the past five years, and formerly was Chairman of the Board and Chief Executive Officer of Valmont Industries, Inc.

William L. Grewcock has been a director of the Company since January 1968. Prior to the Split-Off, Mr. Grewcock was Vice Chairman of the Company for more than five years.

Charles M. Harper has been a director of the Company since January 1986. Mr. Harper was Chairman of the Board of RJR Nabisco Holdings Corp. ("RJR Nabisco") from May 1993 to May 1996 and Chief Executive Officer of RJR Nabisco from May 1993 to December 1995. Prior to that, Mr. Harper was Chairman of the Board and Chief Executive Officer of ConAgra, Inc. Mr. Harper is currently a director of ConAgra, Inc., E.I. DuPont de Nemours and Company, Norwest Corporation and Valmont Industries, 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 1997 and Chief Financial Officer of the Company from 1995 to 1997. He also served as President and Chief Operating Officer of CalEnergy from 1992 to 1993, and is presently a director of CalEnergy, Commonwealth Telephone and RCN.

Robert E. Julian has been a director of the Company since March 31, 1998. Mr. Julian has also been Chairman of the Board of PKIS since 1995. From 1992 to 1995 Mr. Julian served as Executive Vice President and Chief Financial Officer of the Company.

David C. McCourt has been a director of the Company since March 31, 1998. Mr. McCourt has also served as Chairman and Chief Executive Officer of Commonwealth Telephone, Cable Michigan, Inc. and RCN since October 1997. From 1993 to 1997 Mr. McCourt served as Chairman of the Board and Chief Executive Officer of C-TEC Corporation. Mr. McCourt is also a director of Mercom, Inc.

Kenneth E. Stinson has been a director of the Company since January 1987. Mr. Stinson has been Chairman of the Board and Chief Executive Officer of New PKS since the Split-Off. Prior to the Split-Off, Mr. Stinson was Executive Vice President of the Company for more than the last five years. Mr. Stinson is also a director of ConAgra, Inc. and Valmont Industries, Inc.

Michael B. Yanney has been a director of the Company since March 31, 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, RCN, Forest Oil Corporation and Mid-America Apartment Communities, Inc.

ITEM 11. Compensation**1997 Executive Officer and Director Compensation**

The table below shows the annual compensation of the chief executive officer and the next four most highly compensated executive officers of the Company for the 1997 fiscal year (the "Named Executive Officers").

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation (\$)
		Salary (\$)	Bonus (\$)	
Walter Scott, Jr. Chief Executive Officer	1997	872,551	2,000,000	191,109 ⁽¹⁾
	1996	715,000	2,000,000	276,400
	1995	630,000	1,250,000	157,800
Kenneth E. Stinson Executive Vice President President	1997	476,669	1,500,000	
	1996	402,500	900,000	
	1995	351,300	600,000	
Richard Geary Executive Vice President of KCG	1997	285,919	770,000	
	1996	270,750	600,000	
	1995	252,800	525,000	
George B. Toll, Jr. ⁽²⁾ Executive Vice President of KCG	1997	257,705	650,000	
	1996	231,250	500,000	
	1995	201,250	400,000	
Allan K. Kirkwood Senior Vice President of Kiewit Pacific, a KCG subsidiary	1997	221,250	360,000	
	1996	192,350	310,000	
	1995	166,150	240,000	

- (1) Other Annual Compensation means perquisites and other personal benefits received by each of the Named Executive Officers, if over \$50,000. The only reportable amounts are the non-business use of Company aircraft attributable to Mr. Scott. Aircraft usage values are calculated under federal income tax regulations and are reported as taxable income by Mr. Scott.

Each of the Named Executive Officers other than Mr. Scott set forth above is now employed by New PKS and is no longer an officer of the Company. Mr. Scott continues as Chairman of the Board of the Company, but is no longer the Chief Executive Officer of the Company. Richard R. Jaros, who resigned as an Executive Vice President of the Company effective July 31, 1997, received a salary of \$458,574 and a bonus of \$262,350 for fiscal year 1997. Messrs. Crowe, Bradbury, O'Hara and Ferguson, the four current executive officers of the Company who were employed by the Company during 1997, were paid salaries for 1997 of \$144,129, \$102,564, \$82,051 and \$52,019 respectively, and no other reportable compensation, during 1997. Each such executive officer was employed by the Company for only part of fiscal year 1997.

During 1997, each of the directors of the Company who were not employed by the Company during 1997 received directors fees consisting of an annual retainer of \$30,000 (pro-rated in the case of Mr. Crowe, who was employed by the Company for part of 1997) and fees of \$1,200 per board meeting and \$1,500 for the annual shareholder's meeting.

Compensation Committee Interlocks and Insider Participation

Prior to the Split-Off, the Compensation Committee of the Company consisted of Messrs. Daugherty and Harper and Mr. Peter Kiewit, Jr., none of whom is an officer or employee of PKS. Each of Messrs. Daugherty, Harper and Kiewit purchased Common Stock from PKS in 1997. See "Certain Relationships and Related Transactions."

After the Split-Off, the Compensation Committee of the Company consists of Messrs. Yanney, McCourt and Jaros, none of whom is an officer or employee of the Company. Each of Messrs. Yanney and McCourt purchased Common Stock from the Company in 1997. Mr. Jaros has entered into a separation agreement with the Company, pursuant to which, among other things, he has received certain severance payments. See "Certain Relationships and Related Transactions."

Change in Control Arrangements

The Company's 1995 Stock Plan (the "Plan") provides that upon a change in control of the Company (as defined in the Plan), (i) all awards under the Plan shall become immediately vested and (ii) the Committee may cancel any outstanding awards under the Plan upon ten days' advance written notice, and pay the value of such awards to the holders thereof in cash or stock. Messrs. Crowe, Bradbury, O'Hara and Ferguson are all participants in the Plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of Common Stock as of March 31, 1998 by the Company's directors, certain executive officers and directors and executive officers as a group, and each person known by the Company to beneficially own more than 5% of the outstanding Common Stock.

Name ⁽¹⁾	Number of Shares of Common Stock	Percent of Common Stock
Walter Scott, Jr. ⁽²⁾	17,686,247	12.1%
Jarr i Q. Crowe	5,666,360	3.9%
R. Douglas Bradbury	1,277,595	*
Kevin J. O'Hara ⁽²⁾	878,080	*
Robert B. Daugherty	-	*
William L. Grewcock ⁽²⁾	5,762,070	3.9%
Charles M. Harper	95,000	*
Richard R. Jaros ⁽²⁾	1,748,749	1.2%
Robert E. Julian	1,996,790	1.4%
David C. McCourt	57,500	*
Kenneth E. Stinson	150,280	*
Michael B. Yanney	50,000	*
Directors and Executive Officers as a Group	35,886,556	24.2%
Donald L. Sturm ⁽²⁾	9,111,875	6.2%

*Less than 1%

- (1) The address of each person set forth above other than Mr. Sturm is c/o the Company, 3555 Farham Street, Omaha, Nebraska 68131.

- (2) Includes 49,850 shares of Common Stock held by the Suzanne Scott Irrevocable Trust as to which Mr. Scott shares voting and investment powers, and 30,769 shares of Common Stock to be owned by Mr. Scott as a result of the conversion of the 80,000 shares of Class R Stock owned currently by Mr. Scott, assuming a Conversion Value (as defined in the Level 3 Certificate of Incorporation) of \$25 and a stock price of \$65 per share.
- (3) Includes 23,000 shares of Common Stock held by Kevin J. O'Hara Family LTD Partnership.
- (4) Includes 577,320 shares of Common Stock held by Grewcock Family Limited Partnership. Includes 175,615 shares of Common Stock held by the Bill & Berniece Grewcock Foundation as to which Mr. Grewcock shares voting and investment powers, and 30 shares of Common Stock to be owned by Mr. Grewcock as a result of the conversion of the 1,638 shares of Class R Stock owned currently by Mr. Grewcock, assuming a Conversion Value of \$25 and a stock price of \$65 per share.
- (5) Includes 185,000 shares of Common Stock held by the Jaros Family Limited Partnership. Includes 1,000,000 shares of Common Stock subject to options granted to Mr. Jaros. See "Certain Relationships and Related Transactions."
- (6) Mr. Sturm's business address is 3033 East First Avenue, Denver, Colorado 80206. Based on the Company's records as of February 28, 1998, Mr. Sturm owns 7,805,155 shares of Common Stock, and has voting and investment power with respect to 1,306,720 shares held by trusts and partnerships established for family members.

ITEM 13. CERTAIN TRANSACTIONS AND RELATIONSHIPS

In connection with his retention as Chief Executive Officer of the Company, Mr. Crowe entered into an engagement agreement (the "Engagement Agreement") with the Company. Under the Engagement Agreement, the Company acquired from Mr. Crowe, Mr. Bradbury and Mr. Ferguson, Broadband Capital Group, L.L.C., a company formed to develop investment opportunities, for a purchase price of \$68,523, the owners' cash investment in that company. Pursuant to the Engagement Agreement, the Company sold 5,000,000 shares of Common Stock to Mr. Crowe and 1,250,000 shares of Common Stock to Mr. Bradbury, in each case at \$10.85 per share. The Engagement Agreement also provided that the Company would make available for sale, from time to time prior to the consummation of the Split-Off, to certain employees of the Company designated by Mr. Crowe, including Mr. O'Hara and Mr. Ferguson, in connection with the implementation of the current business plan of the Company ("Employees"), up to an aggregate of 5,250,000 shares of Common Stock at \$10.85 per share.

The Company entered into agreements with each Business Plan Employee that provided that the Company may repurchase any Common Stock sold to the Business Plan Employee if the Business Plan Employee resigns at any time before January 1, 1999.

On August 5, 1997, the Company purchased a jet aircraft from a company controlled by Mr. Crowe for \$5.7 million, the price paid by the company for the aircraft in June 1997. The Company and Mr. Crowe have entered into an aircraft operating lease, under which Mr. Crowe may lease the aircraft for personal use at rates specified by certain Federal Aviation Administration regulations. The Company anticipates that Mr. Crowe will lease approximately 15% of the aircraft's annual flight time, and will pay the Company approximately \$70,000 per year at the current lease rate.

The Company entered into a separation agreement with Mr. Jaros, a director of the Company, in connection with the resignation of Mr. Jaros as President of Kiewit Diversified Group Inc., a subsidiary of the Company, effective July 31, 1997. Under the separation agreement, the Company paid Mr. Jaros \$1.8 million on July 31, and agreed to pay Mr. Jaros the balance of his 1997 salary (\$187,500) between August 1 and December 31, 1997 and a bonus payment of \$262,350 when the Company made its customary executive bonus payments in 1998. The Company also agreed to amend the option agreements with Mr. Jaros with respect to the options to purchase 750,000 shares of Common Stock at \$8.08 per share granted

to Mr. Jaros in 1995, and the options to purchase 250,000 shares of Common Stock at \$9.90 per share granted to Mr. Jaros in 1996, to provide that those options would be fully vested on July 31, 1997, and would be exercisable at any time during the ten-year term of the original option agreements.

In December 1996, the Company agreed to sell 50,000 shares of Common Stock to Mr. Harper, 50,000 shares of Common Stock to Mr. Daugherty and 40,000 shares of Common Stock to Mr. Kiewit, in each case at \$9.90 per share. Those stock purchase transactions were consummated in March 1997.

In October 1997, the Company sold 50,000 shares of Common Stock to Mr. Yanney and 50,000 shares of Common Stock to Mr. McCourt, in each case at \$10.85 per share.

The Company loaned George B. Toll, Jr. \$800,000 during 1994 in connection with the purchase of a residence and relocation expenses. The full principal amount of his demand note payable to the Company is currently outstanding. Mr. Toll was a director and executive officer of the Company prior to the Split-Off, but is no longer either a director or executive officer of the Company.

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, on the 27th day of April, 1998.

LEVEL 3 COMMUNICATIONS, INC.

By: /s/ James Q. Crowe

James Q. Crowe
President

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 indicated on the 27th day of April, 1998.

/s/ JAMES Q. CROWE

James Q. Crowe

Chairman of the Board and President

(Director and Principal Executive Officer)

/s/ R. L. AUGLAS BRADBURY

R. Douglas Bradbury

Chief Financial Officer

(Director and Principal Financial Officer)

/s/ ERIC J. MORTENSEN

Eric J. Mortensen

Controller

(Principal Accounting Officer)

/s/ WALTER SCOTT, JR.

Walter Scott, Jr., Director

/s/ ROBERT B. DAUGHERTY

Robert B. Daugherty, Director

/s/ WILLIAM L. GREWCOCK

William L. Grewcock, Director

/s/ CHARLES M. HARPER

Charles M. Harper, Director

/s/ RICHARD R. JAROS

Richard R. Jaros, Director

/s/ ROBERT E. JULIAN

Robert E. Julian, Director

/s/ DAVID C. MCCOURT

David C. McCourt, Director

/s/ KENNETH E. STINSON

Kenneth E. Stinson, Director

/s/ MICHAEL B. YANNEY

Michael B. Yanney, Director

INVESTOR RELATIONS

Corporate Headquarters

3555 Farnam Street
Omaha, NE 68131

Transfer Agent

Firstwest Bank, Minneapolis, P.A.
Shareowner Services
Post Office Box 64854
St. Paul, Minnesota 55164-1854

For address changes, stock transfers,
stock changes, registration changes, lost
stock certificates and stock holdings,
please contact:

Firstwest Shareowner Services

St. Paul, Minnesota
1-800-468-5516 or (612) 450-4374

Legal Address

Lawrence D. Korman

Attorneys

Wentz & Dymally, L.L.P.
2000 Civicmark Center
2500 Farnham, Suite 1000
Omaha, NE 68102

Investor Relations

For inquiries by investors, analysts, investment
advisors, etc. and stockholders about
Level 3 Communications, Inc. stock,
including requests for Securities Exchange
Commission (SEC) filings or other investor
information, please call:

John Smith

Vice President, Investor Relations
3555 Farnam Street
Omaha, NE 68131
(402) 543-4310

Public Address

For investor media inquiries:

10-K

After the close of each fiscal year, Level 3
Communications submits a report on form
10-K to the SEC, which is included in
this report and contains certain additional
information about Level 3's business.

Additional copies may be obtained without
charge by addressing your request to Mr. R.
Douglas Bradbury, Chief Financial Officer
at the Company's Corporate Headquarters.

Common Stock

Level 3 Communications' Common Stock
is traded on The Nasdaq National Market
under the symbol LVLT.

As of March 31, 1998, there were
165,999,552 Shares of Common Stock
issued and outstanding, held by 2,370
stockholders of record.

Annual Meeting

The annual meeting of stockholders is
scheduled for July 14, 1998, at the Joslyn
Art Museum, 2200 Dodge Street, Omaha,
NE at 9:30 a.m. CDT.

Internet Web Site

Additional corporate information including
company history, press releases, earnings
and financial information, may be located on
the Level 3 web site at www.lvlt.com.

LEVEL 3 COMMUNICATIONS, INC.

355 Farnam Street

Omaha, Nebraska 68131

www.l3.com

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 1998

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period _____ to _____

Commission file number 0-15658

LEVEL 3 COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-0210602
(I.R.S. Employer
Identification No.)

3555 Farnam Street, Omaha, Nebraska
(Address of principal executive offices)

68131
(Zip Code)

(402) 536-3677
(Registrant's telephone number,
including area code)

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(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The number of shares outstanding of each class of the issuer's common stock, as of November 1, 1998:

Common Stock 307,122,673 shares

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except share data)	1998	1997	1998	1997
Revenue	\$ 106	\$ 81	\$ 296	\$ 242
Costs and Expenses:				
Operating expenses	47	37	138	117
Depreciation and amortization	11	5	24	15
General and administrative expenses	96	26	199	61
Write-off of in process research & development	-	-	115	-
Total costs and expenses	<u>154</u>	<u>68</u>	<u>476</u>	<u>193</u>
Earnings (Loss) from Operations	(48)	13	(180)	49
Other Income (Expense):				
Interest income	53	8	124	23
Interest expense, net	(46)	(3)	(86)	(10)
Other, net, principally equity losses of unconsolidated entities	(27)	(10)	(53)	(11)
Total other income (expense)	<u>(20)</u>	<u>(5)</u>	<u>(15)</u>	<u>2</u>
Earnings (Loss) Before Income Taxes and Discontinued Operations	(68)	8	(195)	51
Income Tax (Provision) Benefit	<u>23</u>	<u>(2)</u>	<u>28</u>	<u>(17)</u>
Earnings (Loss) from Continuing Operations	(45)	6	(167)	34
Discontinued Operations:				
Gain on split-off of construction operations	-	-	608	-
Gain on disposition of energy business, net of income tax expense of \$174	-	-	324	-
Energy, net of income tax benefit of \$26 and \$19	-	(50)	-	(37)
Construction, net of income tax expense of \$21 and \$56	-	34	-	84
Earnings (loss) from discontinued operations	-	(16)	932	47
Net Earnings (Loss)	<u>\$ (45)</u>	<u>\$ (10)</u>	<u>\$ 765</u>	<u>\$ 81</u>
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	\$ (.15)	\$.03	\$ (.58)	\$.14
Diluted	<u>\$ (.15)</u>	<u>\$.03</u>	<u>\$ (.58)</u>	<u>\$.14</u>
Discontinued Energy Operations:				
Basic	\$ -	\$ (.21)	\$ 3.11	\$ (.15)
Diluted	<u>\$ -</u>	<u>\$ (.21)</u>	<u>\$ 3.11</u>	<u>\$ (.15)</u>
Net Earnings (Loss):				
Basic	\$ (.15)	\$ (.18)	\$ 2.55	\$ (.01)
Diluted	<u>\$ (.15)</u>	<u>\$ (.18)</u>	<u>\$ 2.55</u>	<u>\$ (.01)</u>
Net Earnings (Loss), excluding gain on split-off of construction operations:				
Basic	\$ (.15)	\$ (.18)	\$.52	\$ (.01)
Diluted	<u>\$ (.15)</u>	<u>\$ (.18)</u>	<u>\$.52</u>	<u>\$ (.01)</u>

See accompanying notes to consolidated condensed financial statements.

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

	September 30, 1998	December 27, 1997
(dollars in millions, except share data)		
Assets		
Current Assets		
Cash and cash equivalents	\$ 653	\$ 87
Marketable securities	2,980	678
Restricted securities	24	22
Accounts receivable	59	42
Investment in discontinued operations - energy	-	643
Other	56	22
Total Current Assets	3,772	1,494
Property, Plant and Equipment, less accumulated depreciation and amortization of \$232 and \$228		
	594	184
Investments	313	383
Investment in Discontinued Operations - Construction	-	652
Other Assets	181	66
	<u>\$ 4,860</u>	<u>\$ 2,779</u>

See accompanying notes to consolidated condensed financial statements.

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

(dollars in millions, except share data)	September 30, 1998	December 27, 1997
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 126	\$ 31
Current portion of long-term debt	6	3
Accrued reclamation and other mining costs	16	19
Accrued interest	80	2
Deferred income taxes	6	15
Income taxes payable	6	-
Other	37	19
Total Current Liabilities	<u>277</u>	<u>89</u>
Long-Term Debt, less current portion	2,140	137
Deferred Income Taxes	92	83
Accrued Reclamation Costs	96	100
Other Liabilities	157	140
Stockholders' Equity:		
Preferred stock, no par value, authorized 10,000,000 shares; no shares outstanding in 1998 and 1997	-	-
Common Stock, \$.01 par value in 1998 and \$.0625 par value in 1997:		
Common Stock (Class D in 1997), authorized 500,000,000 shares; 307,187,326 shares outstanding in 1998 and 271,034,280 outstanding in 1997	3	8
Class B, no shares outstanding in 1997	-	-
Class C, 10,132,343 outstanding in 1997	1	1
Additional paid-in capital	736	427
Accumulated other comprehensive income (loss)	5	(5)
Retained earnings	1,354	1,799
Total Stockholders' Equity	<u>2,098</u>	<u>2,230</u>
	<u>\$ 4,860</u>	<u>\$ 2,779</u>

See accompanying notes to consolidated condensed financial statements.

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

(dollars in millions)	Nine Months Ended September 30,	
	1998	1997
Cash flows from continuing operations:		
Net cash (used in) provided by continuing operations	\$ (16)	\$ 167
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	2,882	160
Purchases of marketable securities	(5,132)	(168)
Change in restricted securities	-	4
Acquisitions and investments	(24)	(32)
Proceeds from sale of property, plant and equipment and other investments	26	1
Capital expenditures	(409)	(20)
Net cash used in investing activities	(2,657)	(55)
Cash flows from financing activities:		
Payments on long-term debt including current portion	(7)	(2)
Issuance of long-term debt, net	1,937	17
Issuances of common stock	21	49
Proceeds from exercise of stock options	7	-
Dividends paid	-	(12)
Exchange of Class B&C Stock for Common Stock, net	122	72
Net cash provided by financing activities	2,080	124
Cash flows from discontinued operations:		
Proceeds from sale of energy operations	1,159	-
Investments in discontinued energy operations	-	(34)
Net cash provided by (used in) discontinued operations	1,159	(34)
Cash and cash equivalents of C-TEC at the beginning of 1997	-	(76)
Net change in cash and cash equivalents	566	126
Cash and cash equivalents at beginning of year	87	147
Cash and cash equivalents at end of period	<u>\$ 653</u>	<u>\$ 273</u>
Non-Cash investing activities:		
Issuance of stock for acquisitions:		
XCOM Technologies, Inc.	\$ 154	\$ -
GeoNet Communications, Inc.	19	-
Other	10	-

The activities of the Construction & Mining Group have been removed from the Consolidated Condensed Statements of Cash Flows.

See accompanying notes to consolidated condensed financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
For the nine months ended September 30, 1998
(unaudited)

(dollars in millions)	Class B&C Common Stock	Common Stock (Class D in 1997)	Additional Paid-in Capital	Other Accumulated Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 28, 1997	\$ 1	\$ 8	\$ 427	\$ (5)	\$ 1,799	\$ 2,230
Common Stock:						
Issuance of Common Stock	-	1	203	-	-	204
Stock options exercised	-	1	7	-	(1)	7
Designation of par value to \$.01	-	(8)	8	-	-	-
Stock dividend	-	1	(1)	-	-	-
Stock option grants	-	-	25	-	-	25
Income tax benefit from exercise of options	-	-	12	-	-	12
Class R Stock:						
Issuance of Class R Stock	-	-	92	-	(92)	-
Forced conversion of Class R Stock to Common Stock	-	-	72	-	(72)	-
Class C Stock:						
Repurchases	-	-	(25)	-	-	(25)
Conversion of debentures	-	-	10	-	-	10
Net Earnings	-	-	-	-	765	765
Other Comprehensive Loss	-	-	-	(5)	-	(5)
Split-off of the Construction & Mining Group	(1)	-	(94)	15	(1,045)	(1,125)
Balance at September 30, 1998	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 736</u>	<u>\$ 5</u>	<u>\$ 1,354</u>	<u>\$ 2,068</u>

See accompanying notes to consolidated condensed financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

1. Basis of Presentation

The consolidated condensed balance sheet of Level 3 Communications, Inc. and subsidiaries ("Level 3" or the "Company"), at December 27, 1997 has been condensed from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K, as amended, for the year ended December 27, 1997. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. The preparation of the consolidated condensed financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenue and expenses during the reported period. Actual results could differ from these estimates.

In 1997, the Company agreed to sell its energy assets to CalEnergy Company, Inc. ("CalEnergy") and to separate the construction operations ("Construction & Mining Group") from the Company. On January 2, 1998, the Company completed the sale of its energy assets to CalEnergy. On March 31, 1998, the Company completed the split-off of the Construction & Mining Group to stockholders that held Class C Stock. Therefore, the assets and liabilities and results of operations of both businesses have been classified as discontinued operations on the consolidated condensed balance sheet and statement of operations for all periods presented. Only the results of operations of the energy business have been reflected as discontinued on the statement of cash flows.

The Company is currently constructing its communications network. Costs associated directly with the uncompleted network and interest expense incurred during construction are capitalized. As segments of the network become operational, the assets will be depreciated over their useful lives.

The Company is currently developing business support systems. 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 the project, the total cost of the business support systems will be amortized over its useful life.

The capitalized business support systems and network construction costs incurred to date of \$364 million, have been classified as assets under construction within Property, Plant & Equipment in the accompanying consolidated condensed balance sheet.

The results of operations for the three and nine months ended September 30, 1998, are not necessarily indicative of the results to be expected for the full year.

On May 1, 1998, the Company's Board of Directors changed Level 3's fiscal year end from the last Saturday in December to a calendar year end. The additional five days in the 1998 fiscal year will be reflected in the Company's Form 10-K for the period ended December 31, 1998.

Where appropriate, items within the consolidated condensed financial statements have been reclassified from the previous periods to conform to current period presentation.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

2. Reorganization - Discontinued Construction Operations

On March 31, 1998, a separation of the Company's Construction & Mining Group and Diversified Group was completed through the split-off of the Construction and Mining Group (the "Split-off").

The Company recognized a gain of \$608 million equal to the difference between the carrying value of the Construction & Mining Group and its fair value in accordance with the Financial Accounting Standards Board Emerging Issues Tax Force Issue 96-4. No taxes were provided on this gain due to the tax-free nature of the Split-off. The Company then reflected the fair value of the Construction & Mining Group as a distribution to the Class C stockholders.

In connection with the Split-off, Level 3 and the Construction & Mining Group entered into various agreements including a Separation Agreement, a Tax Sharing Agreement and an amended Mine Management Agreement.

The Separation Agreement, as amended, provides for the allocation of certain risks and responsibilities between Level 3 and the Construction & Mining Group and for cross-indemnifications that are intended to allocate financial responsibility to the Construction & Mining Group for liabilities arising out of the construction business and to allocate to Level 3 financial responsibility for liabilities arising out of the non-construction businesses. The Separation Agreement also allocates certain corporate-level risk exposures not readily allocable to either the construction businesses or the non-construction businesses.

Under the Tax Sharing Agreement, with respect to periods, or portions thereof, ending on or before the Split-off, Level 3 and the Construction & Mining Group generally will be responsible for paying the taxes relating to such returns, including any subsequent adjustments resulting from the redetermination of such tax liabilities by the applicable taxing authorities, that are allocable to the non-construction businesses and construction businesses, respectively. The Tax Sharing Agreement also provides that Level 3 and the Construction & Mining Group will indemnify the other from certain taxes and expenses that would be assessed if the Split-off were determined to be taxable, but solely to the extent that such determination arose out of the breach by Level 3 or the Construction & Mining Group, respectively, of certain representations made to the Internal Revenue Service in connection with the private letter ruling issued with respect to the Split-off. If the Split-off were determined to be taxable for any other reason, those taxes would be allocated equally to Level 3 and the Construction & Mining Group. Finally, under certain circumstances, Level 3 would make certain liquidated damage payments to the Construction & Mining Group if the Split-off was determined to be taxable, in order to indirectly compensate Class C stockholders for taxes assessed upon them in that event.

In connection with the Split-off, the Mine Management Agreement, pursuant to which the Construction & Mining Group provides mine management and related services to Level 3's coal mining operations, was amended to provide the Construction & Mining Group with a right of offer in the event that Level 3 were to determine to sell any or all of its coal mining properties. Under the right of offer, Level 3 would be required to offer to sell those properties to the Construction & Mining Group. If the Construction & Mining Group were to decline to purchase the properties at that price, Level 3 would be free to sell them to a third party for an amount greater than or equal to that price. If Level 3 were to sell the properties to a third party, thus terminating the Mine Management Agreement, it would be required to pay the Construction & Mining Group an amount equal to the discounted present value of the Mine Management Agreement, determined, if necessary, by an appraisal process.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

2. Reorganization - Discontinued Construction Operations (cont.)

Following the Split-off, the Company's common stock began trading on The Nasdaq National Market on April 1, 1998, under the symbol "LVL". In connection with the Split-off, the construction business was renamed "Peter Kiewit Sons', Inc." and the Class D Stock became the common stock of Level 3 Communications, Inc. ("Common Stock"). Accordingly, the separate financial statements of Peter Kiewit Sons', Inc. should be obtained to review the financial position of the Construction & Mining Group as of December 27, 1997 and the results of operations for the three and nine months ended September 30, 1997.

The Company's certificate of incorporation gave stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right was eliminated as a result of the Split-off. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R Convertible Stock ("Class R Stock") in January 1998, which was convertible into Level 3 Common Stock in accordance with terms ratified by stockholders in December 1997. The Company reflected in the equity accounts the exchange of the conversion right and issuance of the Class R Stock at its fair value of \$92 million at the date of the Split-off.

On May 1, 1998, the Board of Directors of Level 3 Communications, Inc. determined to force conversion of all shares of the Company's Class R Stock into common stock of the Company, effective May 15, 1998. The Class R Stock was converted into Level 3 Common Stock in accordance with the formula set forth in the Certificate of Incorporation of the Company. The formula provided for a conversion ratio equal to \$25, divided by the average of the midpoints between the high and low sales prices for Level 3 Common Stock on each of the fifteen trading days during the period beginning April 9 and ending April 30. The average for that period was \$32.14, adjusted for the stock dividend issued August 10, 1998. Accordingly, each holder of Class R Stock received .7776 of a share of Level 3 Common Stock for each share of Class R Stock held. In total 6.5 million shares of Class R Stock were converted into 5.1 million shares of Common Stock. The value of the Class R Stock at the time of the forced conversion was \$25 times the 6.5 million shares outstanding, or \$164 million. The Company recognized the additional \$72 million of value upon conversion of the Class R Stock to Common Stock. As a result of the forced conversion, certain adjustments were made to the cost sharing and risk allocation provisions of the Separation Agreement and Tax Sharing Agreement between the Company and Peter Kiewit Sons', Inc. which reduced the costs and risks allocated to the Company.

The Company has embarked on a plan to become 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. To reach this goal, the Company plans to expand substantially the business of its PKS Information Services, Inc. subsidiary and to create, through a combination of construction, purchase and leasing of facilities and other assets, an international, end-to-end, facilities-based communications network (the "Business Plan"). The Company is designing the network based on Internet Protocol ("IP") technology in order to leverage the efficiencies of this technology to provide lower cost communications services.

3. Discontinued Energy Operations

On January 2, 1998, the Company completed the sale of its energy assets to CalEnergy. Level 3 recognized an after-tax gain on the disposition of \$324 million and the after-tax proceeds of approximately \$967 million from the transaction are being used to fund in part the Business Plan. Results of operations for the period through January 2, 1998, were not considered significant and the gain on disposition was calculated using the carrying amount of the energy assets as of December 27, 1997.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

4. Earnings Per Share

Basic earnings per share have been computed using the weighted average number of shares during each period. Diluted earnings per share have been computed by including stock options considered to be potentially dilutive common shares.

The Company had a loss from continuing operations for the three and nine month periods ended September 30, 1998, therefore, no potential common shares related to Company stock options have been included in the computation of the diluted earnings per share because the resulting computation would be anti-dilutive. For the periods ending September 30, 1997, potentially dilutive stock options are calculated in accordance with the treasury stock method which assumes that proceeds from exercise of all options are used to repurchase common stock at the average market value. The number of shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the options.

The following details the earnings (loss) per share calculations for Level 3 Common Stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Earnings (loss) from continuing operations (in millions)	\$ (45)	\$ 6	\$ (167)	\$ 34
Earnings (loss) from discontinued energy operations	-	(50)	932	(37)
Net earnings (loss)	<u>\$ (45)</u>	<u>\$ (44)</u>	<u>\$ 765</u>	<u>\$ (3)</u>
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	306,515	245,854	300,151	245,130
Additional dilutive stock options	-	540	-	540
Total number of shares used to compute dilutive earnings per share	<u>306,515</u>	<u>246,394</u>	<u>300,151</u>	<u>245,670</u>
Continuing operations:				
Basic earnings (loss) per share	\$ (.15)	\$.03	\$ (.56)	\$.14
Diluted earnings (loss) per share	<u>\$ (.15)</u>	<u>\$.03</u>	<u>\$ (.56)</u>	<u>\$.14</u>
Discontinued energy operations:				
Basic earnings (loss) per share	\$ -	\$ (.21)	\$ 3.11	\$ (.15)
Diluted earnings (loss) per share	<u>\$ -</u>	<u>\$ (.21)</u>	<u>\$ 3.11</u>	<u>\$ (.15)</u>
Net earnings (loss):				
Basic earnings (loss) per share	\$ (.15)	\$ (.18)	\$ 2.55	\$ (.01)
Diluted earnings (loss) per share	<u>\$ (.15)</u>	<u>\$ (.18)</u>	<u>\$ 2.55</u>	<u>\$ (.01)</u>
Net earnings (loss) excluding gain on split-off of construction operations:				
Basic earnings (loss) per share	\$ (.15)	\$ (.18)	\$.52	\$ (.01)
Diluted earnings (loss) per share	<u>\$ (.15)</u>	<u>\$ (.18)</u>	<u>\$.52</u>	<u>\$ (.01)</u>

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

4. Earnings Per Share (cont.)

The Company had 19,690,144 options outstanding that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the three and nine month periods ended September 30, 1998.

Effective August 10, 1998, and December 26, 1997, the Company issued dividends of one share and four shares of Level 3 Common Stock (previously Class D Stock) for each share of Level 3 Common Stock outstanding. All share information and per share data have been restated to reflect these stock dividends.

5. Acquisitions

On April 23, 1998, the Company acquired XCOM Technologies, Inc. ("XCOM"), a privately held company that has developed technology which the Company believes will provide certain key components necessary for the Company to develop an interface between its IP-based network and the public switched telephone network. The Company issued approximately 5.3 million restricted shares of Level 3 Common Stock and 0.8 million options and warrants to purchase Level 3 Common Stock in exchange for all the stock, options and warrants of XCOM.

The Company accounted for this transaction, valued at \$154 million, as a purchase. Of the total purchase price, \$115 million was attributable to in-process research and development, and was taken as a nondeductible charge to earnings in the second quarter of 1998. The purchase price exceeded the fair value of the net assets acquired by \$30 million which was recognized as goodwill and is being amortized over five years.

On September 30, 1998, Level 3 acquired GeoNet Communications, Inc. ("GeoNet"), a regional Internet service provider located in Northern California. The Company issued approximately 0.6 million shares and options in exchange for GeoNet's capital stock, which based on Level 3's closing price on September 30, valued the transaction at approximately \$19 million. Goodwill of \$20 million was recognized from this transaction and will be amortized over five years.

XCOM's and GeoNet's 1997 and 1998 operating results prior to the acquisitions were not significant relative to the Company's results.

For the Company's acquisitions, the excess purchase price over the fair market value of the underlying assets was allocated to goodwill, other intangible assets and property based upon preliminary estimates of fair value. The Company does not believe that the final purchase price allocation will vary significantly from the preliminary purchase price allocation.

6. Investments

In September 1997, C-TEC Corporation ("C-TEC") announced that its Board of Directors had approved the planned restructuring of C-TEC into three publicly traded companies effective September 30, 1997. Under the terms of the restructuring C-TEC stockholders received stock in the following companies:

Commonwealth Telephone Enterprises, Inc., containing the local telephone group and related engineering business;

Cable Michigan, Inc. containing the cable television operation; and

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

6. Investments (cont.)

RCN Corporation, Inc. which consists of RCN Telecom Services; C-TEC, existing cable systems in the Boston-Washington D.C. corridor; and the investment in Megacable S.A. de C.V., a cable operator in Mexico. RCN Telecom Services is a provider of packaged local and long distance telephone, video and internet access services provided over fiber optic networks to residential customers.

As a result of the restructuring, Level 3 owns less than 50% of each of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method.

On June 4, 1998, Cable Michigan announced that its Board of Directors had reached a definitive agreement to sell the company to Avalon Cable for \$40.50 per share in a cash-for-stock transaction. Level 3 received approximately \$129 million when the transaction closed on November 6, 1998 and expects to recognize a pre-tax gain of approximately \$90 million in the fourth quarter.

On September 25, 1998, Commonwealth Telephone Enterprises, Inc. ("CTCO") announced that it was commencing a rights offering of 3.7 million shares of its common stock. Under the terms of the offering, each stockholder received one right for every five shares of CTCO Common Stock or CTCO Class B Common Stock held. The rights enabled the holder to purchase CTCO Common Stock at a subscription price of \$21.25 per share. Each right also carried the right to oversubscribe at the subscription price for the offered shares not purchased pursuant to the initial exercise of rights.

Level 3, which owned approximately 48% of CTCO prior to the rights offering, exercised its 1.8 million rights it received with respect to the shares it held. Messrs. Walter Scott, Jr., James Q. Crowe and David C. McCourt, members of the Board of Directors of both Level 3 and CTCO, agreed to oversubscribe for all the other shares offered for sale in the rights offering. The commitments of Messrs. Scott, Crowe, McCourt and other stockholders, resulted in Level 3 maintaining its 48% ownership interest in CTCO after the rights offering.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

6. Investments (cont.)

The following is summarized financial information of the three entities created as a result of the C-TEC restructuring for the three and nine months ended September 30, 1998 and 1997, and as of September 30, 1998 and December 31, 1997 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Operations:				
Commonwealth Telephone Enterprises:				
Revenue	\$ 58	\$ 50	\$ 167	\$ 145
Net income available to common stockholders	3	6	12	18
Level 3's share:				
Net income	2	3	6	9
Goodwill amortization	-	-	(1)	(1)
Equity in net income	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 8</u>
Cable Michigan:				
Revenue	\$ 23	\$ 21	\$ 66	\$ 61
Net loss available to common stockholders	(3)	-	(9)	(3)
Level 3's share:				
Net (loss) income	(1)	-	(4)	(2)
Goodwill amortization	(1)	-	(3)	(2)
Equity in net loss	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ (4)</u>
RCN Corporation:				
Revenue	\$ 58	\$ 31	\$ 148	\$ 92
Net loss available to common stockholders	(53)	(15)	(170)	(35)
Level 3's share:				
Net loss	(22)	(7)	(75)	(17)
Goodwill amortization	-	-	-	-
Equity in net loss	<u>\$ (22)</u>	<u>\$ (7)</u>	<u>\$ (75)</u>	<u>\$ (17)</u>

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

6. Investments (cont.)

	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
Financial Position:	1998	1997	1998	1997	1998	1997
Current assets	\$ 70	\$ 71	\$ 16	\$ 23	\$ 1,185	\$ 703
Other assets	339	303	112	120	705	448
Total assets	409	374	128	143	1,890	1,151
Current liabilities	71	76	22	16	178	70
Other liabilities	287	260	154	166	1,251	708
Minority interest	-	-	14	15	59	16
Total liabilities	358	336	190	197	1,488	794
Net assets (liabilities)	\$ 51	\$ 38	\$ (62)	\$ (54)	\$ 402	\$ 357
Level 3's share:						
Equity in net assets (liabilities)	\$ 25	\$ 18	\$ (30)	\$ (26)	\$ 164	\$ 173
Goodwill	55	57	69	72	-	41
	\$ 80	\$ 75	\$ 39	\$ 46	\$ 164	\$ 214

The Company recognizes gains from the sale, issuance and repurchase of stock by its subsidiaries and equity method investees once any unamortized goodwill associated with the investment has been reduced to zero. During 1998, RCN issued stock in a public offering and for certain acquisitions. The increase in the Company's proportionate share of RCN's net assets as a result of these transactions eliminated the unamortized goodwill attributable to the Company's investment in RCN and resulted in pre-tax gains of \$4 million and \$25 million to the Company for the three months and nine months ended September 30, 1998, respectively.

On September 30, 1998, Level 3 owned approximately 48%, 49% and 41% of the outstanding shares of Commonwealth Telephone, Cable Michigan and RCN, respectively. The market value of the Company's investment in the three entities on September 30, 1998, was \$216 million, \$116 million and \$346 million, respectively.

7. Long Term Debt

On April 28, 1998, the Company received \$1.94 billion of proceeds from an offering of \$2 billion aggregate principal amount 9.125% Senior Notes Due 2008 (the "Senior Notes"). The Senior Notes are senior, unsecured obligations of the Company, ranking pari passu with all existing and future senior unsecured indebtedness of the Company. The Senior Notes contain certain covenants, which among others, limit consolidated debt, dividend payments, and transactions with affiliates. The Company is using the net proceeds of the Senior Notes in connection with the implementation of its Business Plan to increase substantially its information services business and to expand the range of services it offers by building an advanced international, facilities-based communications network based on IP technology. Debt issuance costs of \$65 million have been capitalized and will be amortized over the term of the notes. The Company capitalized \$5 million of interest expense and amortized debt issuance costs related to network construction and systems development projects in the third quarter of 1998 and \$6 million for the nine months ended September 30, 1998.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

8. Level 3 Stock Plan

Subsequent to the Split-off, the Company adopted the recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") when it adopted an outperform stock option program ("OSO"). Under SFAS No. 123, the fair value of an option (as computed in accordance with accepted option valuation models) on the date of grant is amortized over the vesting period of the option. The recognition provisions of SFAS No. 123 are applied prospectively upon adoption. As a result, the recognition provisions 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 OSO program was designed by the Company so that its stockholders 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. 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. When the stock price gain is greater than the corresponding gain on the S&P 500 Index, the value received for options under the OSO plan is based on a formula involving a multiplier related to the level by which the Level 3 Common Stock outperforms the S&P 500 Index. To the extent that the Level 3 Common Stock outperforms the S&P 500, the value of OSOs to an option holder may exceed the value of non-qualified stock options.

The Company believes that the fair value method of accounting more appropriately reflects the substance of the transaction between an entity that issues stock options, or other stock-based instruments, and its employees and consultants; that is, an entity has granted something of value to an employee and consultants (the stock option or other instrument) generally in return for their continued employment and services. The Company believes that the value of the instrument granted to employees and consultants should be recognized in financial statements because nonrecognition implies that either the instruments have no value or that they are free to employees and consultants, neither of which is an accurate reflection of the substance of the transaction. 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 will not be settled in cash, but rather, generally, through issuance of common stock.

The Company believes that the adoption of SFAS No. 123 will result in material non-cash charges to operations in 1998 and thereafter. 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 of each option estimated at the time of its grant. The expense recognized for options granted to employees and consultants for services performed for the three and nine months ended September 30, 1998, was \$12 million and \$23 million, respectively. In addition to the expense recognized, the Company capitalized \$2 million of non-cash compensation for employees directly involved in the construction of the IP network and the development of the business support systems. On a pro forma basis, adopting SFAS No. 123 would not have had a material effect on the results of operations for the three and nine month periods in 1997.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

9. Comprehensive Income

In the first quarter of 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". The standard requires the display and reporting of comprehensive income which includes all changes in stockholders' equity with the exception of additional investments by stockholders or distributions to stockholders. Comprehensive income for the Company includes net earnings (loss), unrealized gains (losses) on securities and foreign currency translation adjustments, which are charged or credited to the cumulative translation account within stockholders' equity.

Comprehensive income (loss) for the three and nine months ended September 30, 1998 and 1997 was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Net earnings (loss)	\$ (45)	\$ (10)	\$ 765	\$ 81
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustments	-	(1)	1	(2)
Unrealized holding gains (losses) arising during period	(4)	14	(1)	(7)
Reclassification adjustment for (gains) losses included in net earnings	-	-	(8)	-
Other comprehensive income (loss), before tax	(4)	13	(8)	(9)
Income tax benefit (provision) related to items of other comprehensive income (loss)	1	(5)	3	2
Other comprehensive income (loss) net of taxes	(3)	8	(5)	(7)
Comprehensive income (loss)	<u>\$ (48)</u>	<u>\$ (2)</u>	<u>\$ 760</u>	<u>\$ 74</u>

10. New Accounting Pronouncements

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", ("SFAS No. 131"), which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data. This statement is effective for financial statements for periods beginning after December 15, 1997. The Company will reflect the adoption of SFAS No. 131 in its December 31, 1998 financial statements.

On March 4, 1998, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). The effective date of this pronouncement is for fiscal years beginning after December 15, 1998, however, earlier application is encouraged and the Company is accounting for these costs in accordance with SOP 98-1 in 1998.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

10. New Accounting Pronouncements (cont.)

On April 3, 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities", ("SOP 98-5"), which provides guidance on the financial reporting of start-up and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. The Company is required to reflect the initial application of SOP 98-5 as the cumulative effect of a change in accounting principle, as described in Accounting Principles Board Opinion No. 20, "Accounting Changes". As a result of the cumulative effect of a change in accounting treatment, the Company expects to record a charge to earnings in the first quarter of 1999 for any unamortized start-up or organization costs as of the beginning of 1999.

On June 15, 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at the 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 and, if it is, the type of hedge transaction. The Company does not currently utilize derivative instruments, therefore the adoption of SFAS No. 133 is not expected to have a significant effect on the Company's results of operations or its financial position.

11. Business Developments

On March 23, 1998, the Company and Frontier Communications International, Inc. ("Frontier") entered into an agreement ("Frontier Agreement") enabling the Company to lease approximately 8,300 miles of OC-12 network capacity on Frontier's new 13,000 mile SONET fiber optic, IP-capable network, currently under construction for a period of up to five years. The leased network will initially connect 15 of the larger cities across the United States. While requiring an aggregate minimum payment of \$165 million over its five-year term, the Frontier Agreement does not impose monthly minimum consumption requirements on the Company, allowing the Company to order, alter or terminate circuits as it deems appropriate. The Company recognized costs in the third quarter of 1998 as portions of the network became operational.

On April 2, 1998, the Company announced it had reached a definitive agreement with Union Pacific Railroad Company ("Union Pacific") granting the Company rights-of-way along Union Pacific's rail routes for construction of the Company's North American intercity network. The Company expects that the Union Pacific agreement will satisfy substantially all of its anticipated right-of-way requirements west of the Mississippi River and approximately 50% of the right-of-way requirements for its North American intercity network. The agreement provides for initial fixed payments of up to \$8 million to Union Pacific upon execution of the agreement and throughout the construction period, recurring payments in the form of cash, communications capacity, and other communications services based on the number of conduits that are operational and certain construction obligations of the Company to provide fiber or conduit connections for Union Pacific at the Company's incremental cost of construction.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

11. Business Developments (cont.)

On June 23, 1998, the Company signed a master easement agreement with Burlington Northern and Santa Fe Railway Company ("BNSF"). The agreement grants Level 3 right-of-way access to BNSF rail routes in as many as 28 states, over which to build its network. Under the easement agreement, Level 3 will make annual payments to BNSF and provide communications capacity to BNSF for its internal requirements. The amount of the annual payments is dependent upon the number of conduits installed, the number of conduits with fiber, and the number of miles of conduit installed along BNSF's route.

On June 18, 1998, Level 3 selected Peter Kiewit Sons', Inc. ("Kiewit") to build its 15,000 mile intercity communications network. The overall cost of the project is estimated at \$2 billion. Construction of the network began in the third quarter of 1998 and is expected to be completed during the first quarter of 2001. The contract provides that Kiewit be reimbursed for its costs relating to all direct and indirect project level costs. In addition, Kiewit will have the opportunity to earn an award fee that will be based on cost and speed of construction, quality, safety and program management. The award fee will be determined by Level 3's assessment of Kiewit's performance in each of these areas.

On July 20, 1998, Level 3 entered into a network construction cost-sharing agreement with INTERNEXT, LLC, a subsidiary of NEXTLINK Communications, Inc. valued at \$700 million. The agreement calls for INTERNEXT to acquire the right to use 24 fibers and certain associated facilities installed along the entire route of Level 3's 15,000 mile intercity fiber optic network in the United States. INTERNEXT will pay Level 3 as segments of the intercity network are completed which will reduce the overall cost of the network to the Company.

The network as provided to INTERNEXT will not include the necessary electronics that allow the fiber to carry communications transmissions. INTERNEXT will be restricted from selling or leasing fiber to unaffiliated companies for the next four years. Also, under the terms of the agreement, INTERNEXT has the right to an additional conduit for its exclusive use and to share costs and capacity in certain future fiber cable installations in Level 3 conduits.

On August 3, 1998, Level 3 and a group of 32 other global telecommunications companies entered into an agreement to construct an undersea cable system connecting Japan and the United States by mid-year 2000. The parties to this agreement are investing in excess of \$1 billion to build the network, of which Level 3 is expected to contribute approximately \$130 million. In addition, each party will have joint responsibility for network oversight, maintenance and administration.

On October 14, Level 3 announced that it had signed an agreement with Global Crossing Ltd. for trans-oceanic capacity on Global Crossing's fiber optic cable network. The agreement, covering 25 years and valued at approximately \$100 million, will provide Level 3 with as-needed dedicated capacity across the Atlantic Ocean. Level 3 will have the option of utilizing capacity on other segments of Global Crossing's worldwide network.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

12. Other Matters

Prior to the Split-off, as of January 1 of each year, holders of Class C Stock had the right to convert Class C Stock into Class D Stock, subject to certain conditions. In January 1998, holders of Class C Stock converted 2.3 million shares, with a redemption value of \$122 million, into 21 million shares of Level 3 Common Stock (formerly Class D Stock).

The Company is involved in various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability for legal proceedings beyond that provided should not materially affect the Company's financial position, future results of operations or future cash flows.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's consolidated condensed financial statements (including the notes thereto), included elsewhere herein.

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 the Company. When used in this document, the words "anticipate", "believe", "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. For a more detailed description of these risks and factors, please see the Company's additional filings with the Securities and Exchange Commission.

Recent Developments

Split-off

In October 1996, the Board of Directors of the Company (the "Board") directed management of the Company to pursue a listing of the Company's Class D Diversified Group Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class D Stock"), as a way to address certain issues created by the Company's then two-class capital stock structure and the need to attract and retain the best management for the Company's businesses. During the course of its examination of the consequences of a listing of the Class D Stock, management concluded that a listing of the Class D Stock would not adequately address these issues, and instead began to study a separation of the construction operations ("Construction Group") from the other businesses of the Company (the "Diversified Group"), thereby forming two independent companies. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction Group and the Diversified Group through a split-off of the Construction Group (the "Split-off"). At a special meeting on August 14, 1997, the Board approved the Split-off.

The separation of the Construction Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of the holders of both the Company's Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class C Stock"), and the Class D Stock, and the receipt by Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. stockholders. On December 8, 1997, the holders of Class C Stock and Class D Stock approved the Split-off and on March 5, 1998, the Company received a favorable private letter ruling from the Internal Revenue Service. The Split-off occurred on March 31, 1998. In connection with the Split-off, (i) the Company exchanged each outstanding share of Class C Stock for one share of Common Stock of PKS Holdings, Inc. ("New PKS"), the company formed to hold the Construction Group, to which eight-tenths of a share of the Company's Class R Convertible Common Stock, par value \$.01 per share (the "Class R Stock"), was attached, (ii) New PKS was renamed "Peter Kiewit Sons', Inc.," (iii) the Company was renamed "Level 3 Communications, Inc." and (iv) Class D Stock was designated as common stock, par value \$.01 per share ("Common Stock"). As a result of the Split-off, the Company no longer owns any interest in New PKS or the Construction Group. Accordingly, the separate financial statements and management's discussion and analysis of financial condition and results of operations of Peter Kiewit Sons', Inc. should be obtained to review the financial position of the Construction Group as of December 27, 1997, and the results of operations for the three and nine months ended September 30, 1997.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments (cont.)

Split-off (cont.)

On March 31, 1998, as a result of the Split-off, the Company recognized, within discontinued operations, a gain of \$608 million equal to the difference between the carrying value of the Construction Group and its fair value in accordance with Financial Accounting Standards Board Emerging Issues Task Force Issue 96-4. No taxes were provided on this gain due to the tax-free nature of the Split-off. Also on March 31, 1998, the Company reflected the fair value of the Construction Group as a distribution to the Class C stockholders.

Conversion of Class R Stock

On May 1, 1998, the Board of the Company determined to force conversion of all shares of the Company's Class R Stock into Common Stock of the Company, effective May 15, 1998. The Class R Stock was converted into the Company's Common Stock in accordance with the formula set forth in the Company's Certificate of Incorporation. The formula provided for a conversion ratio equal to \$25, divided by the average of the midpoints between the high and low sales prices for the Company's Common Stock on each of the fifteen trading days during the period beginning April 9 and ending April 30, 1998. The average for that period was \$32.14, adjusted for the stock dividend issued August 10, 1998. Accordingly, each holder of Class R Stock received .7778 of a share of Common Stock for each share of Class R Stock held. In total, the 6.5 million shares of Class R Stock were converted into 5.1 million shares of Common Stock on May 15, 1998. As a result of the forced conversion, certain adjustments were made to the cost sharing and risk allocation provisions of the Separation Agreement and Tax Sharing Agreement between the Company and Peter Kiewit Sons', Inc. which reduced the costs and risks allocated to the Company.

Conversion of Class C Stock in January 1998

Prior to the Split-off, as of January 1 of each year, holders of Class C Stock had the right to convert Class C Stock into Class D Stock, subject to certain conditions. In January 1998, holders of Class C Stock converted 2.3 million shares, with a redemption value of \$122 million, into 21 million shares of Level 3 Common Stock (formerly Class D Stock).

CalEnergy Transaction

In January 1998, the Company and CalEnergy Company, Inc. ("CalEnergy") closed the sale of the Company's energy assets to CalEnergy (the "CalEnergy Transaction"). The Company received proceeds of approximately \$1.16 billion and recognized an after-tax gain of \$324 million in the first quarter of 1998. The after-tax proceeds from this transaction of approximately \$967 million are being used to fund in part the Company's planned expansion of its information services business and the development of an advanced international, facilities-based communications network based on Internet Protocol ("IP") technology ("Business Plan").

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments (cont.)

Stock Options

Subsequent to the Split-off, the Company adopted the recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") when it adopted an outperform stock option program ("OSO"). Under SFAS No. 123, the fair value of an option (as computed in accordance with accepted option valuation models) on the date of grant is amortized over the vesting period of the option. The recognition provisions of SFAS No. 123 are applied prospectively upon adoption. As a result, the recognition provisions 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 OSO program was designed by the Company so that its stockholders 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. 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. When the stock price gain is greater than the corresponding gain on the S&P 500 Index, the value received for options under the OSO plan is based on a formula involving a multiplier related to the level by which the Level 3 Common Stock outperforms the S&P 500 Index. To the extent that the Level 3 Common Stock outperforms the S&P 500, the value of OSOs to an option holder may exceed the value of non-qualified stock options.

The Company believes that the fair value method of accounting more appropriately reflects the substance of the transaction between an entity that issues stock options, or other stock-based instruments, and its employees and consultants; that is, an entity has granted something of value to an employee and consultants (the stock option or other instrument) generally in return for their continued employment and services. The Company believes that the value of the instrument granted to employees and consultants should be recognized in financial statements because nonrecognition implies that either the instruments have no value or that they are free to employees and consultants, neither of which is an accurate reflection of the substance of the transaction. Although the recognition of the value of the instruments results in compensation and professional expenses in an entity's financial statements, the expense differs from other compensation and professional expenses in that these charges will not be settled in cash, but rather, generally, through issuance of common stock.

The Company believes that the adoption of SFAS No. 123 will result in material non-cash charges to operations in 1998 and thereafter. 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 of each option estimated at the time of its grant. The expense recognized for options granted to employees and consultants for services performed for the three and nine months ended September 30, 1998, was \$12 million and \$23 million, respectively. In addition to the expense recognized, the Company capitalized \$2 million of non-cash compensation costs for employees directly involved in the construction of the IP network and the development of the business support systems.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments (cont.)

Frontier Agreement

On March 23, 1998, the Company and Frontier Communications International, Inc. ("Frontier") entered into an agreement ("Frontier Agreement") enabling the Company to lease approximately 8,300 miles of OC-12 network capacity on Frontier's new 13,000 mile SONET fiber optic, IP-capable network, currently under construction for a period of up to five years. The leased network will initially connect 15 of the larger cities across the United States. While requiring an aggregate minimum payment of \$165 million over its five-year term, the Frontier Agreement does not impose monthly minimum consumption requirements on the Company, allowing the Company to order, alter or terminate circuits as it deems appropriate. The Company recognized costs in the third quarter of 1998 as portions of the network became operational.

Union Pacific Rights-of-Way

On April 2, 1998, the Company announced it had reached a definitive agreement with Union Pacific Railroad Company (the "Union Pacific Agreement") granting the Company the use of approximately 7,800 miles of rights-of-way along Union Pacific's rail routes for construction of the Company's North American intercity network. The Company expects that the Union Pacific Agreement will satisfy substantially all of its anticipated right-of-way requirements west of the Mississippi River and approximately 50% of the right-of-way requirements for its North American intercity network. The agreement provides for initial fixed payments of up to \$8 million to Union Pacific upon execution of the agreement and throughout the construction period, recurring payments in the form of cash, communications capacity, and other communications services based on the number of conduits that are operational and certain construction obligations of the Company to provide fiber or conduit connections for Union Pacific at the Company's incremental cost of construction.

XCOM Technologies, Inc. Acquisition

On April 23, 1998, the Company acquired XCOM Technologies, Inc. ("XCOM"), a privately held company that has developed technology which the Company believes will provide certain key components necessary for the Company to develop an interface between its IP-based network and the public switched telephone network. The Company issued approximately 5.3 million shares of Level 3 Common Stock and 0.8 million options and warrants to purchase Level 3 Common Stock in exchange for all the stock, options and warrants of XCOM.

The Company accounted for this transaction, valued at \$154 million, as a purchase. Of the total purchase price, \$115 million was attributable to in-process research and development, and was taken as a nondeductible charge to earnings in the second quarter. The purchase price exceeded the fair value of the net assets acquired by \$30 million which was recognized as goodwill and is being amortized over five years.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments (cont.)

Senior Notes

On April 28, 1998, the Company received \$1.94 billion of proceeds from an offering of \$2 billion aggregate principal amount 9.125% Senior Notes Due 2008 (the "Senior Notes"). The Senior Notes are senior, unsecured obligations of the Company, ranking pari passu with all existing and future senior unsecured indebtedness of the Company. The Senior Notes contain certain covenants, which among others, limit consolidated debt, dividend payments and transactions with affiliates. The Company is using the net proceeds of the Senior Notes in connection with the implementation of its Business Plan.

Burlington Northern Santa Fe Rights-of-Way

On June 23, 1998, the Company signed a master easement agreement with Burlington Northern and Santa Fe Railroad Company ("BNSF"). The agreement grants Level 3 right-of-way access to BNSF rail routes in as many as 28 states over which to build its network. Under the easement agreement, Level 3 will make annual payments to BNSF and provide communications capacity to BNSF for its internal requirements. The amount of the annual payments is dependent upon the number of conduits installed, the number of conduits with fiber, and the number of miles of conduit installed along BNSF's route.

Network Construction Contract

On June 17, 1998, Level 3 selected Peter Kiewit Sons', Inc. ("Kiewit") to build its 15,000 mile intercity communications network. The overall cost of the project is estimated at \$2 billion. Construction of the network began in the third quarter of 1998 and is expected to be completed during the first quarter of 2001. The contract provides that Kiewit be reimbursed for its costs relating to all direct and indirect project level costs. In addition, Kiewit will have the opportunity to earn an award fee that will be based on cost and speed of construction, quality, safety and program management. The award fee will be determined by Level 3's assessment of Kiewit's performance in each of these areas.

INTERNEXT Agreement

On July 20, 1998, Level 3 entered into a network construction cost-sharing agreement with INTERNEXT, LLC, a subsidiary of NEXTLINK Communications, Inc. valued at \$700 million. The agreement calls for INTERNEXT to acquire the right to use 24 fibers and certain associated facilities installed along the entire route of Level 3's 15,000 mile intercity fiber optic network in the United States. INTERNEXT will pay Level 3 as segments of the intercity network are completed which will reduce the overall cost of the network to the Company.

The network as provided to INTERNEXT will not include the necessary electronics that allow the fiber to carry communications transmissions. INTERNEXT will be restricted from selling or leasing fiber to unaffiliated companies for the next four years. Also, under the terms of the agreement, INTERNEXT has the right to an additional conduit for its exclusive use and to share costs and capacity in certain future fiber cable installations in Level 3 conduits.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments (cont.)

GeoNet Communications, Inc. Acquisition

On September 30, 1998, Level 3 acquired GeoNet Communications, Inc. ("GeoNet"), a regional Internet service provider located in Northern California. The Company issued approximately 0.6 million shares and options in exchange for GeoNet's capital stock, which based on Level 3's closing price on September 30, valued the transaction at approximately \$19 million. Goodwill of \$20 million was recognized from this transaction and will be amortized over five years.

Japan-US Cable Network

On August 3, 1998, Level 3 and a group of 32 other global telecommunications companies entered into an agreement to construct an undersea cable system connecting Japan and the United States by mid-year 2000. The parties to this agreement are investing in excess of \$1 billion to build the network, of which Level 3 is expected to contribute approximately \$130 million. The Company anticipates investing approximately \$25 million in this project in the fourth quarter. In addition, each party will have joint responsibility for network oversight, maintenance and administration.

Commonwealth Telephone Enterprises, Inc.

On September 25, 1998, Commonwealth Telephone Enterprises, Inc. ("CTCO") announced that it was commencing a rights offering of 3.7 million shares of its common stock. Under the terms of the offering, each stockholder received one right for every five shares of CTCO Common Stock or CTCO Class B Common Stock held. The rights enabled the holder to purchase CTCO Common Stock at a subscription price of \$21.25 per share. Each right also carried the right to oversubscribe at the subscription price for the offered shares not purchased pursuant to the initial exercise of rights.

Level 3, which owned approximately 48% of CTCO prior to the rights offering, agreed to exercise 1.8 million rights it received with respect to the shares it held. Messrs. Walter Scott, Jr., James Q. Crowe, and David C. McCourt, members of the Board of Directors of both Level 3 and CTCO, agreed to oversubscribe for all the other shares offered for sale in the rights offering. The commitments of Messrs. Scott, Crowe, McCourt and other stockholders, resulted in Level 3 maintaining its 48% ownership interest in CTCO after the rights offering.

Global Crossing Agreement

On October 14, Level 3 announced that it had signed an agreement with Global Crossing Ltd. for trans-oceanic capacity on Global's fiber optic cable network. The agreement, covering 25 years and valued at approximately \$100 million, will provide Level 3 with as-needed dedicated capacity across the Atlantic Ocean. Level 3 also will have the option of utilizing capacity on other segments of Global Crossing's worldwide network.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

In late 1997, the Company announced a plan to increase substantially its information services business and to expand the range of services it offers by building an advanced, international, facilities-based communications network based on IP technology. Since the Business Plan represents a significant expansion of the Company's communications and information services business, the Company does not believe that the Company's financial condition and results of operations for prior periods will serve as a meaningful indication of the Company's future financial condition or results of operations. The Company expects to incur substantial net operating losses for the foreseeable future, and there can be no assurance that the Company will be able to achieve or sustain operating profitability in the future.

Third Quarter 1998 vs. Third Quarter 1997

Revenue for the quarters ended September 30, is summarized as follows (in millions):

	1998	1997
Communications and Information Services	\$ 37	\$ 27
Coal Mining	64	50
Other	5	4
	<u>\$ 106</u>	<u>\$ 81</u>

Communications and Information Services revenue consists of computer outsourcing revenue of \$15 million, systems integration revenue of \$14 million and \$8 million of communications revenue from XCOM, subsequent to its acquisition in April, 1998. XCOM's revenue is derived primarily from reciprocal compensation fees paid by a regional telephone company. The comparable amounts in 1997 for computer outsourcing and systems integration were \$13 million and \$14 million, respectively. Computer outsourcing revenues increased due to the addition of several new customers in late 1997 and early 1998. The acquisitions of two small firms, for a total of \$15 million in the second quarter of 1998, resulted in \$3 million of additional systems integration revenue. This increase was offset by the loss of a major contract in early 1998 and a decline in systems reengineering revenue. Revenue from communications services is expected to increase in the fourth quarter as the Company recognizes additional revenue from its IP related services.

Coal mining revenue increased \$14 million in the third quarter of 1998 compared to the same period in 1997. Additional alternate source coal sales to Commonwealth Edison was partially offset by the expiration of other long term contracts at the end of 1997 and lower priced contracts with new customers in 1998.

Operating Expenses increased 27% in 1998 to \$47 million. Margin, as a percentage of revenue, declined from 40% in 1997 to 32% in 1998 for information services businesses. The early termination of a large contract in March of this year for the systems integration business resulted in lower staff utilization and a decrease in margins. Margins for the computer outsourcing business declined slightly in 1998. The start-up costs incurred to establish a second data center in Phoenix were partially offset by a decline in migration costs for new customers. Margins on coal sales increased 6% in the third quarter of 1998. An increase in sales of higher margin alternate source coal was partially offset by lower margins on coal sold from the Company's mines. If current market conditions continue, the Company will experience a significant decline in coal revenue and earnings over the next several years as delivery requirements under long-term contracts decline as these long-term contracts begin to expire.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations (cont.)

Third Quarter 1998 vs. Third Quarter 1997 (cont.)

Depreciation and Amortization Expense increased to \$11 million in 1998 from \$5 million in 1997. Depreciation on equipment for computer outsourcing contracts and depreciation and amortization of assets acquired in the XCOM acquisition are primarily responsible for the increase. Additional depreciation is expected in the fourth quarter of 1998 as the Company commences operations on additional portions of its IP network.

General and Administrative Expenses increased significantly in 1998 to \$96 million from \$26 million in 1997 primarily due to the cost of activities associated with preparing for the expected launch of the IP related services. The Company incurred incremental compensation and travel costs for the substantial number of new employees that have been hired to begin implementation of the Business Plan, legal costs associated with obtaining licenses, agreements and technical facilities and other development costs associated with the Company's plans to begin offering services in 15 U.S. cities by the end of 1998. In addition to the costs to expand the communications and information services businesses, the Company recorded \$12 million of non-cash compensation and professional service expenses in the third quarter of 1998 for expenses recognized under SFAS No. 123. General and administrative costs are expected to increase significantly in future periods as the Company implements the Business Plan.

EBITDA which consists of earnings (losses) before interest, income taxes, depreciation, amortization, non-cash stock-based compensation and other non-operating income or expenses was \$(25) million in 1998 and \$18 million in 1997. The primary reason for the decrease between periods is the significant increase in general and administrative expenses, described above, incurred in connection with the implementation of the Company's Business Plan. EBITDA is commonly used in the communications industry to analyze companies on the basis of operating performance. EBITDA, however, should not be considered an alternative to operating or net income as an indicator of the performance of the Company's businesses, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with generally accepted accounting principles. See Consolidated Condensed Statements of Cash Flows.

Interest Income increased significantly in 1998 to \$53 million from \$8 million in 1997 as the Company's average cash, cash equivalents and marketable securities balance approximated \$3.7 billion in the third quarter of 1998. The Company's average cash, cash equivalents and marketable securities balance approximated \$573 million in the comparable 1997 period. Pending utilization of the cash equivalents and marketable securities in implementing the Business Plan, the Company intends to invest the funds primarily in government and governmental agency securities. This investment strategy will provide for less yield on the funds, but is expected to reduce the risk to principal prior to using the funds in implementing the Business Plan.

Interest Expense, net increased significantly in 1998 to \$46 million from \$3 million in 1997. Interest expense increased substantially due to the completion of the offering of \$2 billion aggregate principal amount of 9.125% Senior Notes Due 2008 issued on April 28, 1998. The amortization of debt issuance costs associated with the Senior Notes also increased interest expense in the third quarter. The Company capitalized \$5 million of interest expense on network construction and systems development projects in the third quarter of 1998.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations (cont.)

Third Quarter 1998 vs. Third Quarter 1997 (cont.)

Other Expense, net increased in 1998 to \$27 million. The increase in Other Expense is due to the losses incurred by the Company's equity method investees, primarily RCN Corporation, Inc. ("RCN"). RCN is a full service provider of local, long distance internet and cable television services to primarily residential users in the densely populated areas of the Northeast United States. RCN is incurring significant costs in developing its business plan including the acquisitions of several internet service providers. The Company recorded \$22 million of equity losses attributable to RCN in the third quarter of 1998. Partially offsetting these losses was the gain on RCN's stock activity. In 1998, RCN issued stock through a public offering and for certain acquisitions. These issuances resulted in a decrease in the Company's ownership percentage but an increase in the Company's proportionate share of RCN's equity. In accordance with its accounting policy, the Company first applied this increase against the goodwill, previously established for RCN, and then recognized pre-tax gains of \$21 million and \$4 million in the second and third quarters of 1998, respectively. Also included in Other Expense are equity earnings in Commonwealth Telephone Enterprises, Inc., a Pennsylvania public utility providing telephone service, equity in losses of Cable Michigan, Inc., a cable television operator in the State of Michigan, and realized gains and losses on the sale of marketable securities, investments and other assets each not individually significant to the Company's results of operations.

Income Tax Benefit differs from the statutory rate in 1998 primarily due to the \$115 million nondeductible write-off of the in process research and development costs related to the XCOM acquisition. The income tax provision in 1997 is slightly below the statutory rate due primarily to depletion allowances, tax exempt interest income and other individually insignificant deductions for tax purposes in excess of that recognized for financial reporting purposes.

Discontinued Operations In 1997, the United Kingdom implemented a "Windfall Tax" against privatized British utilities. The one-time tax was 23% of the difference between the value at the time of privatization and the utility's current value. The total impact of the tax to Level 3, directly through its investment in CE Electric UK, plc., and indirectly through its 30% ownership in CalEnergy was \$63 million in the third quarter of 1997.

Nine Months 1998 vs. Nine Months 1997

Revenue for the nine months ended September 30, is summarized as follows (in millions):

	<u>1998</u>	<u>1997</u>
Communications and Information Services	\$ 102	\$ 67
Coal Mining	178	165
Other	16	10
	<u>\$ 296</u>	<u>\$ 242</u>

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations (cont.)

Nine Months 1998 vs. Nine Months 1997 (cont.)

Revenue increased 22% to \$296 million in 1998 for the nine months ended September 30, 1998 compared to the same period in 1997. Systems integration revenue increased 41% to \$42 million in 1998. The Company's systems integration business was still in its early states of development in 1997 and the increase in revenue reflects the strong demand for system integration services. Also contributing to the growth of systems integration revenue, was the acquisition of two small firms in the second quarter of 1998 which contributed \$3 million of revenue. Revenue for the computer outsourcing business increased 24% to \$46 million in 1998. The increase is attributable to the addition of several new customers in 1997 and early 1998. The remaining \$14 million of communications revenue is primarily attributable to XCOM which was acquired in April, 1998.

Mining revenue increased 8% in 1998 to \$178 million. Increases in alternate source coal sales were partially offset by a decrease in coal sold from the Company's mines. Coal sold from the Company's mines declined due to the expiration of a long-term contract in 1997.

Operating Expenses increased 18% to \$138 million in 1998. Margin, as a percent of revenue, decreased 18% for the systems integration business as the early termination of a large contract resulted in a lower utilization of operating personnel. Gross margins for the computer outsourcing business increased 9% during the first nine months of 1998. A decrease in migration costs incurred in 1997 to implement new outsourcing contracts was partially offset by start up costs incurred for the second data center in Phoenix. Margins for the mining business increased by 3% in 1998. In 1998 an increase in higher margin alternate source coal sales were partially offset by the reduced margins on coal sold from the Company's mines. In 1997, margins were positively effected by the buyout of a spot coal contract. Under the buyout, the customer was able to cancel its contract commitments by making a payment equal to 60% of the price of the coal. These proceeds, with no corresponding costs, resulted in the higher margin for the period.

Depreciation and Amortization Expense increased \$9 million during the first nine months of 1998. Depreciation on the computer equipment purchased for general and administrative personnel, computer outsourcing businesses and the depreciation and amortization of equipment and goodwill acquired in the XCOM acquisition, were primarily responsible for the increase in depreciation expense.

General and Administrative Expenses increased significantly in 1998 due to the expansion of the communications and information services businesses. The hiring of approximately 800 employees to implement the IP business led to increases in compensation, relocation, travel and facilities expenses. In addition to regular compensation, the Company recognized \$23 million of non-cash expense for stock options and warrants granted in the first nine months of 1998. The Company also incurred significant professional service fees associated with the initial development of a substantial, scalable business support infrastructure, specifically designed to enable the Company to offer services efficiently to its targeted customers. In addition, the Company also incurred legal costs associated with obtaining licenses, agreements and technical facilities and other development costs associated with the new Business Plan.

Write-off of In Process Research and Development was \$115 million in 1998. The in process research and development costs were the portion of the purchase price allocated to the telephone network-to-IP network bridge technology acquired by the Company in the XCOM transaction and were estimated

through formal valuation, at \$115 million. In accordance with generally accepted accounting principles, the \$115 million was taken as a nondeductible charge against earnings in the second quarter of 1998.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations (cont.)

Nine Months 1998 vs. Nine Months 1997 (cont.)

EBITDA declined to \$(18) million in 1998 from \$84 million in 1997. The increase in operating costs and general and administrative expenses associated with the expanding communications and information services businesses was primarily responsible for the decline.

Interest Income increased to \$124 million in 1998 from \$23 million in 1997. The \$1.16 billion proceeds from the sale of the energy assets on January 2, and the \$1.94 billion proceeds from the debt offering on April 28, were primarily responsible for the average cash, cash equivalents and marketable securities balance increasing from \$514 million to \$2.9 billion for the nine months ending September 30, 1997 and 1998, respectively. The increase in the average balance was directly responsible for the increase in interest income.

Interest Expense, net increased to \$86 million in 1998. The increase in interest expense is directly attributable to the interest on the Senior Notes and the amortization of the deferred debt issuance costs. The interest expense for 1997 is primarily attributable to the debt on the California toll road which is nonrecourse to the Company. The Company capitalized \$6 million of interest expense on network construction and systems development projects in 1998.

Other Expense, net increased substantially in 1998 to \$53 million from \$11 million in 1997 due primarily to increased losses recognized by the Company's equity method investee, RCN. The Company's share of these losses approximated \$75 million in 1998. RCN recognized a charge to earnings of approximately \$52 million (Company's share \$24 million) with respect to certain costs of the acquisitions associated with in process research and development activities. Partially offsetting these losses was the gain on RCN's stock activity of \$25 million. In 1998, RCN issued stock through a public offering and for certain acquisitions. These issuances resulted in a decrease in the Company's ownership percentage but an increase in the Company's proportionate share of RCN's equity. It is the Company's policy to first apply this increase against goodwill, previously established for RCN, and then recognize a gain for the remaining increase in value. Also included in Other Expense are equity earnings in Commonwealth Telephone Enterprises, Inc., equity in losses of Cable Michigan, Inc., and realized gains and losses on the sale of marketable securities, investments and other assets each not individually significant to the Company's results of operations.

Income Tax (Provision) Benefit differs from the expected statutory rate primarily due to the nondeductible write-off of the in process research and development costs allocated in the XCOM transaction. The effective rate in 1997 is lower than the expected rate due to depletion allowances and tax exempt interest income.

Discontinued Operations includes the one-time gain of \$808 million recognized upon the distribution of the Construction Group to former Class C stockholder on March 31, 1998. Also included in discontinued operations is the gain, net of tax, of \$324 million from the Company's sale of its energy assets to CalEnergy on January 2, 1998. In 1997, the United Kingdom implemented a "Windfall Tax" against privatized British utilities. The total impact of the tax to Level 3, directly through its investment in CE Electric UK, plc., and indirectly through its 30% ownership in CalEnergy was \$63 million in 1997.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition—September 30, 1998

The Company's working capital increased substantially during 1998 due primarily to the sale of the Company's energy assets to CalEnergy for \$1.16 billion on January 2, 1998, and the \$1.94 billion of proceeds from the issuance of Senior Notes on April 28, 1998. The Company's working capital increased \$2.1 billion to \$3.5 billion on September 30, 1998. The Company's operations used \$16 million of cash during the first nine months of 1998, primarily for the payment of 1998 estimated income taxes and the costs in implementing the Business Plan. These items were partially offset by funds provided by coal mining operations, the receipt of a \$45 million federal tax refund, a \$26 million payment from INTERNEXT and interest income. The initial interest payment on the Senior Notes, \$92 million, was made on November 2, 1998.

Investing activities include the purchase of \$5,132 million of marketable securities, the sales and maturities of marketable securities of \$2,882 million, \$409 million of capital expenditures, primarily for the expanding IP and information services business and \$24 million of investments, principally \$15 million for information services businesses. The Company also realized \$26 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources in 1998 consisted primarily of the net proceeds of \$1.94 billion from the sale of Senior Notes in April, the conversion of 2.3 million shares of Class C Stock, with a redemption value of \$122 million, into 21 million shares of Level 3 Common Stock (formerly Class D Stock) in January, proceeds from the sale of Level 3 Common Stock of \$21 million and the exercise of the Company's stock options for \$7 million. In 1998, Level 3 issued \$183 million of stock for the acquisition of several IP businesses and reflected in the equity accounts the \$164 million fair value of the issuance and forced conversion of the Class R Stock during the first nine months of 1998.

Liquidity and Capital Resources

Since late 1997, the Company has substantially increased the emphasis it places on and the resources devoted to its communications and information services business. The Company has commenced the implementation of a plan to become 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. To reach this goal, the Company plans to expand substantially the business of its subsidiary, PKS Information Services, Inc., ("PKSIS") and to create, through a combination of construction, purchase and leasing of facilities and other assets, an international, end-to-end, facilities-based communications network. The Company is designing its network based on IP technology in order to leverage the efficiencies of this technology to provide lower cost communications services.

The development of the Business Plan will require significant capital expenditures, a substantial portion of which will be incurred before any significant related revenues from the Business Plan are expected to be realized. These expenditures, together with the associated early operating expenses, will result in substantial negative operating cash flow and substantial net operating losses for the Company for the foreseeable future. Although the Company believes that its cost estimates and build-out schedule are reasonable, there can be no assurance that the actual construction costs or the timing of the expenditures will not deviate from current estimates. The Company estimates that its capital expenditures in connection with the Business Plan will approximate \$700 million in 1998 will exceed \$2 billion in 1999. The Company's current liquidity in addition to the net proceeds from the Senior Notes, the cost sharing

agreement with INTERNEXT and the realization of value of certain non-core assets, should be sufficient to fund the currently committed portions of the Business Plan.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources (cont.)

The Company currently estimates that the implementation of the Business Plan, as currently contemplated, will require between \$8 and \$10 billion over the next 10 years. The Company's ability to implement the Business Plan and meet its projected growth is dependent upon its ability to secure substantial additional financing in the future. The Company expects to meet its additional capital needs with the proceeds from sales or issuance of equity securities, credit facilities and other borrowings, or additional debt securities. The Senior Notes were issued under an indenture which permits the Company and its subsidiaries to incur substantial amounts of debt. In addition, the Company may sell or dispose of existing businesses or investments to fund portions of the Business Plan. The Company may sell or lease capacity, its conduits or access to its conduits. There can be no assurance that the Company will 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, or that proceeds of dispositions of the Company's assets will reflect the assets' intrinsic value. Further, there can be no assurance that expenses will not exceed the Company's estimates or that the financing needed will not likewise 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.

There can be no assurance that the Company will be able to obtain such financing if and when it is needed or that, if available, such financing will be on terms acceptable to the Company. If the Company is unable to obtain additional financing when needed, it may be required to scale back significantly its Business Plan and, depending upon cash flow from its existing businesses, reduce the scope of its plans and operations.

In connection with implementing the Business Plan, management will continue reviewing the existing businesses of the Company to determine how those businesses will complement the Company's focus on communications and information services. If it is decided that an existing business is not compatible with the communications and information services business and if a suitable buyer can be found, the Company may dispose of that business.

On June 4, 1998, Cable Michigan announced that its Board of Directors had reached a definitive agreement to sell the company to Avalon Cable for \$40.50 per share in a cash-for-stock transaction. Level 3 received approximately \$129 million when the transaction closed on November 6, 1998 and expects to recognize a pre-tax gain of approximately \$90 million in the fourth quarter.

New Accounting Pronouncements

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", ("SFAS No. 131") which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data. This statement is effective for financial statements for periods beginning after December 15, 1997. The Company will reflect the adoption of SFAS No. 131 in its December 31, 1998 financial statements.

On March 4, 1998, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). The effective date of this pronouncement is for fiscal years beginning after December 15, 1998,

however, earlier application is encouraged and the Company is accounting for these costs in accordance with SOP 98-1 in 1998.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

New Accounting Pronouncements (cont.)

On April 3, 1998, the AcSEC issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), which provides guidance on the financial reporting of start-up and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. The Company is required to reflect the initial application of SOP 98-5 as the cumulative effect of a change in accounting principle, as described in Accounting Principles Board Opinion No. 20, "Accounting Changes". As a result of the cumulative effect of a change in accounting treatment, the Company expects to record a charge to earnings in the first quarter of 1999 for any unamortized start-up or organization costs as of the beginning of 1999.

On June 15, 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at the 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 and, if it is, the type of hedge transaction. The Company does not currently utilize derivative instruments, therefore the adoption of SFAS No. 133 is not expected to have a significant effect on the Company's results of operations or its financial position.

Year 2000

The Company is in the process of conducting a review of its computer systems, including the computer systems used in the Company's computer outsourcing business, to identify systems that could be affected by the "Year 2000" computer issue. Based upon this review, the Company will develop and implement a plan to resolve any related issues. The Year 2000 issue results from computer programs written with date fields of two digits, rather than four digits, thus resulting in the inability of computer programs to distinguish between the year 1900 and 2000. The Company expects that its Year 2000 compliance project will be completed before the Year 2000 date change. During the execution of this project, the Company has and will continue to incur internal staff costs as well as consulting and other expenses. These costs will be expensed, as incurred, in compliance with generally accepted accounting principles. The expenses associated with this project, as well as the related potential effect on the Company's earnings, are not expected to have a material effect on its future operating results or financial condition. The source of funds for Year 2000 compliance costs will be cash on hand, and are expected to represent an immaterial amount of the Company's overall information systems budget. There can be no assurance, however, that the Year 2000 problem will not have a material adverse effect on the Company's business, financial condition, competitive position and results of operations.

The Company anticipates that its plan to resolve related Year 2000 issues will be a multiphase plan that would include (1) assessment of the potential Year 2000 issues, (2) a detailed action plan based upon the results of its assessment of the potential issues, (3) remediation of systems and products that are identified in the assessment and the detailed plan as requiring correction or elimination, (4) testing of the results of the remediation efforts to assess Year 2000 readiness and (5) the implementation of the remediated systems and products. Additional details of the Company's plan will be outlined as they are finalized.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Year 2000 (cont.)

The Company's wholly owned subsidiary, Level 3 Communications, LLC is a new company that is implementing new technologies to provide Internet Protocol (IP) technology-based communications services to its customers. This company has adopted a strategy to select technology vendors and suppliers that provide products that are represented by such vendors and suppliers to be Year 2000 compliant. In negotiating its vendor and supplier contracts, the company secures Year 2000 warranties that address the Year 2000 compliance of the applicable product(s). As part of the Company's Year 2000 compliance program, plans will be put into place to test these products to confirm they are Year 2000 compliant.

The Company has initiated communications with its significant suppliers and customers, including those that will provide leased communications capacity to the Company as well as those of PKSIS' computer outsourcing business and, in particular, vendors of that business' computer outsourcing operating environments, to determine the extent to which the Company is vulnerable to the failure by such parties to remediate Year 2000 compliance issues. No assurance can be given, however, that the systems will be made Year 2000 compliant in a timely manner or that the noncompliance of the systems of any of these parties would not have a material adverse effect on the Company's business, financial condition, competitive position and results of operations.

PKS Systems Integration LLC ("PKS Systems"), a subsidiary of PKSIS, provides a wide variety of information technology services to its customers. In fiscal year 1997, approximately 80% of the revenue generated by PKS Systems related to projects involving Year 2000 assessment and renovation services performed by PKS Systems for its customers. These contracts generally require PKS Systems to identify date affected fields in certain application software of its customers and, in many cases, PKS Systems undertakes efforts to remediate those date-affected fields so that Year 2000 data may be processed. Thus, Year 2000 issues affect many of the services PKS Systems provides to its customers. This exposes PKS Systems to potential risks that may include problems with services provided by PKS Systems to its customers and the potential for claims arising under PKS Systems' customer contracts. PKS Systems attempts to contractually limit its exposure to liability for Year 2000 compliance issues. However, there can be no assurance as to the effectiveness of these contractual limitations.

The expenses associated with this project by PKSIS, as well as the related potential effect on the Company's earnings, are not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem, and any loss incurred by any customers of PKSIS as a result of the Year 2000 problem, will not have a material adverse effect on the Company's financial condition and results of operations.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 2. Changes in Securities

Pursuant to an agreement on July 1, 1998, the Company issued 187,706 common shares to the holder of the capital stock of UltraLine (Bermuda) Limited in connection with its acquisition by the Company. The value of the transaction, based upon the trading price of the Company's stock, was approximately \$5 million. The issuance of stock to the holder of UltraLine (Bermuda) Limited capital stock was made pursuant to the exemption from registration contained in Section 4(2) under the Securities Act of 1933, as amended.

Pursuant to an agreement on September 16, 1998, the Company issued 150,609 common shares to the holders of the capital stock of mikNet Internet Based Services GmbH in connection with its acquisition by the Company. The value of the transaction, based upon the trading price of the Company's stock, was approximately \$5 million. The issuance of stock to the holders of mikNet Internet Based Services GmbH capital stock was made pursuant to the exemptions from registration contained in Regulation S and Section 4(2) under the Securities Act of 1933, as amended.

Pursuant to an agreement on September 30, 1998, the Company issued 511,719 common shares to the holders of the capital stock of GeoNet Communications, Inc. in connection with its acquisition by the Company. The value of the issued shares, based upon the trading price of the Company's stock, was approximately \$16 million. The issuance of stock to the holders of GeoNet Communications, Inc. capital stock was made pursuant to the exemptions from registration contained in Regulation S and Section 4(2) under the Securities Act of 1933, as amended.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders held on July 14, 1998, the following matters were submitted to a vote.

1. To reelect the three Class I Directors to the Board of Directors of Level 3 for a three-year term until the 2001 Annual Meeting of Stockholders:

	In Favor	Withheld
Walter Scott, Jr.	96,945,914	106,153
James Q. Crowe	96,982,345	69,722
Charles M. Harper	96,701,855	350,202

2. To adopt a program relating to the issuance of Outperform Stock Options pursuant to the Level 3 1995 Stock Plan, amended and restated as of April 1, 1998:

Affirmative votes:	96,057,435
Negative votes:	726,338
Abstentions:	268,294

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits filed as part of this report are listed below.

Exhibit
Number

- 10.1 Cost Sharing and IRU Agreement between Level 3 Communications, LLC and INTERNEXT, LLC, dated July 18, 1998
- 27 Financial Data Schedule.

- (b) The Company filed a Form 8-K on September 1, 1998; reporting that Arthur Andersen LLP had been engaged as its new independent accountants effective August 26, 1998.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEVEL 3 COMMUNICATIONS, INC.

Dated: November 13, 1998

/s/ Eric J. Mortensen
Eric J. Mortensen
Controller and Principal
Accounting Officer

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit
No.

- | | |
|------|--|
| 10.1 | Cost Sharing and IRU Agreement between Level 3 Communications, LLC and INTERNEXT, LLC, dated July 18, 1998 |
| 27 | Financial Data Schedule. |

Exhibit 5

Illustrative Local Exchange Tariff

LOCAL EXCHANGE SERVICE

TARIFF SCHEDULE APPLICABLE TO
LOCAL EXCHANGE SERVICES
WITHIN THE STATE OF SOUTH DAKOTA
BY
LEVEL 3 COMMUNICATIONS, LLC

Issued by:

Thomas C. Stortz
Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027
(303) 926-3000

ISSUED:

EFFECTIVE:

Issued By:

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LOCAL EXCHANGE SERVICE

CHECK SHEET

Current pages in this tariff are as follows:

<u>Page</u>	<u>Revision</u>	<u>Page</u>	<u>Revision</u>	<u>Page</u>	<u>Revision</u>
1	Original	26	Original	51	Original
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14	Original	39	Original	64	Original
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21	Original	46	Original		
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23	Original	48	Original		
24	Original	49	Original		
25	Original	50	Original		

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purposes indicated below.

- (C) To signify changed listing, rule, or condition which may affect rates or charges.
- (D) To signify discontinued material, including listing, rate, rule or condition.
- (I) To signify a rate increase.
- (L) To signify material relocated from or to another part of tariff schedule with no change in text, rate, rules or conditions.
- (N) To signify new materials including listing, rate, rule or condition.
- (R) To signify a rate reduction.
- (T) To signify change in wording of text but no change in rate, rule or condition.

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LOCAL EXCHANGE SERVICE

APPLICATION OF TARIFF

This Tariff contains the regulations and rates applicable to intrastate and local exchange access services provided by Company to business Customers for telecommunications between points within the State of South Dakota. Company's services are furnished subject to the availability of facilities and capacity and subject to the terms and conditions of this Tariff.

The rates and regulations contained in this Tariff apply only to the services furnished by Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Company.

The Customer is entitled to limit the use of Company's services by end users at the Customer's facilities, and may use other common carriers in addition to or in lieu of Company.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITION OF TERMS

Certain terms used generally throughout this tariff for Communications Service of this Company are defined below.

Advance Payment: Part or all of a payment required before the start of service.

Authorized User: A person, firm or corporation which is authorized by the Customer or Joint User to be connected to the service of the Customer or Joint User, respectively.

Bit: The smallest unit of information in the binary system of notation.

Commission: South Dakota Public Utilities Commission.

Company: Level 3 Communications, LLC, the issuer of this tariff.

Customer: The person, firm or corporation which purchases service and is responsible for the payment of charges and compliance with the Company's regulations.

Dedicated: A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

End Office: The term "end office" denotes the switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

Joint User: A person, firm or corporation which is designated by the Customer as a user of services furnished to the Customer by the Company and to whom a portion of the charges for the service will be billed under a Joint User arrangement as specified in the Company's tariff.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Major Service Interruption: An interruption of Customer service due to the Company's negligence or due to its noncompliance with the provisions of this tariff.

Premises: The space occupied by a Customer, Authorized User or Joint User in a building or buildings or contiguous property (except railroad rights-of-way, etc.) not separated by a highway.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITION OF TERMS (CONT'D)

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or the tariffs of the Company, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Company Services submitted by the Customer in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth herein and pursuant to the tariffs of the Company, but the duration of the service is calculated from the Service Commencement Date.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Transmission: The sending of electrical or optical signals over a line to a destination.

User: A Customer, Joint User, or any other person authorized by a Customer to use service provided to the Customer under a Level 3 Communications, L.L.C. tariff.

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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY

2.1 General

- 2.1.1 The Company does not undertake to transmit messages but offers the use of its facilities for the transmission of communications.
- 2.1.2 Customers and Users may use services and facilities provided under the tariffs of the Company to obtain access to services offered by other companies. The Company is responsible for the services and facilities provided under its tariffs, and for its unregulated services provided pursuant to contract, and it assumes no responsibility for any service (whether regulated or not) provided by any other entity that purchases access to the Company network in order to originate or terminate such entity's own services, or to communicate with such entity's own Customers.
- 2.1.3 The Company shall have no responsibility with respect to billings, charges or disputes related to services used by the Customer which are not included in the services herein including, without limitation, any local, regional or long distance services not offered by the Company. The Customer shall be fully responsible for the payment of any bills for such services and for the resolution of any disputes or discrepancies with the service provider.

2.2 Description of Service

Level 3 Communications, LLC Service consists of any of the business services offered pursuant to this tariff, either individually or in combination. Each business service is offered independent of the others, unless otherwise noted. Service is offered via the Company's facilities or in combination with transmission facilities provided by other certificated carriers.

2.3 Application for Service

Customers desiring to obtain Level 3 Communications, LLC Service must complete the Company's standard service order form(s).

2.4 Shortage of Equipment or Facilities

- 2.4.1 The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control, on a nondiscriminatory basis.
- 2.4.2 The furnishing of service under the tariffs of the Company is subject to the availability on a continuing basis of all the necessary facilities and is limited to the reasonable capacity of the Company's facilities as well as facilities the Company may obtain from other

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

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LOCAL EXCHANGE SERVICE

carriers to furnish service from time to time as required at the sole discretion of the Company.

2.5 Terms and Conditions

- 2.5.1 Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in the tariffs of the Company. Customer will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.5.2 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the service order and the tariffs of the Company prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- 2.5.3 The tariffs of the Company shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

2.6 Liability of the Company

- 2.6.1 The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omissions, shall be limited to the extension of allowances for interruption as set forth in Section 9.0, following. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer or User as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company or Company's employees or agents.
- 2.6.2 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority, national

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CON'D)

emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.

- 2.6.3 The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers or Users facilities or equipment used for or with the services the Company offers.
- 2.6.4 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or User or due to the failure or malfunction of Customer or User-provided equipment or facilities.
- 2.6.5 The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided.
- 2.6.6 The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this paragraph as a condition precedent to such installations.
- 2.6.7 The Company is not liable for any defacement of or damage to Customer or User premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.
- 2.6.8 The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid the Company by Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than one year after the service is rendered, or as required by South Dakota Law.
- 2.6.9 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer provided equipment or facilities.
- 2.6.10 The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

construction, delays in obtaining right-of-way approvals and delays in actual construction work.

- 2.6.11 The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.

- 2.6.12 **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH IN ITS TARIFFS.**

- 2.6.13 The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Level 3 Communications, LLC.

2.7 Notification of Service-Affecting Activities

To the extent possible, the Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

2.8 Provision of Equipment and Facilities

- 2.8.1 All services along the facilities between the point identified as the Company's origination point and the point identified as the Company's termination point will be furnished by the Company, its agents or contractors.
- 2.8.2 The Company may undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff.
- 2.8.3 The Company undertakes to use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer, Joint User, or Authorized

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

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Level 3 Communications, LLC
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LOCAL EXCHANGE SERVICE

User may not, nor may they permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise tamper with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

- 2.8.4 Equipment the Company provides or installs at the Customer's premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company provided the equipment.
- 2.8.5 The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer, Joint User, or Authorized User when the service difficulty or trouble report results from the use of equipment or facilities the Customer, Joint User, or Authorized User provided.
- 2.8.6 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities; subject to this responsibility the Company shall not be responsible for:
- 2.8.6.1 The transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
- 2.8.6.2 The reception of signals by Customer provided equipment. The Customer, Authorized User, or Joint User is responsible for ensuring that Customer provided equipment connected to Company equipment and facilities is compatible with such Company equipment and facilities. The magnitude and character of the voltages and currents impressed on Company provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company provided equipment and wiring or injury to the Company's employees or to other persons. Customer will submit to Company a complete manufacturer's specification sheet for each item of equipment that is not provided by the Company and which shall be attached to the Company's facilities. The Company shall approve the use of such item(s) of equipment unless such item is technically incompatible with Company's facilities. Any additional protective, equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.
- 2.8.7 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Level 3 Communications, LLC

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

ISSUED:

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

LOCAL EXCHANGE SERVICE

services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

- 2.8.8 Level 3 Communications, LLC may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carrier which are applicable to such connections.

2.8.9 Network Interface Device (NID)

A physical piece of equipment (jack, block or other device) that provides the point of interconnection between a Customer's inside wiring and Company's at a Customer's designated premises. The physical point where Company's network and network responsibilities terminate and a Customer's responsibilities begin. It is the Company's responsibility to install the NID.

- 2.8.9.1 There is no charge for this equipment, but there may be an installation charge if the Customer wants the NID located in an unusual location.

2.9 Nonroutine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours and/or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.10 Ownership of Facilities

Title to all facilities provided in accordance with the tariffs of the Company remains with the Company, its agents or contractors. The Customer shall not have, nor shall it assert, any right, title or interest in all the fiber optic or other facilities and associated equipment provided by the Company hereunder.

2.11 Optional Rates and Information Provided to the Public

The Company will promptly advise Customers who may be affected of new, revised or optional rates applicable to their service. Pertinent information regarding the Company's services, rates and charges shall be provided directly to Customers, or shall be available for inspection at the Company's local business address. If required by the South Dakota Public Utilities Commission, the Company will cause to have published a notice of its intention to change its rates, tolls, charges, rules and regulations in one or more newspapers in circulation in the affected area.

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)2.12 Continuity of Service

In the event of prior knowledge of an interruption of service for a period exceeding one day, the Customers will, if feasible, be notified in writing, by mail, at least one week in advance.

2.13 Governmental Authorizations

The provision of services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Federal Communications Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

2.14 Universal Emergency Telephone Number Service

- 2.14.1 This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects or malfunctions in the service, nor does the Company undertake such responsibility.
- 2.14.2 911 information consisting of the names, addresses and telephone numbers of all telephone Customers is confidential. The Company will release such information via the Data Management System only after a 911 call has been received, on a call by call basis, only for the purpose of responding to an emergency call in progress.
- 2.14.3 The 911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number, name and address associated with the originating station location are furnished to the Public Safety Answering Point.
- 2.14.4 After the establishment of service, it is the Public Safety Agency's responsibility to continue to verify the accuracy of and to advise the Company of any changes as they occur in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies' jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other similar matter that may affect the routing of 911 calls to the proper Public Safety Answering Point.

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

2.14.5 The Company assumes no liability for any infringement, or invasion of any right of privacy or any person or persons caused, or claimed to be caused, directly or indirectly by the use of 911 Service. The Public Safety Agency agrees, except where the event, incidents or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify, defend and hold harmless the Company from any and all loss or claims whatsoever, whether suffered, made, instituted or asserted by the Public Safety Agency or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage or destruction of any property, whether owned by the Customer or others. The Public Safety Agency also agrees to release, indemnify, defend and hold harmless the Company for any infringement or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of 911 Service features and the equipment associated therewith, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties assessing 911 Service hereunder, and which arise out of the negligence or other wrongful act of the Public Safety Agency, its user, agencies or municipalities, or the employees or agents of any one of them, or which arise out of the negligence, other than gross negligence or willful misconduct, of the Company, its employees or agents.

2.15 Operator Service Requirements

2.15.1 Company provided intrastate operator assisted communications services will observe the following requirements:

- 2.15.1.1 Identify itself at the time the end-user accesses its service.
- 2.15.1.2 Upon request, quote all rates and charges for its services to the end-user accessing its system
- 2.15.1.3 Arrange to have posted in plain view at each telephone location which automatically accesses the Company's operator service network and where its services are made available to the public or transient end-users:
 - 2.15.1.3.1 the Company's operator service name and address;

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.15.1.3.2 bill and service dispute calling information including the operator service provider's dispute resolution phone number;
- 2.15.1.3.3 clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and
- 2.15.1.3.4 notice concerning any and all amounts to be billed by the Company's operator services on behalf of any host location or third party which will appear on the operator service provider's bill for services rendered.
- 2.15.1.4 In instances when the Company is unable to complete the call and it requires transfer to another telephone corporation which may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred.
- 2.15.1.5 In the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.
- 2.15.2 The Company will comply with the following provisions:
- 2.15.2.1 Providers of intrastate operator assisted communications services shall not take any action or enter into any arrangement which restricts end-users selection among competing interexchange telephone corporations or end users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER

3.1 General

The Customer shall be responsible for:

- 3.1.1 the payment of all applicable charges pursuant to the tariffs of the Company;
- 3.1.2 damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer or of any User; or by the noncompliance by the Customer or any User with these regulations; or by fire or theft or other casualty on the Customer's or any User's Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- 3.1.3 providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate the Company facilities and equipment installed on the premises of the Customer or any User; and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- 3.1.4 any and all costs associated with obtaining and maintaining of the rights-of-way from the point of entry at the Customer's location to the termination point where service is finally delivered to the Customer, including, but not limited to, the costs of installing conduit or of altering the structure to permit installation of Company provided facilities. The Customer's use of such rights-of-way shall in all respects be subject to the terms, conditions and restrictions of such rights-of-way and of agreements between the Company and such third parties relating thereto, including without limitation, the duration applicable to and the condemnation of such rights-of-way, and shall not be in violation of any applicable governmental ordinance, law, rule, regulation or restriction. Where applicable, the Customer agrees that it shall assist the Company in the procurement and maintenance of such right-of-way. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- 3.1.5 providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which the Company's employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain the Company's facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company;
- 3.1.6 the Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.1.7 complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of the Company's facilities and equipment in any Customer or User premises or the rights-of-way for which Customer is responsible under section 3.1.4; and granting or obtaining permission for the Company's agents or employees to enter the premises of the Customer or any User at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- 3.1.8 not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- 3.1.9 making the Company's facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

3.2 Prohibited Uses

- 3.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by the Customer with respect thereto.
- 3.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Department regulations, policies, orders, and decisions.
- 3.2.3 The Company may, without obtaining any further consent from the Customer, assign any rights, privileges, or obligations under this tariff. The Customer shall not, without prior written consent of the Company, assign, transfer, or in any other manner dispose of, any of its rights, privileges, or obligations under this tariff, and any attempt to make such an assignment, transfer, disposition without such consent shall be null and void.
- 3.2.4 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.
- 3.2.5 A Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.2.6 Customer use of any resold service obtained from other service providers shall also be subject to any applicable restrictions imposed by the underlying providers.
- 3.2.7 A Customer, Joint User, or Authorized User shall not represent that its services are provided by the Company, or otherwise indicate to its Customers that its provision of services is jointly with the Company, without the written consent of the Company. The relationship between the Company and Customer shall not be that of partners or agents for one or the other, and shall not be deemed to constitute a partnership or agency agreement.

3.3 Claims

With respect to any service or facility provided by the Company, Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- 3.3.1 any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer or User or their employees, agents, representatives or invitees;
- 3.3.2 any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer or User, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between Customer and the Company; or
- 3.3.3 any claim of any nature whatsoever brought by a User with respect to any matter for which the Company would not be directly liable to the Customer under the terms of the applicable Company tariff.

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS

4.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer itself or are resold or shared with other persons.

4.2 Billing and Collection of Charges

4.2.1 Nonrecurring charges are due and payable within 30 days after the date an invoice is mailed to the Customer by the Company.

4.2.2 Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or optional features.

4.2.3 The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days after the invoice is mailed.

4.2.4 Charges based on measured usage will be included on the next invoice rendered following the end of the month in which the usage occurs, and will be due and payable within 30 days after the invoice is mailed.

4.2.5 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

4.2.6 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in the tariffs of the Company or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

4.2.7 With respect to Business Customers only, if any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

in funds which are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, net of local taxes, not compounded, multiplied by a monthly late factor of 1.5%.

- 4.2.8 For any check returned to the Company due to insufficient funds, uncollected funds, or closed account, Customer will be assessed a \$20.00 fee per check returned.

4.3 Advance Payments

- 4.3.1 To safeguard its interests, the Company may require a Business Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount equal to the nonrecurring charge(s) and the first month's estimated recurring charges for the service or facility. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated nonrecurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill and may be required in addition to a deposit.

- 4.3.2 A Customer whose service has been discontinued for nonpayment of bills will be required to pay the unpaid balance due carrier and may be required to pay reconnect charges.

4.4 Deposits

- 4.4.1 The Company may, in order to safeguard its interests, require an applicant to make a suitable deposit to be held by the Company as a guarantee of the payment of charges.

- 4.4.2 A deposit will be required under the following conditions:

- 4.4.2.1 Applicant does not have verifiable credit with any Level 3 Communications, LLC affiliate anywhere within the region in the same or similar business; or
- 4.4.2.2 Applicant has had previous verifiable Service with any Level 3 Communications, LLC affiliate anywhere within the region but has an outstanding and unpaid bill for Service; or has not established satisfactory credit. Satisfactory credit for an Service Customer is defined as twelve consecutive months of service without a suspension of service for nonpayment or with no more than one notification of intent to suspend service for nonpayment.

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.4.2.3 Applicant for nonresidential service will be given credit for previous nonresidential service only if the applicant is same business entity to which such service was previously provided.
- 4.4.3 An initial deposit or an additional deposit will be required of an existing Customer when high risk is indicated and existing security is insufficient. Such requirement will be imposed when a payment history includes a suspension of service for nonpayment during the previous twelve month period.
- 4.4.4 The Company reserves the right to provide for installment payment of the deposit if the circumstances warrant.
- 4.4.5 Any deposit required of an existing Customer is due and payable within ten days after the requirement is imposed. This requirement shall be in writing and the payment date shall be on or after the due and payable date for the current bill. If said deposit or installment thereof, as appropriate, is not paid within the aforementioned time frame, the Company may suspend service of the Customer without further notice. The following are exceptions to this provision:
- 4.4.5.1 In the event service is suspended for a Customer for nonpayment, an initial or additional deposit shall be required prior to the restoration of service if existing security is insufficient.
- 4.4.5.2 In the event prior indebtedness or prior unsatisfactory credit has been determined subsequent to the initial establishment of service due to misrepresentation of the facts by the Customer, a deposit shall be due and payable within five days upon verbal notification and written confirmation or within ten days when notification can only be provided in writing. The ten-day period shall be measured from the mailed date of the written notice. If said deposit is not paid within the aforementioned time frame, the Company may suspend service to the Customer without further notice.
- 4.4.6 All applicants and existing Customers shall be treated uniformly for the determination and application of deposits. The amount of the deposit shall be in compliance with SD TSR Section 20:10:08:06.
- 4.4.7 When it is determined that a deposit is required under the conditions specified above, the applicant or Customer may, in lieu of or in addition to making the deposit, arrange for an acceptable third party to guarantee payment of his charges by executing on his behalf a Guarantee of Payment Agreement with the Company. An acceptable third party guarantor for Service is a current non residential Customer with at least two years continuous service, whose payment history for the most recent twelve month period is satisfactory.

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.4.8 The fact that a deposit has been made in no way relieves the Customer from complying with the Company's regulations as to advance payments, or the prompt payment of bills on presentation.
- 4.4.9 The deposit will bear simple interest computed from the date of its receipt by the Company to the date the deposit is refunded, or service is terminated, or annually upon request of the Customer. In the event that a deposit is retained during time periods having different rates of interest, the interest accrued on the deposit will be calculated using the interest rate applicable to each time period.
- 4.4.10 The applicable interest rate for deposits is 7% in accordance with SD TSR Section 20:10:08:10.
- 4.4.11 When service is terminated, the amount of the initial or additional deposit, with any interest due, will be credited to the Customer's account and any credit balance which may remain will be refunded. After an existing Customer has established satisfactory credit, the amount of the deposit, with any interest due, will be either credited to the account or at the option of the Customer, refunded. Satisfactory credit for a Customer is defined as twelve consecutive months of Service without suspension for nonpayment and with no more than one notification of intent to suspend service for nonpayment.
- 4.5 Discontinuance of Service
- 4.5.1 Upon nonpayment of any amounts owing to the Company, the Company may, by giving ten (10) days prior written notice to the Customer, discontinue or suspend service without incurring any liability.
- 4.5.2 Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving thirty (30) days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- 4.5.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer, or if a condition immediately dangerous or hazardous to life, physical safety or property exists, or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- 4.5.4 Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

time permitted by law, the Company may immediately require a deposit without incurring any liability.

- 4.5.5 Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- 4.5.6 Upon the Company's discontinuance of service to the Customer, the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of the tariffs of the Company, may declare all future monthly and other charges which would have been payable by the Customer during, the remainder of the minimum term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent (6%)).

4.6 Cancellation of Application for Service

- 4.6.1 Applications for service are noncancellable unless the Company otherwise agrees. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- 4.6.2 Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun (all discounted to present value at six percent (6%)).
- 4.6.3 Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- 4.6.4 The special charges described above will be calculated and applied on a case-by-case basis.

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

4.7 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

4.8 Taxes

The Customer is responsible for the payment of Federal excise taxes, state and local sales and use taxes and all taxes, fees, the 911 tax and other exactions imposed on the Company or its services by governmental jurisdictions, other than taxes imposed generally on corporations. All such taxes, fees, and charges shall be separately designated on the Company's invoices, and are not included in the tariffed rates.

4.9 Disputed Bills

The Customer may dispute a bill only by written notice to the Company. Unless such notice is received in a timely fashion, the bill statement shall be deemed to be correct and payable in full by Customer. Any Customer who has a dispute shall be advised by the Company that the Customer may file a formal or informal complaint with the Commission.

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LOCAL EXCHANGE SERVICE

SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS5.1 Resale and Sharing

Any service provided under the Company tariffs may be resold to or shared with other persons at the option of Customer, except as provided in Section 5.3, following. Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to the tariffs of the Company, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use. Business rates apply to all service that is resold or shared.

5.2 Joint Use Arrangements

Joint use arrangements will be permitted for all services available for resale and sharing pursuant to the Company tariffs. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. Level 3 Communications, LLC will accept orders to start, rearrange, relocate, or discontinue service only from the Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each Joint User shall be responsible for the payment of the charges billed to it.

5.3 Transfers and Assignments

5.3.1 Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party and any appropriate authorizations, if necessary, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company, (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.

5.3.2 If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a Major Service Interruption, Customer agrees to pay to the Company the following sums, within 21 days of the effective date of the cancellation or termination and be payable under the terms set forth in Section 4.6, preceding: all costs, fees and expenses reasonably incurred in connection with:

5.3.2.1 All Nonrecurring charges as specified in the Company's tariffs, plus

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SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS (CONT'D)

- 5.3.2.2 Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus
- 5.3.2.3 All Recurring Charges specified in the applicable Company tariff for the balance of the then current term.

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LOCAL EXCHANGE SERVICE

SECTION 6 - CANCELLATION OF SERVICE

Reserved for future use.

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LOCAL EXCHANGE SERVICE

SECTION 7 - NOTICES AND COMMUNICATIONS

- 7.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 7.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 7.3 All notices or other communications required to be given pursuant to the tariffs of the Company will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 7.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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LOCAL EXCHANGE SERVICE

SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS

8.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in the tariffs of the Company. A User may transmit any form of signal that is compatible with the Company's equipment, but except as otherwise specifically stated in its tariffs, the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication.

8.2 Station Equipment

- 8.2.1 Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company's Point of Connection.
- 8.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to the Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.
- 8.2.3 Customer provided station equipment may be attached to services provided under the tariffs of the Company subject to Part 68 of the FCC Rules and to any applicable provisions of the tariffs of the Company and is the sole responsibility of the Customer.
- 8.2.4 The Company is not responsible for malfunctions of Customer-owned telephone sets or other Customer-provided equipment, or for misdirected calls, disconnects or other service problems caused by the use of Customer-owned equipment.

8.3 Interconnection of Facilities

- 8.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communications Services

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LOCAL EXCHANGE SERVICE

SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS (CONT'D)

and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

- 8.3.2 Communications Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

- 8.3.3 Facilities furnished under the tariffs of the Company may be connected to Customer provided terminal equipment in accordance with the provisions of the tariffs of the Company. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User provided wiring shall be installed and maintained in compliance with those regulations.

8.4 Tests and Adjustments

Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company's facilities in satisfactory operating condition. No interruption allowance will be credited to the Customer for the period during which the Company makes such tests, adjustments, or inspections.

8.5 Inspections

- 8.5.1 Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the User is complying with all requirements referenced herein for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- 8.5.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE9.1 General

- 9.1.1 Interruptions in service, which are not due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer or of an authorized or Joint User, or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth below for the part of the service that the interruption affects.
- 9.1.2 A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under its tariffs. An interruption period begins when the Customer reports a service, facility or circuit is interrupted and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.
- 9.1.3 For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.
- 9.1.4 A credit allowance will be given for interruptions of 30 minutes or more. Credit allowances shall be calculated as follows:

9.2 Interruptions of 16 Hours or Less

<u>Length of Service Interruption</u>	<u>Credit</u>
-Less than 1 hour	None
-1 hour up to but not including 8 hours	1/4 of day
-8 hours up to but not including 12 hours	1/2 of day
-12 hours up to but not including 16 hours	3/4 of day
-16 hours up to but not including 24 hours	one day

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)9.2 Two or More Service Interruptions

Two or more service interruptions of the same type to the same line/equipment of two (2) hours or more during any one twenty-four (24) hour period shall be considered as one interruption. In no event shall such interruption credits for any one line/equipment exceed one (1) day's fixed recurring charges for such line/equipment in any twenty-four (24) hour period.

9.3 Interruptions Over 24 Hours

Interruptions over 24 hours will be credited 1/24 day for each 1-hour period or fraction thereof up to a maximum of 8 hours. Interruptions in excess of 8 hours will be credited as one day. No more than one full day's credit will be allowed for any period of 24 hours.

9.4 No credit allowance will be made for:

- 9.4.1 interruptions due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer, User, or other common carrier providing service connected to the service of the Company;
- 9.4.2 interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
- 9.4.3 interruptions of service due to the failure or malfunction of facilities, power or equipment provided by the Customer, Authorized User, Joint User, or other common carrier providing service connected to the services or facilities of the Company;
- 9.4.4 interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- 9.4.5 interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- 9.4.6 interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 9.4.7 interruption of service due to circumstances or causes beyond the control of the Company; and

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)

- 9.4.8 interruptions of service that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

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LOCAL EXCHANGE SERVICE

SECTION 10 - APPLICATION OF RATES

This Section is used to measure airline distance between two points of service. The application of these charges is to dedicated service.

10.1 Distance-Based Charges

10.1.1 Distance between two points is measured as airline distance between two Points of Service.

10.1.2 The airline distance between any two Points of Service is determined as follows:

- 10.1.2.1 Obtain the vertical and horizontal coordinates for each Point of Service location.
- 10.1.2.2 Compute the difference between the vertical coordinates of the two Points of Service; and compute the difference between the two horizontal coordinates.
- 10.1.2.3 Square each difference between the vertical coordinates and the horizontal coordinates.
- 10.1.2.4 Add the square of the vertical coordinates difference and the square of the horizontal coordinates difference.
- 10.1.2.5 Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.
For example: $\frac{(V2 - V1)^2 + (H2 - H1)^2}{10}$
- 10.1.2.6 Take the square root of the result.

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE11.1 General

Exchange Access Service provides a business Customer with a telephonic connection and a unique telephone number address on the public switched telecommunications network. Each Exchange Access Service enables users to:

- 11.1.1 receive calls from other stations on the public switched telecommunications network;
- 11.1.2 access other services offered by the Company as set forth in this tariff;
- 11.1.3 access certain interstate and international calling services provided by the Company;
- 11.1.4 access (at no additional charge) the Company's operators and business office for service related assistance;
- 11.1.5 access (at no additional charge) emergency services by dialing 0- or 9-1-1; and
- 11.1.6 access services provided by other common carriers which purchase the Company's Switched Access services as provided under the Company's Federal and State tariffs, or which maintain other types of traffic exchange arrangements with the Company.
- 11.1.7 Exchange Access Service cannot be used to originate calls to other telephone companies' caller-paid information services (e.g., NPA 900, NXX 970, 540, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked. Calls to numbers "NXX 976" will also be blocked unless otherwise specified by the Customer at the time service is ordered. Should a Customer request unblocking for access to the "NXX 976" caller-paid information service, the Company will bill and collect on behalf of the telephone companies' information provider holding the Customer fully liable for all charges incurred for use of the information provider's service.

Each Exchange Access Service is available on a "Full" service basis, whereby service is delivered to a demarcation/connection block at the Customer's premises.

The following Exchange Access Services are offered:

DID Trunk Service
Digital Trunk Service

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LOCAL EXCHANGE SERVICE^F

SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)

11.2 Exchange Access Service Areas

Exchange Access Services are provided (pursuant to Section 12.1) in limited geographic areas. Exchange Access Services bearing the following NPA-NXX designations are provided at the following locations and in the following areas:

<u>NPA-NXX</u>	<u>Exchanges in Which Full Service is Available</u>
----------------	---

Exchange Service areas will be supplied after interconnection agreement.

11.3 Calling Areas

Geographically-defined Local Calling Areas¹ are associated with each Exchange Access Service provided pursuant to Section 12.1. Exchange Access Services bearing the following NPA-NXX designations shall have the following local calling areas:

<u>NPA-NXX</u>	<u>Exchange</u>	<u>Additional Local Calling Exchanges</u>
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¹ Rates and rate plans for Local Calling Area calls placed over Company-provided Exchange Access Services are set forth in Section 13.

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)11.4 Digital Trunk Service (DID Trunks, Outbound Only Trunks, and Two-Way Combination Trunks)

Digital Trunk Service provides a Customer with a digital connection operating at a full DS1 speed of 1.544 Mbps which is time division multiplexed into 24 individual voice-grade telephonic communications channels, each of which can be used to place one-way inbound, one-way outbound and two-way (combination) trunks. Digital Trunks are provided for connection of compatible Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Digital Trunk is provided with dual tone multi-frequency (DTMF) or multi-frequency (MF) signaling, as specified by the Customer. Digital Trunks may be configured into hunt groups with other Company-provided Digital Trunks for the same Customer within the same local calling area. The terminal interface for each Digital Trunk Service is a smart jack.

Non-recurring and monthly recurring rates per Digital Trunk per point, apply as follows:

Link and Port:	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Per T-1	\$772.00	\$500.00
Port Element: DID, DID/DOD	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Per Channel	\$50.00	\$30.00

11.4.2 DID Trunk Service transmits the dialed digits for all incoming calls allowing the Customer's incoming calls to be routed corresponding to each individual DID number. Charges for DID number blocks are listed below.

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)

11.4.3 Non-recurring and Recurring charges per DID's apply as follows:

<u>Rate Group</u>	<u>Non-Recurring Charge</u>	<u>Recurring Charge</u>
All Zones	\$10.00	\$10.00 for blocks of 100

11.5 Direct Inward Dial (DID) Service

11.5.1 DID service can be purchased in conjunction with Company provided trunk services. DID service transmits the dialed digits for all incoming calls allowing the Customer's PBX to route incoming calls directly to individual stations corresponding to each individual DID number. Charges for DID capability and DID number blocks apply in addition to charges specified for trunk services contained herein.

11.5.2 So the Company may efficiently manage its number resource, the Company, at its sole discretion reserves the right to limit the quantity of DID number blocks a Customer may obtain. Requests for 30 or more DID number blocks must be provided to the Company in writing no less than five (5) months prior to activation. In addition, the Company reserves the right to review vacant DID stations or stations not in use to determine their utilization. Should the Company determine, based on its own discretion, that there is inefficient number utilization, the Company may reassign the DID numbers.

11.5.3 The Customer has no property right to the telephone number or any other call number destination associated with DID service furnished by the Company, and no right to the continuance of service through any particular end office. The Company reserves the right to change such numbers, or the end office designation associated with such number, or both, assigned to the Customer, where the Company deems it necessary to do so in the conduct of its business.

	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Individual DID Numbers	\$10.00	\$1.00 per DID Number

11.6 Directory Listings

For each Customer of Company-provided Exchange Access Service(s), Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no charge. At a Customer's option, Company will arrange for additional listing at the following rates:

	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Each Additional Listing:	\$0.00	\$1.42

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE12.1 Description

Local Calling Service provides a Customer with the ability to originate calls from a Company-provided exchange access line to all other stations on the public switched telephone network bearing the designation of any central office of the exchanges and zones defined as local. The rates set forth in this section apply to all direct dialed local calls. For operator-assisted (non-aggregator) local calls, the operator charges listed in Section 12.3 apply in addition to the charges listed below.

12.2 Option 1 Local Calling Plan12.2.1 Description

Option 1 Local Calling Plan provides Local Calling Service billable on a per minute basis. Option 1 calls will be billed in one-minute increments with an initial billing period of one minute. The rates set forth in this section apply to all outgoing direct-dialed calls placed to telephone stations within the caller's exchange area as defined in Section 11. Option 1 Local Calling Plan is the standard local calling plan provided with exchange access services, as described in Section 11.

12.2.2 Rates

	<u>Per Minute</u>
First Minute	\$0.06
Each Additional Minute	\$0.05

12.2.3 Information Services Call Blocking

The term "Information Services Call Blocking" denotes the Company's central office call blocking service that allows the Company's residential and business subscribers to block access to all directly-dialed, the Company's operator-assisted and the Company's operator entered billing 976 and 900 programs, and other local service providers within South Dakota and to all Interexchange Carrier 900 calls originating within the Telephone Company's service area.

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE (CONT'D)12.3 Operator Services12.3.1 Description

12.3.1.1 Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines which the Customer subscribes to the Company's interexchange outbound calling services.

12.3.2 Definitions

Person-to-Person: Calls completed with the assistance of a Company operator to a particular person, station, department or PBX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card and/or LEC calling card, calling station, called station, or a designated third-party station. Calls are dialed with the assistance of a Company operator.

Station-to-Station: Refers to calls other than person-to-person calls billed to either the end user's commercial credit card and/or non-proprietary calling card. Calls are dialed with the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Operator Dialed Charge: The Customer places the call without dialing the destination number, although the capability to do it himself exists. The Customer will dial "0" for local calls and "00" for long distance calls and then requests the operator to dial the called station.

12.3.3 Rates

In addition to any applicable usage charges, the following operator-assisted charges will apply:

	<u>Per Call Charges</u>
Person-to-Person (Customer Dialed)	\$1.50
Station-to-Station (Customer Dialed) (Billed to Third Party, Collect)	\$0.75
Operator Dialed Charge (applies in addition to other operator charges)	\$0.75

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE (CONT'D)12.3.4 Busy Line Verify and Line Interrupt Service12.3.4.1 Description

Upon request of a calling party the Company will verify a busy condition on a called line.

12.3.4.1.1 The operator will determine if the line is clear or in use and report to the calling party.

12.3.4.1.2 The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

12.3.5 Regulations12.3.5.1 A charge will apply when:

12.3.5.1.1 The operator verifies that the line is busy with a call in progress.

12.3.5.1.2 The operator verifies that the line is available for incoming calls.

12.3.5.1.3 The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

12.3.5.2 No charge will apply:

12.3.5.2.1 When the calling party advises that the call is to or from an official public emergency agency.

12.3.5.2.2 Under conditions other than those specified in Section 12.3.5.1.

12.3.5.2.3 Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE (CONT'D)

- 12.3.5.2.4 The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

12.3.6 Rates

	<u>Per Request</u>
Busy Line Verify Service	\$0.75
Busy Line Verify Verification With Interrupt Service	\$1.55

12.4 Directory Assistance12.4.1 Description

Customers and Users of the Company's calling services (excluding toll free services), may obtain Directory Assistance in determining telephone numbers within South Dakota by calling the Directory Assistance operator.

12.4.2 Rates

- 12.4.2.1 Customers are allowed three (3) free Directory Assistance calls per month. After the monthly three (3) free call allowance is exhausted, Directory Assistance charges will apply for all requests for which the Company's facilities are used. Each number requested is charged for as shown below. Requests for information other than telephone numbers will be charged the same rate as shown for the applicable request for telephone numbers.

	<u>Rate</u>
Per Number Requested	\$0.29

- 12.4.2.2 A credit will be given for calls to Directory Assistance when:

- 12.4.2.2.1 The Customer experiences poor transmission or is cut off during the call;
- 12.4.2.2.2 The Customer is given an incorrect telephone number; or
- 12.4.2.2.3 The Customer inadvertently misdials an incorrect Directory Assistance NPA.

To receive a credit, the Customer must notify the Company operator or Business Office of the problem experienced.

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LOCAL EXCHANGE SERVICE

SECTION 13 - MISCELLANEOUS SERVICES AND SURCHARGES**13.1 Service Implementation****13.1.1 Description**

Absent a promotional offering, service implementation charges will apply to new service orders or to orders to change existing service.

13.1.2 RatesNon-Recurring

Per Service Order	\$30.00
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13.2 Restoration of Service**13.2.1 Description**

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities suspended is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

13.2.2 RatesNon-Recurring

Per Occasion	\$8.50
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13.3 Maintenance of Service

13.3.1 When a Customer reports a trouble to the Company for clearance, and no trouble is found in the Company's facilities, the Customer shall be responsible for payment of a visit charge for the period of time from when Company personnel are dispatched to the Customer's premises to when the work is completed. Failure of Company personnel to find trouble Company facilities will result in no charge if the trouble is actually in those facilities, but not discovered at the time.

13.3.2 Where a NID exists, if the Company is unable to test for dial tone and the problem proves to be beyond the NID (within Customer premises), a maintenance charge is applicable. In the event there is no NID and/or the Company is unable to test for dial tone, then no maintenance charge will be assessed. In those cases where the Customer has bought an inside wire maintenance warranty/plan (a non-regulated service) from the Company, no maintenance charge will be applicable regardless of the dial tone test results or whether a NID exists or not.

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LOCAL EXCHANGE SERVICE

SECTION 13 - MISCELLANEOUS SERVICES AND SURCHARGES (CONT'D)

13.3.3 The Customer shall be responsible for payment of a visit charge when the Company dispatches personnel to the Customer's premises, and the trouble is in the equipment of communications system provided by other than the Company.

13.3.4 No credit allowance will be applicable for the interruption involved if the visit charge applies.

13.4 Rate

The applicable rate is \$65.00 per visit in addition to materials and/or labor charges.

13.5 Presubscription

Customers have a right to chose an intraLATA and an interLATA carrier when equipment and facilities permit. The Company allows Customers to presubscribe to the carrier of their choice for intraLATA and interLATA toll calls, without dialing an access code.

The following charge applies per line or per trunk for each local line or local trunk PIC charge requested. There is no charge for the first PIC charge.

PIC charge	
- per line or trunk	\$5.00

13.6 Telecommunication Relay Service (TRS)

Enables deaf, hard-of-hearing or speech-impaired persons who use a Text Telephone (TT) or similar devices to communicate freely with the hearing population not using TT and vice versa. A Customer will be able to access the state provider to complete such calls. The Company will impose a surcharge to all Customers at a level determined by the Commission.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES

Dedicated Access Services consist of the services offered pursuant to this section, either individually or in combination. Each service is offered independently of the others. Service is offered via the Company's facilities for the transmission of one-way and two-way communications, unless otherwise noted.

14.1 Services Offered

14.1.1 The following dedicated access services are offered in this tariff:

DS3 Service (44.7 Mbps)
DS1 Service (1.5 Mbps)
DS0 Service (up to 64 kbps)

14.1.2 Other services may be provided by the Company on an Individual Case Basis (ICB).

14.2 Type I and Type II Services

14.2.1 DS3 Service and DS1 Service may be provided as either Type I or Type II Services, depending upon the availability of facilities. Type I Service rates apply when both endpoints of the channel are served by the Company's network. Type II Service rates apply when one endpoint of the transmission channel is served by another local exchange carrier's network (Type II Services are provided via a combination of the Company's facilities and another local exchange carrier's facilities).

14.2.2 DS3 and DS1 channels where both endpoints are served by another local exchange carrier's network will be provided at the sole discretion of the Company, on an Individual Case Basis (ICB), applied in a nondiscriminatory manner.

14.3 DS3 SERVICE (44.736 Mbps)

14.3.1 DS3 Service is composed of digital channels provided at 44.736 Mbps for the transmission of one-way and two-way communications. Interconnections to such channels and equipment interfacing to such channels shall meet the following technical characteristics:

Line Rate: 44.736 Mbps +/- 20 ppm
Line Code: Bipolar with three-zero substitution
Test Load: 75 ohms resistive +/- 5 percent

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

Power Levels: For an all-ones transmitted pattern, the power in a 2 KHz band about 22.368 KHz shall be -1.8 to +5.7 dBm and the power in a 2 KHz band about 44.736 MHz shall be at least 20 dB below that in a 2 KHz band about 22.368 KHz. 1

NOTES:

1. The power levels specified by CCITT Recommendation G.703 are identical except that the power is to be measured in 3 KHz bands.

14.3.2 Digital channels at 44.736 Mbps will be provided in one of the following configurations, as specified by the Customer:

14.3.3 Clear Channel DS3: A DS3 signal that is transmitted intact and transparently as provided at the Customer interface. No performance monitoring is performed since all 44.736 Mbps are considered Customer data or voice.

14.3.4 M13 Framed DS3: A DS3 that is channelized into 28 DS1 (1.544 Mbps) signals and include a predefined standard multiplexing scheme as defined in ANSI T1.107a. The M13 DS3 contains parity bits which can be monitored to offer an approximate measure of performance. 43.232 Mbps is Customer data (or voice), the remainder being used for framing, synchronization, parity, etc.

14.3.5 C-bit Parity Framed DS3: A DS3 that can be used for subrated or nonsubrated DS3 signals. This allows DS3 signal monitoring for end-to-end performance measurement on an in-service basis, transmitted on the maintenance data communications channel. The C-bit parity format is defined in ANSI T1.107a. 43.232 Mbps is Customer data (or voice), the remainder being used for framing, synchronization, parity, etc.

14.4 DS1 Service (1.544 Mbps)

14.4.1 DS1 Service is composed of digital channels provided at 1.544 Mbps for the transmission of one-way and two-way communications. Interconnections to such channels and equipment interfacing to such channels shall meet the following technical characteristics:

Line Rate: 1.544 Mbps $\pm$ 130 ppm

Line Code: AMI: bipolar with at least 12.5% average ones density and no more than 15 consecutive zeros;

- or -

B8ZS: no minimum density of ones and no consecutive zeros limit.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'L)

Test Load: 100 ohms resistance.

Pulse Shape: The pulse amplitude shall be between 2.4 and 3.6 volts.

Power Levels: For an all-ones transmitted pattern, the power in a 2 KHz band about 772 KHz shall be 12.4-18.0 dBm and the power in a 2 KHz band about 1544 KHz shall be at least 29 dB below that in a 2 KHz band about 771 KHz.

Pulse Imbalance: There shall be less than 0.5 dB difference between the total power of the positive pulses and the negative pulses.

NOTES:

1. The CCITT specification is ± 50 ppm.
 2. Recommended for new equipment: The power in a 2 KHz band about 772 KHz shall be 12.6-17.9 dBm. CCITT requirements: The power in a 3 KHz band about 772 KHz is 12.0-19.0 dBm.
 3. CCITT requirements: The power in a 3 KHz band about 1544 KHz shall be at least 25 dB below that in a 3 KHz band about 772 KHz.
- 14.4.2 Digital channels at 1.544 Mbps will be provided in one of the following configurations, as specified by the Customer:
- 14.4.3 Unframed DS1: A DS1 signal that does not follow standard framing formats of 192 bits for data and a 193 Rd bit for framing. An unframed DS1 cannot be synchronized to the network and is not performance monitored.
- 14.4.4 D4/SF DS1: A framed DS1 consisting of 12 frames (2316 bits) of 192 bits preceded by one framing bit (F bit). This service can be coded as AMI or B8ZS.
- 14.4.5 ESF DS1: Extends superframe structure from 12 to 24 frames (4632 bits) and redefines the 8 kbps pattern into 2 kbps for mainframe and robbed-bit signaling synchronization, 2 kbps for CRC-6 and 4 kbps for terminal-to-terminal data link. This service can be coded as AMI or B8ZS.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.5 DS1 Hub Service

DS1 Hub Service allows a Customer to aggregate up to 28 DS1 channels that terminate in the same location into a single DS3.

14.6 DS0 Service

14.6.1 DS0 Services are Digital Channels furnished by the Company at transmission speeds of 2.4 kbps, 4.8 kbps, 9.6 kbps, 19.2 kbps, 64 kbps, or in multiples of 64 kbps up to 1.544 Mbps. Such channels will be configured by the Company to transmit digital data at specified data rates or analog signals converted to digital signals, as described below. Interconnections to such channels and equipment interfacing to such channels shall meet the technical characteristics described below in connection with each service configuration. The NCI Codes referenced below are defined in Bell Communications Research (Bellcore) publication TR-NPL-000335.

14.6.2 Each DS0 channel will be provided in one of the following configurations, as specified by the Customer.

14.6.2.1 Effective 2-Wire Service

Provides a digital transmission channel capable of normally carrying, among other information, the digitized representation of human speech. At the Company's point of interconnection with the User, the service will have the technical characteristics of a standard 2-wire analog telephone circuit. Specific configurations are as follows:

14.6.2.2 2-Wire Transmission Only

2 wire, 600 ohm, open loop (continuously connected) with industry standard demarcation (NCI Code: 02NO2). C4 conditioned circuit connecting two locations, typically used for voice-grade data services.

14.6.2.3 Digital Services

Provides a digital transmission channel capable of normally carrying synchronous digital data signals. The following service configurations are available:

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.6.2.5 64 Kbps Data Service

A 4-wire 135 ohm handoff. Other possible handoffs are RS232/DB25, RS422/DB25, or V.35. Provides point-to-point, 64 Kbps clear channel for a full-duplex synchronous data circuit. No error correction or in-band control codes are supported. (Possible NCI Code: 04DU5-64).

14.6.2.6 DS1 Hub Service

DS1 Hub Service allows a Customer to aggregate up to 24 DS0 channels that terminate in the same location into a single DS1 and the distribution of End Link circuits.

14.7 Rates for Dedicated Access Services14.7.1 General

Nonrecurring and monthly recurring rates apply for each Digital Transmission Service furnished by the Company. Monthly recurring rates vary according to the time period for which the Customer commits to take the service. Unless otherwise noted, these standard rate elements are used in calculating the monthly recurring rate for each service:

14.7.1.1 Interoffice Channel Mileage-Fixed: This rate element applies per digital channel whenever there is mileage associated with the channel; a digital channel has mileage associated with it when the endpoints of the channel are located in geographic areas normally served out of separate Customer premises or the Customer premise and the Level 3 Gateway. This rate element applies per circuit endpoint.

14.7.1.2 Interoffice Channel Mileage-Per Mile: This rate element applies whenever there is mileage associated with the digital channel. The unit rate is multiplied by the number of miles (Interoffice Mileage) between the two Customer premises or the Customer premise and the Level 3 Gateway. Fractions of a mile are rounded up to the next whole mile before rates are applied.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.2 DS3 Service (44.736 Mbps)14.7.2.1 Type I DS3 Service

This service consists of a DS3 (44.736 Mbps) capacity digital channel available on a 24 hour per day, 7 day per week basis between two points. There is a 1-year minimum service period for each Basic DS3.

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$1,200
Interoffice Channel Mileage (Per Mile)	\$30
Nonrecurring Installation Rate	\$1,000

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.2.2 Type II DS3 Service

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$2,025
Interoffice Channel Mileage (Per Mile)	\$41
Nonrecurring Installation Rate	\$1,000

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.7.2.3

Volume Discounts

Volume Discounts for DS3s Volume	Rate Per DS3 Channel		
	1 Year	2 Year	3 Year
\$2,500.00	0%	5%	10%
\$5,000.00	2%	7%	12%
\$10,000.00	3%	8%	13%
\$15,000.00	4%	9%	14%
\$20,000.00	4%	9%	14%
\$35,000.00	5%	10%	15%
\$50,000.00	6%	11%	16%
\$75,000.00	8%	13%	18%
\$100,000.00	9%	14%	19%
\$150,000.00	10%	15%	20%
\$200,000.00	11%	16%	21%
\$250,000.00	12%	17%	22%

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.3 DS1 Service (1.544 Mbps)14.7.3.1 Type I DS1 Service

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$200
Interoffice Channel Mileage (Per Mile)	\$13.55
Nonrecurring Installation Rate	\$525

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.3.2 Type II DSI Service

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$200
Interoffice Channel Mileage (Per Mile)	\$13.55
Nonrecurring Installation Rate	\$525

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.4 DS3 Hub Service

This service consists of up to 28 DS1(1.544 Mbps) digital channels, which are aggregated at a Level 3 Hub onto a standard DS3 circuit with Interoffice Mileage and End Link Access Charges at the terminating end. There is a minimum 1-year service period for each DS3 Hub Service.

Service Configuration	Non-Recurring	Recurring
DS3 Channel between a Customer Location and a Level 3 Gateway	Standard DS3 Rate Schedule	
DS3 Hub Port @ Level 3 Gateway	N/A	\$500
End Link Access Charge	Standard DS1/DS0 Rate Schedule	

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.5 Channelized DS3 Service

This service consists of 28 DS1 (1.544 Mb ps) digital channels which connect two client locations each utilizing Channelized DS3 Service. The connection will be rated as a standard DS3 circuit and at both ends. There is a minimum 1-year service period for each High Capacity DS1 Service.

Service Configuration	Non-Recurring	Monthly Recurring
		1 Yr.
Twenty Eight (28) DS1s between two Customer Locations	Standard DS3 Rate Schedule	
Digital Channels @ Both Customer Locations	No incremental charge	No incremental charge

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT')14.7.6 DS0 Service14.7.6.1 Basic Type I DS0 Service

DS0 Service	Non-Recurring	Monthly Recurring	
		Fixed Charges	DS0 Mileage
64 kbps	\$300	\$150	.65/mile

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)**14.7.7 DS1 Hub Service**

This service consists of up to 24 DS0 digital channels, which are aggregated at a Level 3 Gateway onto a standard DS1 circuit with Interoffice Mileage at the terminating end. There is a minimum 1 year service period for each Hubbed DS1 Service.

Standard Rate Elements	Non- Recurring	Monthly Recurring
DS1 Channel between Customer location and a Level 3 Gateway	Applying appropriate DS1 Nonrecurring Charge	Standard DS1 Rate Schedule
DS1 Hub @ Level 3 Gateway	N/A	\$500
DS0 End Link	Apply appropriate DS0 Nonrecurring Charge	Standard DS0 Rate Schedule

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.7.7.1

Channelized DS1 Service

Service Component	Non-Recurring	Monthly Recurring		
		1 YR.	2 YR.	3 YR.
Mileage Charge	Standard DS1 Rate Schedule	Standard DS1 Schedule	Standard DS1 Schedule	Standard DS1 Schedule
64 Kbps x N (N > 1)	Standard DS0 Rate Schedule	No Incremental Charges	No Incremental Charges	No Incremental Charges
Design Changes and Reinstallation				

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LOCAL EXCHANGE SERVICE

SECTION 15 - SPECIAL ARRANGEMENTS

15.1 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis.

ICBs will be filed with the Communications Division of the Commission.

15.2 Promotional Programs

The Company may make promotional offerings of its tariffed services which may include reducing or waiving applicable charges for the promoted service. No individual promotional offering will exceed six months in duration, and any promotional offering will be extended on a non-discriminatory basis to any Customer similarly classified who requests the specific offer.

At the Company's option, a letter outlining the promotion may be filed with the Commission Staff in lieu of filing language in the tariff.

15.3 Special Assembly

The Company may provide a unique intrastate service arrangement for a Customer where no tariffed services exists for the service. The unique service can be provided via a Special Assembly.

The Company will file the Special Assembly including the contract terms, conditions and rates by letter with the Communications Division.

15.4 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in the tariffs of the Company, special construction and special arrangements may be undertaken on a reasonable efforts basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications not otherwise specified under tariff, or for the provision of service on an expedited basis or in some other manner different from the normal tariff conditions. Special construction is that construction undertaken:

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SECTION 15 - SPECIAL ARRANGEMENTS (CONT'D)

- 15.4.1 where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- 15.4.2 of a type other than that which the Company would normally utilize in the furnishing of its services;
- 15.4.3 over a route other than that which the Company would normally utilize in the furnishing of its services;
- 15.4.4 in a quantity greater than that which the Company would normally construct;
- 15.4.5 on an expedited basis;
- 15.4.6 on a temporary basis until permanent facilities are available;
- 15.4.7 involving abnormal costs; or
- 15.4.8 in advance of its normal construction.

15.5 Basis for Charges

Where the Company furnishes a facility or service on a special construction basis, or any service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include, (1) nonrecurring type charges; (2) recurring type charges, (3) termination liabilities; or (4) combinations thereof. The agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service life of the facilities provided.

15.6 Basis for Cost Computation

The costs referred to in Section 15.4 preceding may include one or more of the following items to the extent they are applicable:

- 15.6.1 installed costs of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Installed costs include the cost of:
 - 15.6.1.1 equipment and materials provided or used,
 - 15.6.1.2 engineering, labor and supervision,
 - 15.6.1.3 transportation,

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SECTION 15 - SPECIAL ARRANGEMENTS (CONT'D)

15.6.1.4 rights of way, and

15.6.1.5 any other item chargeable to the capital account;

15.6.2 annual charges including the following:

15.6.2.1 cost of maintenance;

15.6.2.2 depreciation on the estimated installed cost of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;

15.6.2.3 administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;

15.6.2.4 any other identifiable costs related to the facilities provided; and

15.6.2.5 an amount for return and contingencies.

15.7 Termination Liability

To the extent that there is no other requirement for use by the Company, the Customer may have a termination liability for facilities specially constructed at the request of the Customer, if and only if such liability is clearly stated in a written agreement between the Company and the Customer.

15.7.1 The maximum termination liability is equal to the total cost of the special facility as determined herein, adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided.

15.7.2 The maximum termination liability shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six percent (6%), plus applicable taxes.

15.8 Term

The minimum term for any Level 3 Communications, LLC dedicated access service shall not be less than one (1) year, unless otherwise agreed to by the Company. The Customer and Company may agree to longer minimum terms for particular services.

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Exhibit 6

Proposed Initial Interexchange Tariff

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

TARIFF SCHEDULE APPLICABLE TO
INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES
WITHIN THE STATE OF SOUTH DAKOTA
BY
LEVEL 3 COMMUNICATIONS, LLC

This tariff applies to the Intrastate Interexchange Telecommunications Services furnished by Level 3 Communications, LLC ("Level 3" or "Company") between one or more points in the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at Level 3's principal place of business, 1450 Infinite Drive, Louisville, Colorado 80027.

Issued by:

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

CHECK SHEET

Current pages in this tariff are as follows:

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purposes indicated below.

- (C) To signify changed listing, rule, or condition which may affect rates or charges.
- (D) To signify discontinued material, including listing, rate, rule or condition.
- (I) To signify an increase.
- (L) To signify material relocated from or to another part of tariff schedule with no change in text, rate, rules or conditions.
- (N) To signify new materials including listing, rate, rule or condition.
- (R) To signify reduction.
- (T) To signify change in wording of text but not change in rate, rule or condition.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

APPLICATION OF TARIFF

This Tariff contains the regulations and rates applicable to intrastate telecommunications services provided by Company to Customers for telecommunications between points within the State of south Dakota. Company's services are furnished subject to the availability of facilities and subject to the terms and conditions of this Tariff.

The rates and regulations contained in this Tariff apply only to the services furnished by Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Company.

The Customer is entitled to limit the use of Company's services by end users at the Customer's facilities, and may use other common carriers in addition to or in lieu of Company.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 1 - DEFINITION OF TERMS

Certain terms used generally throughout this tariff for Communications Service of this Company are defined below.

Advance Payment: Part or all of a payment required before the start of service.

Authorized User: A person, firm or corporation which is authorized by the Customer to be connected to the service of the Customer.

Commission: South Dakota Public Utilities Commission.

Company: Level 3 Communications, LLC, the issuer of this tariff.

Customer: The person, firm or corporation which purchases service and is responsible for the payment of charges and compliance with the Company's regulations.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgement entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Major Service Interruption: An interruption of Customer service due to the Company's negligence or due to its noncompliance with the provisions of this tariff.

Operator Dialed: Applies a surcharge to operator station, person-to-person, station collect, person collect and third party rated calls when the Customer has the capacity of dialing all the digits necessary to complete a call, but elects to dial only the appropriate operator code and requests the operator to dial the called station.

Operator Dialed Charge: The end user places the call without dialing the destination number, although the capability to do it himself exists. The end user will dial "0" for local calls and "00" for long distance calls and then requests the operator to dial the called station.

Person-to-Person: A service for which the person originating the call specifies to the company operator a particular person's mobile station, department, extension or office to be reached. If the called party is unavailable and the calling party requests or agrees to speak to a party other than the party initially specified, the call is still billed a person-to-person call.

Premises: The space occupied by a Customer or Authorized User in a building or buildings or contiguous property (except railroad rights-of-way, etc.) not separated by a highway.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 1 - DEFINITION OF TERMS (CONT'D)

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Station-to-Station: Refers to calls other than Person-to-Person calls billed to either the end user's commercial credit card and/or non-proprietary calling card. Calls may be dialed with or without the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or the tariffs of the Company, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Company Services submitted by the Customer in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth herein and pursuant to the tariffs of the Company, but the duration of the service is calculated from the Service Commencement Date.

User: A Customer or any other person authorized by a Customer to use service provided to the Customer under a Level 3 Communications, LLC tariff.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY**2.1 General**

- 2.1.1 The Company does not undertake to transmit messages but offers the use of its facilities for the transmission of communications.
- 2.1.2 Customers and Users may use services and facilities provided under the tariffs of the Company to obtain access to services offered by other companies. The Company is responsible for the services and facilities provided under its tariffs, and for its unregulated services provided pursuant to contract, and it assumes no responsibility for any service (whether regulated or not) provided by any other entity that purchases access to the Company network in order to originate or terminate such entity's own services, or to communicate with such entity's own customers.
- 2.1.3 The Company shall have no responsibility with respect to billings, charges or disputes related to services used by the Customer which are not included in the services herein including, without limitation, any local, regional or long distance services not offered by the Company. The Customer shall be fully responsible for the payment of any bills for such services and for the resolution of any disputes or discrepancies with the service provider.

2.2 Description of Service

Level 3 Communications, LLC Service consists of any of the services offered pursuant to this tariff, either individually or in combination. Each service is offered independent of the others, unless otherwise noted. Service is offered via the Company's facilities or in combination with transmission facilities provided by other certificated carriers.

2.3 Application for Service

Customers desiring to obtain Level 3 Communications, LLC Service must complete the Company's standard service order form(s).

2.4 Shortage of Equipment or Facilities

- 2.4.1 The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control, on a nondiscriminatory basis.
- 2.4.2 The furnishing of service under the tariffs of the Company is subject to the availability on a continuing basis of all the necessary facilities and is limited to the reasonable capacity of the Company's facilities as well as facilities the Company may obtain from other

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

carriers to furnish service from time to time as required at the sole discretion of the Company.

2.5 Terms and Conditions

- 2.5.1 Service shall be provided and billed on the basis of a minimum period of at least one month.
- 2.5.2 Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in the tariffs of the Company. Customer will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.5.3 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the service order and the tariffs of the Company prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- 2.5.4 In any action between the parties to enforce any provision of the tariffs of the Company, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.
- 2.5.5 The tariffs of the Company shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

2.6 Liability of the Company

- 2.6.1 The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omissions, shall be limited to the extension of allowances for interruption as set forth in Section 9.0, following. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer or User as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company, Company's employees or agents.

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.6.2 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority, national emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.
- 2.6.3 The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers or Users facilities or equipment used for or with the services the Company offers.
- 2.6.4 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or User or due to the failure or malfunction of Customer or User-provided equipment or facilities.
- 2.6.5 The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided.
- 2.6.6 The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this paragraph as a condition precedent to such installations.
- 2.6.7 The Company is not liable for any defacement of or damage to Customer or User premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.
- 2.6.8 The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid the Company by Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than one year after the service is rendered, or as required by South Dakota Law.

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.6.9 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer provided equipment or facilities.
- 2.6.10 The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals and delays in actual construction work.
- 2.6.11 The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.
- 2.6.12 **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH IN ITS TARIFFS.**
- 2.6.13 The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Level 3 Communications, LLC.

2.7 Notification of Service-Affecting Activities

To the extent possible, the Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

2.8 Provision of Equipment and Facilities

- 2.8.1 All services along the facilities between the point identified as the Company's origination point and the point identified as the Company's termination point will be furnished by the Company, its agents or contractors.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.8.2 The Company may undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff.
- 2.8.3 The Company undertakes to use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer or Authorized User may not, nor may they permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise tamper with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- 2.8.4 Equipment the Company provides or installs at the Customer's premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company provided the equipment.
- 2.8.5 The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer or Authorized User when the service difficulty or trouble report results from the use of equipment or facilities the Customer or Authorized User provided.
- 2.8.6 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities; subject to this responsibility the Company shall not be responsible for:
- 2.8.6.1 The transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
- 2.8.6.2 The reception of signals by Customer provided equipment. The Customer or Authorized User is responsible for ensuring that Customer provided equipment connected to Company equipment and facilities is compatible with such Company equipment and facilities. The magnitude and character of the voltages and currents impressed on Company provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company provided equipment and wiring or injury to the Company's employees or to other persons. Customer will submit to Company a complete manufacturer's specification sheet for each item of equipment that is not provided by the Company and which shall be attached to the Company's facilities. The Company shall approve the use of such item(s) of equipment unless such item is technically incompatible with Company's facilities. Any additional protective, equipment

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

- 2.8.6.3 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Level 3 Communications, LLC services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

- 2.8.6.4 Level 3 Communications, LLC may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carrier which are applicable to such connections.

2.9 Nonroutine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours and/or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.10 Ownership of Facilities

Title to all facilities provided in accordance with the tariffs of the Company remains with the Company, its agents or contractors. The Customer shall not have, nor shall it assert, any right, title or interest in all the fiber optic or other facilities and associated equipment provided by the Company hereunder.

2.11 Optional Rates and Information Provided to the Public

The Company will promptly advise Customers who may be affected of new, revised or optional rates applicable to their service. Pertinent information regarding the Company's services, rates and charges shall be provided directly to Customers, or shall be available for inspection at the Company's local business address. If required by the South Dakota Public Utilities Commission, the Company will cause to have published a notice of its intention to charge its rates, tolls, charges, rules and regulations in one or more newspapers in circulation in the affected area.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)2.12 Continuity of Service

In the event of prior knowledge of an interruption of service for a period exceeding one day, the Customers will, if feasible, be notified at least one week in advance.

2.13 Governmental Authorizations

The provision of services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Federal Communications Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

2.14 Operator Service Requirements

2.14.1 Company provided intrastate operator assisted communications services will observe the following requirements:

2.14.1.1 Identify itself at the time the end-user accesses its service.

2.14.1.2 Upon request, quote all rates and charges for its services to the end-user accessing its system

2.14.1.3 Arrange to have posted in plain view at each telephone location which automatically accesses the Company's operator service network and where its services are made available to the public or transient end-users:

2.14.1.3.1 the Company's operator service name and address;

2.14.1.3.2 bill and service dispute calling information including the operator service provider's dispute resolution phone number;

2.14.1.3.3 clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.14.1.3.4 notice concerning any and all amounts to be billed by the Company's operator services on behalf of any host location or third party which will appear on the operator service provider's bill for services rendered.
- 2.14.1.4 In instances when the Company is unable to complete the call and it requires transfer to another telephone corporation which may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred.
- 2.14.1.5 In the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.
- 2.14.2 The Company will comply with the following provisions:
- 2.14.2.1 Providers of intrastate operator assisted communications services shall not take any action or enter into any arrangement which restricts end-users selection among competing interexchange telephone corporations or end users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 3 - OBLIGATIONS OF THE CUSTOMER**3.1 General**

The Customer shall be responsible for:

- 3.1.1 the payment of all applicable charges pursuant to the tariffs of the Company;
- 3.1.2 damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer or of any User; or by the noncompliance by the Customer or any User with these regulations; or by fire or theft or other casualty on the Customer's or any User's Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- 3.1.3 providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate the Company facilities and equipment installed on the premises of the Customer or any User; and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- 3.1.4 any and all costs associated with obtaining and maintaining of the rights-of-way from the point of entry at the Customer's location to the termination point where service is finally delivered to the Customer, including, but not limited to, the costs of installing conduit or of altering the structure to permit installation of Company provided facilities. The Customer's use of such rights-of-way shall in all respects be subject to the terms, conditions and restrictions of such rights-of-way and of agreements between the Company and such third parties relating thereto, including without limitation, the duration applicable to and the condemnation of such rights-of-way, and shall not be in violation of any applicable governmental ordinance, law, rule, regulation or restriction. Where applicable, the Customer agrees that it shall assist the Company in the procurement and maintenance of such right-of-way. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- 3.1.5 providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which the Company's employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain the Company's facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company;
- 3.1.6 the Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.1.7 complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of the Company's facilities and equipment in any Customer or User premises or the rights-of-way for which Customer is responsible under section 3.1.4; and granting or obtaining permission for the Company's agents or employees to enter the premises of the Customer or any User at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- 3.1.8 not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- 3.1.9 making the Company's facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

3.2 Prohibited Uses

- 3.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by the Customer with respect thereto.
- 3.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Commission regulations, policies, orders, and decisions.
- 3.2.3 The Company may, without obtaining any further consent from the Customer, assign any rights, privileges, or obligations under this tariff. The Customer shall not, without prior written consent of the Company, assign, transfer, or in any other manner dispose of, any of its rights, privileges, or obligations under this tariff, and any attempt to make such an assignment, transfer, disposition without such consent shall be null and void.
- 3.2.4 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.
- 3.2.5 A Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

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SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.2.6 Customer use of any resold service obtained from other service providers shall also be subject to any applicable restrictions imposed by the underlying providers.
- 3.2.7 A Customer or Authorized User shall not represent that its services are provided by the Company, or otherwise indicate to its customers that its provision of services is jointly with the Company, without the written consent of the Company. The relationship between the Company and Customer shall not be that of partners or agents for one or the other, and shall not be deemed to constitute a partnership or agency agreement.
- 3.2.8 A Customer shall not use any service mark, trade mark or trade name of Company or refer to Company in connection with any product, equipment, promotion or publication of the Customer without the approval of Company.

3.3 Claims

With respect to any service or facility provided by the Company, Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- 3.3.1 any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer or User or their employees, agents, representatives or invitees;
- 3.3.2 any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer or User, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between Customer and the Company; or
- 3.3.3 any claim of any nature whatsoever brought by a User with respect to any matter for which the Company would not be directly liable to the Customer under the terms of the applicable Company tariff.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - PAYMENT ARRANGEMENTS**4.1 Payment for Service**

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer.

4.2 Billing and Collection of Charges

4.2.1 Nonrecurring charges are due and payable within 30 days as indicated on the due date on an invoice received by Customer from the Company.

4.2.2 Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or usage based charges.

4.2.3 The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days as indicated on the due date of the invoice.

4.2.4 Charges based on usage will be included on the next invoice rendered following the end of the billing cycle in which the usage occurs, and will be due and payable within 30 days as indicated on the invoice due date.

4.2.5 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

4.2.6 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in the tariffs of the Company or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

4.2.7 With respect to Customers, if any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds which are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, net of taxes, not compounded, multiplied by a monthly late factor of 1.5%.

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.2.8 For any check returned to the Company due to insufficient funds, uncollected funds, or closed account, Customer will be assessed a \$25.00 fee per check returned.

4.3 Advance Payments

- 4.3.1 To safeguard its interests, the Company may require a Customer to make an Advance Payment before services and facilities are furnished. The Advance Payment will not exceed an amount equal to the nonrecurring charge(s) and the first month's estimated usage and recurring charges for the service or facility. In addition, where special construction is involved, the Advance Payment may also include an amount equal to the estimated nonrecurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The Advance Payment will be credited to the Customer's initial bill and may be required in addition to a deposit.
- 4.3.2 A customer whose service has been discontinued for nonpayment of bills will be required to pay the unpaid balance due Company and may be required to pay reconnect charges.

4.4 Deposits

- 4.4.1 The Company may, in order to safeguard its interests, require an applicant to make a suitable deposit to be held by the Company as a guarantee of the payment of charges.
- 4.4.2 A deposit will be required under the following conditions:
- 4.4.2.1 Applicant does not have verifiable credit with any Level 3 Communications, LLC affiliate anywhere within the region in the same or similar business; or
- 4.4.2.2 Applicant has had previous verifiable service with any Level 3 Communications, LLC affiliate anywhere within the region but has an outstanding and unpaid bill for service; or has not established satisfactory credit. Satisfactory credit for a service customer is defined as twelve consecutive months of service without a suspension of service for nonpayment or with no more than one notification of intent to suspend service for nonpayment as well as a positive credit review.
- 4.4.3 An initial deposit or an additional deposit will be required of an existing customer when high risk is indicated and existing security is insufficient. Such requirement will be

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

imposed when a payment history includes a suspension of service for nonpayment during the previous twelve month period or when a current credit review is unsatisfactory.

- 4.4.4 The Company reserves the right to provide for installment payment of the deposit if the circumstances warrant.
- 4.4.5 Any deposit required of an existing Customer is due and payable within ten days after the requirement is imposed. This requirement shall be in writing and the payment date shall be on or after the due and payable date for the current bill. If said deposit or installment thereof, as appropriate, is not paid within the aforementioned time frame, the Company may suspend service of the Customer without further notice. The following are exceptions to this provision:
- 4.4.5.1 In the event service is suspended for a Customer for nonpayment, an initial or additional deposit shall be required prior to the restoration of service if existing security is insufficient.
- 4.4.5.2 In the event prior indebtedness or prior unsatisfactory credit has been determined subsequent to the initial establishment of service due to misrepresentation of the facts by the Customer, a deposit shall be due and payable within five days upon verbal notification and written confirmation or within ten days when notification can only be provided in writing. The ten day period shall be measured from the mailed date of the written notice. If said deposit is not paid within the aforementioned time frame, the Company may suspend service to the Customer without further notice.
- 4.4.6 All applicants and existing Customers shall be treated uniformly for the determination and application of deposits. The amount of the deposit shall be in compliance with SD TSR Section 20:10:08:06.
- 4.4.7 When it is determined that a deposit is required under the conditions specified above, the applicant or Customer may, in lieu of or in addition to making the deposit, arrange for an acceptable third party to guarantee payment of his charges by executing on his behalf a Guarantee of Payment Agreement with the Company. An acceptable third party guarantor for service is a current non residential customer with at least two years continuous service, whose payment history for the most recent twelve month period is satisfactory.
- 4.4.8 The fact that a deposit has been made in no way relieves the Customer from complying with the Company's regulations as to Advance Payments, or the prompt payment of bills on presentation.

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.4.9 The deposit will bear simple interest computed from the date of its receipt by the Company to the date the deposit is refunded, or service is terminated, or annually upon request of the Customer. In the event that a deposit is retained during time periods having different rates of interest, the interest accrued on the deposit will be calculated using the interest rate applicable to each time period.
- 4.4.10 The applicable interest rate for January 1, 1997 through December 31, 1998 is 7% per annum.
- 4.4.11 When service is terminated, the amount of the initial or additional deposit, with any interest due, will be credited to the Customer's account and any credit balance which may remain will be refunded. After an existing customer has established satisfactory credit, the amount of the deposit, with any interest due, will be either credited to the account or at the option of the Customer, refunded. Satisfactory credit for a Customer is defined as twelve consecutive months of Service without suspension for nonpayment and with no more than one notification of intent to suspend service for nonpayment.

4.5 Discontinuance of Service

- 4.5.1 Upon nonpayment of any amounts owing to the Company, the Company may, by giving fourteen (14) days prior written notice to the Customer, discontinue or suspend service without incurring any liability.
- 4.5.2 Upon violation of any of the other material terms or conditions for furnishing service including fraud the Company may, by giving three (3) days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- 4.5.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer, or if a condition immediately dangerous or hazardous to life, physical safety or property exists, or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.5.4 Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately require a deposit without incurring any liability.
- 4.5.5 Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- 4.5.6 Upon the Company's discontinuance of service to the Customer under paragraphs 4.5.1 or 4.5.2 above, the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of the tariffs of the Company, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the minimum term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent (6%)).
- 4.5.7 Any Customer or Applicant for Service requesting the opportunity to dispute any action or determination of Company under the Commission's Customer Service Rules shall be given an opportunity for a supervisory review by the Company immediately following Customer's request for such review. Service will not be disconnected pending completion of the review.
- 4.5.8 Service may be disconnected, upon written notice, when necessitated by conditions beyond Company's control. These conditions include, but are not limited to, a Customer's call volume or calling pattern that results or may result in network blockages or other service degradation which adversely affect service to the calling party, Customer, or other Customers of Company. Company also reserves the right to discontinue furnishing service, upon written notice, when the Customer is using the service in violation of the provisions contained herein, or in violation of the law.
- 4.5.9 Service may be discontinued by Company, without notice to the Customer, by blocking traffic to certain cities, or NXX exchanges, or by blocking calls using certain Customer authorization codes, when Company deems it necessary to take such action to prevent unlawful use of its service. Company will restore service as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new authorization code to replace the one that has been deactivated.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)**4.6 Cancellation of Application for Service**

- 4.6.1 Applications for service are noncancellable unless the Company otherwise agrees. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- 4.6.2 Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun (all discounted to present value at six percent (6%)).
- 4.6.3 Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- 4.6.4 The special charges described in paragraphs 4.6.1 through 4.6.3, above, will be calculated and applied on a case-by-case basis.

4.7 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

4.8 Taxes

The Customer is responsible for the payment of Federal excise taxes, gross receipts, access, state and local sales and use taxes and all taxes, fees, surcharges (however designated) and other exactions imposed on the Company or its services by governmental jurisdictions, other than taxes imposed generally on corporations. Any taxes imposed by a local jurisdiction (e.g. county and municipal taxes) will only be recovered from those Customers residing in the affected

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

jurisdictions. All such taxes, fees, and charges shall be separately designated on the Company's invoices, and are not included in the tariffed rates. It should be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.

4.9 Disputed Bills

The Customer may dispute a bill only by written notice to the Company. Unless such notice is received in a timely fashion, the bill statement shall be deemed to be correct and payable in full by Customer. Any Customer who has a dispute shall be advised by the Company that the Customer may file a formal or informal complaint with the Commission.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS5.1 Transfers and Assignments

- 5.1.1 Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party and any appropriate authorizations, if necessary, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company, (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.
- 5.1.2 If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a Major Service Interruption, Customer agrees to pay to the Company the following sums, within 21 days of the effective date of the cancellation or termination and be payable under the terms set forth in Section 4.0, preceding: all costs, fees and expenses reasonably incurred in connection with:
- 5.1.2.1 All Nonrecurring charges as specified in the Company's tariffs, plus
- 5.1.2.2 Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus
- 5.1.2.3 All Recurring Charges specified in the applicable Company tariff for the balance of the then current term.
- 5.1.2.4 A percentage up to the entire committed total of all usage charges due to Company over the term.

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SECTION 6 - CANCELLATION OF SERVICE

Reserved for future use.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 7 - NOTICES AND COMMUNICATIONS

- 7.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 7.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 7.3 All notices or other communications required to be given pursuant to the tariffs of the Company will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 7.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS**8.1 General**

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in the tariffs of the Company. A User may transmit any form of signal that is compatible with the Company's equipment, but except as otherwise specifically stated in its tariffs, the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication.

8.2 Station Equipment

- 8.2.1 Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company's Point of Connection.
- 8.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to the Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.
- 8.2.3 Customer provided station equipment may be attached to services provided under the tariffs of the Company subject to Part 68 of the FCC Rules and to any applicable provisions of the tariffs of the Company and is the sole responsibility of the Customer.
- 8.2.4 The Company is not responsible for malfunctions of Customer-owned telephone sets or other Customer-provided equipment, or for misdirected calls, disconnects or other service problems caused by the use of Customer-owned equipment.

8.3 Interconnection of Facilities

- 8.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing communications services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

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SECTION 8 – CUSTOMER EQUIPMENT AND CHANNELS (CONT'D)

8.3.2 Communications services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

8.3.3 Facilities furnished under the tariffs of the Company may be connected to customer provided terminal equipment in accordance with the provisions of the tariffs of the Company. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User provided wiring shall be installed and maintained in compliance with those regulations.

8.4 Tests and Adjustments

Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company's facilities in satisfactory operating condition. No interruption allowance will be credited to the Customer for the period during which the Company makes such tests, adjustments, or inspections.

8.5 Inspections

8.5.1 Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the User is complying with the requirements set forth in Section 2.8 for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

8.5.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE9.1 General

- 9.1.1 Interruptions in service, which are not due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer or of an Authorized User, or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth below for the part of the service that the interruption affects.
- 9.1.3 For all Company's services for which charges are specified on the basis of per minute of use, or on usage of a fraction of a minute, and in which there may be interruption of an individual call, due to a condition in Company's shared interexchange facilities or in shared access or termination facilities provided by other carriers, which can be remedied by redialing the call:
- 9.1.3.1 A credit allowance will be made for that portion of a call which is interrupted due to poor transmission (e.g. noisy circuit), one-way transmission (one party is unable to hear the other), or involuntary disconnection caused by deficiencies in Company's service. To receive a credit, the Customer must notify their Customer Service Representative and furnish information, including the called number, the service subscribed to, the difficulty experienced, and the approximate time the call was placed. Credit allowances will not be made for (1) interruptions not reported to Company, or (2) interruptions that are due to the failure of power, equipment, systems, or services not provided by Company. If the Customer elects to use another means of communications after one of the above interruptions, or during a period when they are unable to place a call over Company, the Customer must pay the charges for the alternative service used.
- 9.1.3.2 Where a call has been disconnected, the Customer will be given a credit allowance equivalent to the charge for the initial minute of the call made to reestablish communications with the other party. Where a call has been interrupted by poor transmission or one-way transmission, the Customer will be given a credit allowance up to an amount equivalent to the charge for the initial

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SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)

minute of the call to the wrong number if they report the situation promptly to a Customer Service Representative.

9.2 No credit allowance will be made for:

- 9.2.1 interruptions due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer of an Authorized User, or other common carrier providing service connected to the service of the Company;
- 9.2.2 interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
- 9.2.3 interruptions of service due to the failure or malfunction of facilities, power or equipment provided by the Customer, Authorized User, or other common carrier providing service connected to the services or facilities of the Company;
- 9.2.4 interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- 9.2.5 interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- 9.2.6 interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 9.2.7 interruption of service due to circumstances or causes beyond the control of the Company; and
- 9.2.8 interruptions of service that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

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SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS**10.1 Special Construction**

Subject to the agreement of the Company and to all of the regulations contained in the tariffs of the Company, special construction and special arrangements may be undertaken on a reasonable efforts basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications not otherwise specified under tariff, or for the provision of service on an expedited basis or in some other manner different from the normal tariff conditions. Special construction is that construction undertaken:

- 10.1.1 where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- 10.1.2 of a type other than that which the Company would normally utilize in the furnishing of its services;
- 10.1.3 over a route other than that which the Company would normally utilize in the furnishing of its services;
- 10.1.4 in a quantity greater than that which the Company would normally construct;
- 10.1.5 on an expedited basis;
- 10.1.6 on a temporary basis until permanent facilities are available;
- 10.1.7 involving abnormal costs; or
- 10.1.8 in advance of its normal construction.

10.2 Basis for Charges

Where the Company furnishes a facility or service on a special construction basis, or any service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include, (1) nonrecurring type charges; (2) recurring type charges, (3) termination liabilities; or (4) combinations thereof. The agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service life of the facilities provided.

10.3 Basis for Cost Computation

The costs referred to in Section 10.2 preceding may include one or more of the following items to the extent they are applicable:

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SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS (CONT'D)

10.3.1 installed costs of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Installed costs include the cost of:

- 10.3.1.1 equipment and materials provided or used,
- 10.3.1.2 engineering, labor and supervision,
- 10.3.1.3 transportation,
- 10.3.1.4 rights of way, and
- 10.3.1.5 any other item chargeable to the capital account;

10.3.2 annual charges including the following:

- 10.3.2.1 cost of maintenance;
- 10.3.2.2 depreciation on the estimated installed cost of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;
- 10.3.2.3 administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;
- 10.3.2.4 any other identifiable costs related to the facilities provided; and
- 10.3.2.5 an amount for return and contingencies.

10.4 Termination Liability

To the extent that there is no other requirement for use by the Company, the Customer may have a termination liability for facilities specially constructed at the request of the customer, if and only if such liability is clearly stated in a written agreement between the Company and the Customer.

10.4.1 The maximum termination liability is equal to the total cost of the special facility as determined under 10.3, preceding, adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided.

10.4.2 The maximum termination liability as determined in paragraph (1) shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole

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SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS (CONT'D)

number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six percent (6%), plus applicable taxes.

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SECTION 11 - TEMPORARY PROMOTIONAL PROGRAMS

The Company may establish temporary promotional programs to introduce present or potential customers to a service not previously received by Customers. During specific promotional periods, an offer may be made to reduce nonrecurring charges on a nondiscriminatory basis, up to the full amount, for optional products and services.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 12 - APPLICATION OF RATES**12.1 General**

Intrastate Services are offered in conjunction with interstate services.

12.2 Computation of Charges for Message Telecommunications Service

12.2.1 The rates for Company's Intrastate Interexchange Telecommunications Service will depend upon the duration of the call and the service plan selected by the Customer. Rates apply seven (7) days a week and are not affected by the time period in which the call is placed. Rates are quoted per minute. Rates applicable on holidays are the same as those applicable for all other days of the year. Billing is based on an initial eighteen (18) second period and thereafter in six (6) second increments or fractions thereof rounded up to the next increment. Third party non-usage recurring charges billed to Company relevant to Customer's use of local serving arrangement with local exchange company are passed directly on to Customer and may be subject to upward adjustment from time to time pursuant to tariff. In addition, any non-recurring third party charges which may be billed to Company relative to interconnection shall be passed directly on to Customer.

12.2.2 Where answer supervision is available, the time of a call begins when the called station is answered, as determined by the standard industry methods selected by the applicable underlying Common Carrier. The Company will not knowingly bill any Customer for unanswered calls. Upon the Customer's request, the Company shall promptly refund or credit, as the case may be, payments or charges for any unanswered call inadvertently billed due to the unavailability of Feature Group D or to the LEC's failure to provide answer supervision. Where answer supervision is not available, any call for which the billed duration exceeds one minute shall be presumed to have been answered.

12.3 Minimum Call Completion Rate

A customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 99.5% during peak use periods for the Company services.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 13 - DESCRIPTION AND RATES FOR OPERATOR SERVICES**13.1 Operator Assisted Service****13.1.1 Description**

Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines which the Customer subscribes to the Company's interexchange outbound calling services.

13.2 Rates for Operator Assisted Service

IntraLATA calls may be placed on an Operated Assisted basis. The surcharges for Operator Assisted calls are set forth below, and apply in addition to any other applicable usage charges.

	<u>Per Minute Charge</u>	<u>Operator Assisted Surcharge</u>
Station-to-Station	\$.40	\$ 2.10
Third Number Billing	\$.40	\$ 2.50
Collect Calls	\$.40	
Automated Surcharge	\$1.50	
Operator Assisted Surcharge		\$ 2.50
Person-to-Person, Intrastate	\$.40	\$ 6.50
Busy Line Verify, Intrastate	\$.00	\$ 6.50
Busy Line Interrupt, Intrastate	\$.00	\$13.00

13.3 Directory Assistance

Directory Assistance is available to Customers of Company's calling services. Customers may obtain directory assistance in determining telephone numbers by calling the Directory Assistance operator. An undiscounted per call charge will be applied to each call each month for information as to any telephone number within the state.

Directory Assistance, Intrastate	\$.60 per call
Directory Assistance, Interstate	\$.95 per call
Directory Assistance, Call Completion	\$1.50 per call
Per Minute Charge	\$.40 per call

Up to two requests may be made on each call to Directory Assistance. The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 13 - DESCRIPTION AND RATES FOR OPERATOR SERVICES (CONT'D)

A credit allowance will be given to those Customers who comply with the following provisions. A credit allowance will be given; i.e., the charge that would otherwise apply will be waived, when:

1. the Customer experiences poor transmission or is cut-off during the call to Directory Assistance;
2. the Customer is given an incorrect telephone number by the Directory Assistance operator; or
3. the Customer has inadvertently misdialed and has reached Directory Assistance for the wrong area code. To obtain such a credit/waiver, the Customer must promptly notify his or her Customer Service Representative.

13.3.1 Customers who have been certified in writing as unable to access or use a manual directory because of a visual or other physical impairment are eligible to receive a credit which will be applied against the per-call charge and any applicable operator-assistance surcharges for domestic Directory Assistance as specified in this tariff. This certification must be made by a licensed physician, optometrist, appropriate federal or state agency, or appropriate private agency. Upon request, Company's Customer Service will furnish applicants with a certification form.

13.3.2 The written certification of visual or other physical impairment must be provided to Company's Customer Service Center or, at Company's election, proof of certification, as defined above, may be provided to, and maintained on file with, the Customer's Local Exchange Carrier.

13.3.3 Credits may be used by: 1) the visually or otherwise physically impaired Customer; 2) an organization established specifically for the purpose of assisting the visually or otherwise physically impaired; or 3) a business where all owner(s) and/or employees of the business on the premises at which a call originates have been certified as visually or otherwise physically impaired. Credits will apply only to directory assistance calls, including any operator-assistance surcharges necessary to complete those calls, that originate from and are billed to the telephone number of the certified visually or otherwise physically impaired person or organization. Only one telephone number per location is entitled to this credit. A maximum of fifty directory assistance calls, including operator-assistance surcharges, per monthly billing period will be eligible for the credit. The actual credit for any one call to directory assistance (including operator-assistance surcharges) shall not exceed \$5.00.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 14 – DESCRIPTION AND RATES FOR MESSAGE TELECOMMUNICATIONS SERVICE**14.1 Description**

Company will provide interexchange telecommunications services. Calls are rated based on the duration of the call. In addition, a monthly recurring charge may apply. Unless otherwise indicated, rates are identified in this tariff as per minute rates.

14.2 Message Telecommunications Service

Message Telecommunications Service ("MTS") is a communications service which is available for use by Customers twenty-four (24) hours a day. MTS enables a User of an exchange access line to place to any station on the public switched telecommunications network bearing an NPA/NXX designation associated with points outside the Customer's Local Calling Area, but within the boundaries of the State of South Dakota. MTS is available on a switched basis with a minimum monthly usage requirement of \$100.00. The \$100.00 requirement applies to any monthly MTS usage. The minimum requirement may also be met by the purchase of any other product offered by Company. The minimum requirement cannot be met by either nonrecurring or recurring MTS charges. The requirements may not be met by other taxes or surcharges. In any month where the Customer does not incur the minimum requirement of services, the Customer will be billed the difference between the actual usage and \$100.00.

+ Long Distance Telecommunications Services

Rate per minute: \$0.15

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 15 - SPECIAL ARRANGEMENTS15.1 Special Service Arrangements

Customer-specific service arrangements, which may include engineering, installation, construction, facilities, assembly and/or other special services, may be furnished in addition to existing tariff offerings. Rates, terms, and conditions plus any additional regulations, if applicable for the special service arrangements will be developed upon the customer's request. Unless otherwise specified, the regulations for the special service arrangements are in addition to the applicable regulations specified in other sections of this tariff.

15.2 Non-Standard Offerings15.2.1 Individual Case Basis (ICB) Arrangements

For special situations, rates for Message Telecommunications Service (MTS) will be determined on an Individual Case Basis (ICB) and specified by contract between the Company and the Customer. If required by Commission rules, notice of such contracts will be provided.

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

VERIFICATION

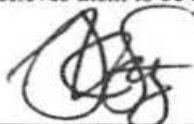
VERIFICATION

State of Colorado)

) ss.

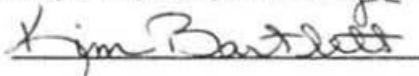
County of Boulder)

I, Thomas C. Stortz, the Senior Vice President, General Counsel, and Secretary of Level 3 Communications, LLC, being duly sworn, state that I am authorized to make this verification on behalf of Level 3 Communications, LLC, the Applicant named in the foregoing instrument, that the facts and allegations therein contained are true except so far as they are therein stated to be on information, and that, so far as they are therein stated to be on information, Applicant believes them to be true.



Thomas C. Stortz

Taken, sworn to and subscribed before me this 21st day of February, 1999.



Notary Public in and for said County

My Commission expires on the ____ day of _____.

MY COMMISSION EXPIRES 9/30/2002

OFFICIAL CHECK

196594521

December 17

19 98

Pay To The
Order Of

*South Dakota Public Utilities Commission**

\$ **250.00**

two hundred fifty dollars and 00/100

Dollars

FIRST UNION NATIONAL BANK OF WASHINGTON, DC

GSL/gy
Authorized Signature

For
Security Systems, Inc., Englewood, CO
Security Systems, Inc., Englewood, CO

⑆102000018⑆8 090133 196594521⑆

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of February 11, 1999 through February 17, 1999

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.

Phone: 605-773-3705. Fax: 605-773-3809.

TELECOMMUNICATIONS

TC99-015

In the Matter of the Application of Level 3 Communications, LLC for a Certificate of Authority to Provide Telecommunications Services, Including Local Exchange Service, in South Dakota.

Level 3 Communications is a reseller and facilities-based company who intends to provide all forms of local exchange and interexchange services in South Dakota.

Staff Analyst: Keith Senger

Staff Attorney: Karen Cremer

Date Filed: 02/16/99

Intervention Date: 03/05/99

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You may subscribe to the PUC mailing list at <http://www.state.sd.us/puc/>



William P. Hunt, III
Regulatory Counsel

TEL: (303) 926-3555
FAX: (303) 926-3467
bill.hunt@level3.com

VIA OVERNIGHT MAIL

April 14, 1999

Mr. Keith Senger, Utility Analyst
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

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APR 15 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Re: TC99-015 - Application of Level 3 Communications LLC

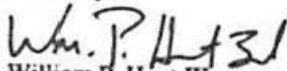
Dear Mr. Senger:

In response to your letter of March 22, 1999, Level 3 Communications LLC submits the following:

1. The rates contained in the tariffs are illustrative. Level 3 will comply with the appropriate Commission rules and regulations before implementing final rates once an interconnection agreement has been reached.
2. By this letter, Level 3 is requesting a waiver of the requirements to provide current financial statements as required by ARSD 20:10:24:02(8) & (15) and ARSD 20:10:32:03(11) & (22). Level 3 requests that its final certificate of authority be conditioned upon either posting a bond in the amount of \$25,000 before it begins to provide service or submitting any appropriate financial information that is available at that time. I spoke with Staff Attorney Karen Cremer about this solution on Tuesday morning and she had no objections to this request.
3. Level 3 has removed any language regarding customer deposits from the tariffs. Level 3 understands that if it wishes to collect such deposits when it offers service, it will need to either provide a surety bond or the appropriate financial information.
4. Level 3 does not have plans to provide prepaid calling card services.
5. Level 3 has revised its tariffs to comply with South Dakota law. The revised tariffs are enclosed for your review.

I hope this letter answers your questions and will allow Level 3's application to be heard by the Commission at its April 26 meeting. If you have any questions or require additional information, please do not hesitate to contact me at 303.926.3555. If your questions are related to the tariffs, please call Greg Rogers, Tariff Analyst, at 303.635.9597.

Sincerely

A handwritten signature in dark ink, appearing to read "Wm. P. Hunt III", with a stylized flourish at the end.

William P. Hunt III
Regulatory Counsel

Cc: Karen Cremer, Staff Attorney (w/o enclosures)
Greg Rogers, Tariff Analyst (w/o enclosures)

LOCAL EXCHANGE SERVICE

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APR 15 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

TARIFF SCHEDULE APPLICABLE TO
LOCAL EXCHANGE SERVICES
WITHIN THE STATE OF SOUTH DAKOTA
BY
LEVEL 3 COMMUNICATIONS, LLC

Issued by:

Thomas C. Stortz
Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027
(303) 926-3000

ISSUED:

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

CHECK SHEET

Current pages in this tariff are as follows:

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3	Original	28	Original	53	Original
4	Original	29	Original	54	Original
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24	Original	49	Original		
25	Original	50	Original		

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purposes indicated below.

- (C) To signify changed listing, rule, or condition which may affect rates or charges.
- (D) To signify discontinued material, including listing, rate, rule or condition.
- (I) To signify a rate increase.
- (L) To signify material relocated from or to another part of tariff schedule with no change in text, rate, rules or conditions.
- (N) To signify new materials including listing, rate, rule or condition.
- (R) To signify a rate reduction.
- (T) To signify change in wording of text but no change in rate, rule or condition.

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

LOCAL EXCHANGE SERVICE

APPLICATION OF TARIFF

This Tariff contains the regulations and rates applicable to intrastate and local exchange access services provided by Company to business Customers for telecommunications between points within the State of South Dakota. Company's services are furnished subject to the availability of facilities and capacity and subject to the terms and conditions of this Tariff.

The rates and regulations contained in this Tariff apply only to the services furnished by Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Company.

The Customer is entitled to limit the use of Company's services by end users at the Customer's facilities, and may use other common carriers in addition to or in lieu of Company.

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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITION OF TERMS

Certain terms used generally throughout this tariff for Communications Service of this Company are defined below.

Advance Payment: Part or all of a payment required before the start of service.

Authorized User: A person, firm or corporation which is authorized by the Customer or Joint User to be connected to the service of the Customer or Joint User, respectively.

Bit: The smallest unit of information in the binary system of notation.

Commission: South Dakota Public Utilities Commission.

Company: Level 3 Communications, LLC, the issuer of this tariff.

Customer: The person, firm or corporation which purchases service and is responsible for the payment of charges and compliance with the Company's regulations.

Dedicated: A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

End Office: The term "end office" denotes the switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

Joint User: A person, firm or corporation which is designated by the Customer as a user of services furnished to the Customer by the Company and to whom a portion of the charges for the service will be billed under a Joint User arrangement as specified in the Company's tariff.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Major Service Interruption: An interruption of Customer service due to the Company's negligence or due to its noncompliance with the provisions of this tariff.

Premises: The space occupied by a Customer, Authorized User or Joint User in a building or buildings or contiguous property (except railroad rights-of-way, etc.) not separated by a highway.

ISSUED:**EFFECTIVE:****Issued By:**

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITION OF TERMS (CONT'D)

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or the tariffs of the Company, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Company Services submitted by the Customer in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth herein and pursuant to the tariffs of the Company, but the duration of the service is calculated from the Service Commencement Date.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Transmission: The sending of electrical or optical signals over a line to a destination.

User: A Customer, Joint User, or any other person authorized by a Customer to use service provided to the Customer under a Level 3 Communications, L.L.C. tariff.

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY

2.1 General

- 2.1.1 The Company does not undertake to transmit messages but offers the use of its facilities for the transmission of communications.
- 2.1.2 Customers and Users may use services and facilities provided under the tariffs of the Company to obtain access to services offered by other companies. The Company is responsible for the services and facilities provided under its tariffs, and for its unregulated services provided pursuant to contract, and it assumes no responsibility for any service (whether regulated or not) provided by any other entity that purchases access to the Company network in order to originate or terminate such entity's own services, or to communicate with such entity's own Customers.
- 2.1.3 The Company shall have no responsibility with respect to billings, charges or disputes related to services used by the Customer which are not included in the services herein including, without limitation, any local, regional or long distance services not offered by the Company. The Customer shall be fully responsible for the payment of any bills for such services and for the resolution of any disputes or discrepancies with the service provider.

2.2 Description of Service

Level 3 Communications, LLC Service consists of any of the business services offered pursuant to this tariff, either individually or in combination. Each business service is offered independent of the others, unless otherwise noted. Service is offered via the Company's facilities or in combination with transmission facilities provided by other certificated carriers.

2.3 Application for Service

Customers desiring to obtain Level 3 Communications, LLC Service must complete the Company's standard service order form(s).

2.4 Shortage of Equipment or Facilities

- 2.4.1 The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control, on a nondiscriminatory basis.
- 2.4.2 The furnishing of service under the tariffs of the Company is subject to the availability on a continuing basis of all the necessary facilities and is limited to the reasonable capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)**2.5 Terms and Conditions**

- 2.5.1 Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in the tariffs of the Company. Customer will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.5.2 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the service order and the tariffs of the Company prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- 2.5.3 The tariffs of the Company shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

2.6 Liability of the Company

- 2.6.1 The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omissions, shall be limited to the extension of allowances for interruption as set forth in Section 9.0, following.
- 2.6.2 Except for the extension of allowances to the Customer for interruption in service as set forth in Section 9.0, Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.
- 2.6.3 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority, national

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Issued By:

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Level 3 Communications, LLC
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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONTD)

emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.

- 2.6.4 The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers or Users facilities or equipment used for or with the services the Company offers.
- 2.6.5 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or User or due to the failure or malfunction of Customer or User-provided equipment or facilities.
- 2.6.6 The Company does not guarantee nor make any warranty, with respect to installations it provides for use in an explosive atmosphere. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided.
- 2.6.7 The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this paragraph as a condition precedent to such installations.
- 2.6.8 The Company is not liable for any defacement of or damage to Customer or User premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.
- 2.6.9 Notwithstanding any other provision of this tariff and pursuant to S.D. Codified Laws Sections 49-13-1 and 49-13-1.1, any person claiming to be damaged by Company may either make complaint to the Commission or may bring suit on his own behalf for the recovery of damages in any court of competent jurisdiction in South Dakota, but no person may pursue both remedies at the same time.
- 2.6.10 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer provided equipment or facilities.
- 2.6.11 The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for

ISSUED:

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Issued By:

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
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Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

construction, delays in obtaining right-of-way approvals and delays in actual construction work.

- 2.6.12 The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.
- 2.6.13 **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH IN ITS TARIFFS.**
- 2.6.14 The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Level 3 Communications, LLC.

2.7 Notification of Service-Affecting Activities

To the extent possible, the Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

2.8 Provision of Equipment and Facilities

- 2.8.1 All services along the facilities between the point identified as the Company's origination point and the point identified as the Company's termination point will be furnished by the Company, its agents or contractors.
- 2.8.2 The Company may undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff.
- 2.8.3 The Company undertakes to use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer, Joint User, or Authorized

ISSUED:**EFFECTIVE:**

Issued By:

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

User may not, nor may they permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise tamper with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

- 2.8.4 Equipment the Company provides or installs at the Customer's premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company provided the equipment.
- 2.8.5 The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer, Joint User, or Authorized User when the service difficulty or trouble report results from the use of equipment or facilities the Customer, Joint User, or Authorized User provided.
- 2.8.6 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities; subject to this responsibility the Company shall not be responsible for:
- 2.8.6.1 The transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
- 2.8.6.2 The reception of signals by Customer provided equipment. The Customer, Authorized User, or Joint User is responsible for ensuring that Customer provided equipment connected to Company equipment and facilities is compatible with such Company equipment and facilities. The magnitude and character of the voltages and currents impressed on Company provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company provided equipment and wiring or injury to the Company's employees or to other persons. Customer will submit to Company a complete manufacturer's specification sheet for each item of equipment that is not provided by the Company and which shall be attached to the Company's facilities. The Company shall approve the use of such item(s) of equipment unless such item is technically incompatible with Company's facilities. Any additional protective, equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.
- 2.8.7 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Level 3 Communications, LLC

ISSUED:

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Issued By:

Thomas C. Stutz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

- 2.8.8 Level 3 Communications, LLC may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carrier which are applicable to such connections.

2.8.9 Network Interface Device (NID)

A physical piece of equipment (jack, block or other device) that provides the point of interconnection between a Customer's inside wiring and Company's at a Customer's designated premises. The physical point where Company's network and network responsibilities terminate and a Customer's responsibilities begin. It is the Company's responsibility to install the NID.

- 2.8.9.1 There is no charge for this equipment, but there may be an installation charge if the Customer wants the NID located in an unusual location.

2.9 Nonroutine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours and/or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.10 Ownership of Facilities

Title to all facilities provided in accordance with the tariffs of the Company remains with the Company, its agents or contractors. The Customer shall not have, nor shall it assert, any right, title or interest in all the fiber optic or other facilities and associated equipment provided by the Company hereunder.

2.11 Optional Rates and Information Provided to the Public

The Company will promptly advise Customers who may be affected of new, revised or optional rates applicable to their service. Pertinent information regarding the Company's services, rates and charges shall be provided directly to Customers, or shall be available for inspection at the Company's local business address. If required by the South Dakota Public Utilities Commission, the Company will cause to have published a notice of its intention to change its rates, tolls, charges, rules and regulations in one or more newspapers in circulation in the affected area.

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)2.12 Continuity of Service

In the event of prior knowledge of an interruption of service for a period exceeding one day, the Customers will, if feasible, be notified in writing, by mail, at least one week in advance.

2.13 Governmental Authorizations

The provision of services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Federal Communications Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

2.14 Universal Emergency Telephone Number Service

- 2.14.1 This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects or malfunctions in the service, nor does the Company undertake such responsibility.
- 2.14.2 911 information consisting of the names, addresses and telephone numbers of all telephone Customers is confidential. The Company will release such information via the Data Management System only after a 911 call has been received, on a call by call basis, only for the purpose of responding to an emergency call in progress.
- 2.14.3 The 911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number, name and address associated with the originating station location are furnished to the Public Safety Answering Point.
- 2.14.4 After the establishment of service, it is the Public Safety Agency's responsibility to continue to verify the accuracy of and to advise the Company of any changes as they occur in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies' jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other similar matter that may affect the routing of 911 calls to the proper Public Safety Answering Point.

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LOCAL EXCHANGE SERVICE

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

2.14.5 The Company assumes no liability for any infringement, or invasion of any right of privacy or any person or persons caused, or claimed to be caused, directly or indirectly by the use of 911 Service. The Public Safety Agency agrees, except where the event, incidents or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify, defend and hold harmless the Company from any and all loss or claims whatsoever, whether suffered, made, instituted or asserted by the Public Safety Agency or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage or destruction of any property, whether owned by the Customer or others. The Public Safety Agency also agrees to release, indemnify, defend and hold harmless the Company for any infringement or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of 911 Service features and the equipment associated therewith, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing 911 Service hereunder, and which arise out of the negligence or other wrongful act of the Public Safety Agency, its user, agencies or municipalities, or the employees or agents of any one of them, or which arise out of the negligence, other than gross negligence or willful misconduct, of the Company, its employees or agents.

2.15 Operator Service Requirements

2.15.1 Company provided intrastate operator assisted communications services will observe the following requirements:

- 2.15.1.1 Identify itself at the time the end-user accesses its service.
- 2.15.1.2 Upon request, quote all rates and charges for its services to the end-user accessing its system
- 2.15.1.3 Arrange to have posted in plain view at each telephone location which automatically accesses the Company's operator service network and where its services are made available to the public or transient end-users:
 - 2.15.1.3.1 the Company's operator service name and address;

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.15.1.3.2 bill and service dispute calling information including the operator service provider's dispute resolution phone number;
- 2.15.1.3.3 clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and
- 2.15.1.3.4 notice concerning any and all amounts to be billed by the Company's operator services on behalf of any host location or third party which will appear on the operator service provider's bill for services rendered.
- 2.15.1.4 In instances when the Company is unable to complete the call and it requires transfer to another telephone corporation which may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred.
- 2.15.1.5 In the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.
- 2.15.2 The Company will comply with the following provisions:
 - 2.15.2.1 Providers of intrastate operator assisted communications services shall not take any action or enter into any arrangement which restricts end-users selection among competing interexchange telephone corporations or end users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER3.1 General

The Customer shall be responsible for:

- 3.1.1 the payment of all applicable charges pursuant to the tariffs of the Company;
- 3.1.2 damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer or of any User; or by the noncompliance by the Customer or any User with these regulations; or by fire or theft or other casualty on the Customer's or any User's Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- 3.1.3 providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate the Company facilities and equipment installed on the premises of the Customer or any User; and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- 3.1.4 any and all costs associated with obtaining and maintaining of the rights-of-way from the point of entry at the Customer's location to the termination point where service is finally delivered to the Customer, including, but not limited to, the costs of installing conduit or of altering the structure to permit installation of Company provided facilities. The Customer's use of such rights-of-way shall in all respects be subject to the terms, conditions and restrictions of such rights-of-way and of agreements between the Company and such third parties relating thereto, including without limitation, the duration applicable to and the condemnation of such rights-of-way, and shall not be in violation of any applicable governmental ordinance, law, rule, regulation or restriction. Where applicable, the Customer agrees that it shall assist the Company in the procurement and maintenance of such right-of-way. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- 3.1.5 providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which the Company's employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain the Company's facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company;
- 3.1.6 the Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.1.7 complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of the Company's facilities and equipment in any Customer or User premises or the rights-of-way for which Customer is responsible under section 3.1.4; and granting or obtaining permission for the Company's agents or employees to enter the premises of the Customer or any User at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- 3.1.8 not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- 3.1.9 making the Company's facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

3.2 Prohibited Uses

- 3.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by the Customer with respect thereto.
- 3.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Department regulations, policies, orders, and decisions.
- 3.2.3 The Company may, without obtaining any further consent from the Customer, assign any rights, privileges, or obligations under this tariff. The Customer shall not, without prior written consent of the Company, assign, transfer, or in any other manner dispose of, any of its rights, privileges, or obligations under this tariff, and any attempt to make such an assignment, transfer, disposition without such consent shall be null and void.
- 3.2.4 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.
- 3.2.5 A Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

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LOCAL EXCHANGE SERVICE

SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.2.6 Customer use of any resold service obtained from other service providers shall also be subject to any applicable restrictions imposed by the underlying providers.
- 3.2.7 A Customer, Joint User, or Authorized User shall not represent that its services are provided by the Company, or otherwise indicate to its Customers that its provision of services is jointly with the Company, without the written consent of the Company. The relationship between the Company and Customer shall not be that of partners or agents for one or the other, and shall not be deemed to constitute a partnership or agency agreement.

3.3 Claims

With respect to any service or facility provided by the Company, Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- 3.3.1 any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer or User or their employees, agents, representatives or invitees;
- 3.3.2 any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer or User, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between Customer and the Company; or
- 3.3.3 any claim of any nature whatsoever brought by a User with respect to any matter for which the Company would not be directly liable to the Customer under the terms of the applicable Company tariff.

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS

4.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer itself or are resold or shared with other persons.

4.2 Billing and Collection of Charges

4.2.1 Nonrecurring charges are due and payable within 30 days after the date an invoice is mailed to the Customer by the Company.

4.2.2 Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or optional features.

4.2.3 Charges based on measured usage will be included on the next invoice rendered following the end of the month in which the usage occurs, and will be due and payable within 30 days after the invoice is mailed.

4.2.4 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

4.2.5 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in the tariffs of the Company or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

4.2.6 With respect to Business Customers only, if any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

in funds which are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, net of local taxes, not compounded, multiplied by a monthly late factor of 1.5%.

- 4.2.7 For any check returned to the Company due to insufficient funds, uncollected funds, or closed account, Customer will be assessed a \$20.00 fee per check returned.

4.3 Discontinuance of Service

- 4.3.1 Upon nonpayment of any amounts owing to the Company, the Company may, by giving ten (10) days prior written notice to the Customer, discontinue or suspend service without incurring any liability.
- 4.3.2 Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving thirty (30) days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- 4.3.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer, or if a condition immediately dangerous or hazardous to life, physical safety or property exists, or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- 4.3.4 Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- 4.3.5 Upon the Company's discontinuance of service to the Customer, the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of the tariffs of the Company, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the minimum term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent (6%)).

4.4 Cancellation of Application for Service

- 4.4.1 Applications for service are noncancellable unless the Company otherwise agrees. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

- 4.4.2 Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun (all discounted to present value at six percent (6%)).
- 4.4.3 Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- 4.4.4 The special charges described above will be calculated and applied on a case-by-case basis.

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LOCAL EXCHANGE SERVICE

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)

4.5 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

4.6 Taxes

The Customer is responsible for the payment of Federal excise taxes, state and local sales and use taxes and all taxes, fees, the 911 tax and other exactions imposed on the Company or its services by governmental jurisdictions, other than taxes imposed generally on corporations. All such taxes, fees, and charges shall be separately designated on the Company's invoices, and are not included in the tariffed rates.

4.7 Disputed Bills

The Customer may dispute a bill only by written notice to the Company. Unless such notice is received in a timely fashion, the bill statement shall be deemed to be correct and payable in full by Customer. Any Customer who has a dispute shall be advised by the Company that the Customer may file a formal or informal complaint with the Commission.

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LOCAL EXCHANGE SERVICE

SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS5.1 Resale and Sharing

Any service provided under the Company tariffs may be resold to or shared with other persons at the option of Customer, except as provided in Section 5.3, following. Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to the tariffs of the Company, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use. Business rates apply to all service that is resold or shared.

5.2 Joint Use Arrangements

Joint use arrangements will be permitted for all services available for resale and sharing pursuant to the Company tariffs. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. Level 3 Communications, LLC will accept orders to start, rearrange, relocate, or discontinue service only from the Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each Joint User shall be responsible for the payment of the charges billed to it.

5.3 Transfers and Assignments

5.3.1 Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party and any appropriate authorizations, if necessary, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company, (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.

5.3.2 If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a Major Service Interruption, Customer agrees to pay to the Company the following sums, within 21 days of the effective date of the cancellation or termination and be payable under the terms set forth in Section 4.6, preceding: all costs, fees and expenses reasonably incurred in connection with:

5.3.2.1 All Nonrecurring charges as specified in the Company's tariffs, plus

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LOCAL EXCHANGE SERVICE

SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS (CONT'D)

- 5.3.2.2 Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus
- 5.3.2.3 All Recurring Charges specified in the applicable Company tariff for the balance of the then current term.

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LOCAL EXCHANGE SERVICE

SECTION 6 - CANCELLATION OF SERVICE

Reserved for future use.

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LOCAL EXCHANGE SERVICE

SECTION 7 - NOTICES AND COMMUNICATIONS

- 7.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 7.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 7.3 All notices or other communications required to be given pursuant to the tariffs of the Company will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 7.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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LOCAL EXCHANGE SERVICE

SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS

8.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in the tariffs of the Company. A User may transmit any form of signal that is compatible with the Company's equipment, but except as otherwise specifically stated in its tariffs, the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication.

8.2 Station Equipment

8.2.1 Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company's Point of Connection.

8.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to the Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

8.2.3 Customer provided station equipment may be attached to services provided under the tariffs of the Company subject to Part 68 of the FCC Rules and to any applicable provisions of the tariffs of the Company and is the sole responsibility of the Customer.

8.2.4 The Company is not responsible for malfunctions of Customer-owned telephone sets or other Customer-provided equipment, or for misdirected calls, disconnects or other service problems caused by the use of Customer-owned equipment.

8.3 Interconnection of Facilities

8.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communications Services

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LOCAL EXCHANGE SERVICE

SECTION 8 -- CUSTOMER EQUIPMENT AND CHANNELS (CONT'D)

and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

8.3.2 Communications Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

8.3.3 Facilities furnished under the tariffs of the Company may be connected to Customer provided terminal equipment in accordance with the provisions of the tariffs of the Company. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User provided wiring shall be installed and maintained in compliance with those regulations.

8.4 Tests and Adjustments

Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company's facilities in satisfactory operating condition. No interruption allowance will be credited to the Customer for the period during which the Company makes such tests, adjustments, or inspections.

8.5 Inspections

8.5.1 Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the User is complying with all requirements referenced herein for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

8.5.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE9.1 General

- 9.1.1 Interruptions in service, which are not due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer or of an authorized or Joint User, or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth below for the part of the service that the interruption affects.
- 9.1.2 A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under its tariffs. An interruption period begins when the Customer reports a service, facility or circuit is interrupted and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.
- 9.1.3 For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.
- 9.1.4 A credit allowance will be given for interruptions of 30 minutes or more. Credit allowances shall be calculated as follows:

9.2 Interruptions of 16 Hours or Less

9.2.1 <u>Length of Service Interruption</u>	<u>Credit</u>
-Less than 1 hour	None
-1 hour up to but not including 8 hours	1/4 of day
-8 hours up to but not including 12 hours	1/2 of day
-12 hours up to but not including 16 hours	3/4 of day
-16 hours up to but not including 24 hours	one day

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)**9.3 Two or More Service Interruptions**

Two or more service interruptions of the same type to the same line/equipment of two (2) hours or more during any one twenty-four (24) hour period shall be considered as one interruption. In no event shall such interruption credits for any one line/equipment exceed one (1) day's fixed recurring charges for such line/equipment in any twenty-four (24) hour period.

9.4 Interruptions Over 24 Hours

Interruptions over 24 hours will be credited 1/24 day for each 1-hour period or fraction thereof up to a maximum of 8 hours. Interruptions in excess of 8 hours will be credited as one day. No more than one full day's credit will be allowed for any period of 24 hours.

9.5 No credit allowance will be made for:

- 9.5.1 interruptions due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer, User, or other common carrier providing service connected to the service of the Company;
- 9.5.2 interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
- 9.5.3 interruptions of service due to the failure or malfunction of facilities, power or equipment provided by the Customer, Authorized User, Joint User, or other common carrier providing service connected to the services or facilities of the Company;
- 9.5.4 interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- 9.5.5 interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- 9.5.6 interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 9.5.7 interruption of service due to circumstances or causes beyond the control of the Company; and

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LOCAL EXCHANGE SERVICE

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)

- 9.5.8 interruptions of service that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

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LOCAL EXCHANGE SERVICE

SECTION 10 - APPLICATION OF RATES

This Section is used to measure airline distance between two points of service. The application of these charges is to dedicated service.

10.1 Distance-Based Charges

10.1.1 Distance between two points is measured as airline distance between two Points of Service.

10.1.2 The airline distance between any two Points of Service is determined as follows:

10.1.2.1 Obtain the vertical and horizontal coordinates for each Point of Service location.

10.1.2.2 Compute the difference between the vertical coordinates of the two Points of Service; and compute the difference between the two horizontal coordinates.

10.1.2.3 Square each difference between the vertical coordinates and the horizontal coordinates.

10.1.2.4 Add the square of the vertical coordinates difference and the square of the horizontal coordinates difference.

10.1.2.5 Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.
For example: $\frac{(V2 - V1)^2 + (H2 - H1)^2}{10}$

10.1.2.6 Take the square root of the result.

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE11.1 General

Exchange Access Service provides a business Customer with a telephonic connection and a unique telephone number address on the public switched telecommunications network. Each Exchange Access Service enables users to:

- 11.1.1 receive calls from other stations on the public switched telecommunications network;
- 11.1.2 access other services offered by the Company as set forth in this tariff;
- 11.1.3 access certain interstate and international calling services provided by the Company;
- 11.1.4 access (at no additional charge) the Company's operators and business office for service related assistance;
- 11.1.5 access (at no additional charge) emergency services by dialing 0- or 9-1-1; and
- 11.1.6 access services provided by other common carriers which purchase the Company's Switched Access services as provided under the Company's Federal and State tariffs, or which maintain other types of traffic exchange arrangements with the Company.
- 11.1.7 Exchange Access Service cannot be used to originate calls to other telephone companies' caller-paid information services (e.g., NPA 900, NXX 970, 540, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked. Calls to numbers "NXX 976" will also be blocked unless otherwise specified by the Customer at the time service is ordered. Should a Customer request unblocking for access to the "NXX 976" caller-paid information service, the Company will bill and collect on behalf of the telephone companies' information provider holding the Customer fully liable for all charges incurred for use of the information provider's service.

Each Exchange Access Service is available on a "Full" service basis, whereby service is delivered to a demarcation/connection block at the Customer's premises.

The following Exchange Access Services are offered:

DID Trunk Service
Digital Trunk Service

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)

11.2 Exchange Access Service Areas

Exchange Access Services are provided (pursuant to Section 12.1) in limited geographic areas. Exchange Access Services bearing the following NPA-NXX designations are provided at the following locations and in the following areas:

<u>NPA-NXX</u>	<u>Exchanges in Which Full Service is Available</u>
----------------	---

Exchange Service areas will be supplied after interconnection agreement.

11.3 Calling Areas

Geographically-defined Local Calling Areas¹ are associated with each Exchange Access Service provided pursuant to Section 12.1. Exchange Access Services bearing the following NPA-NXX designations shall have the following local calling areas:

<u>NPA-NXX</u>	<u>Exchange</u>	<u>Additional Local Calling Exchanges</u>
----------------	-----------------	---

¹ Rates and rate plans for Local Calling Area calls placed over Company-provided Exchange Access Services are set forth in Section 13.

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LOCAL EXCHANGE SERVICE

SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)11.4 Digital Trunk Service (DID Trunks, Outbound Only Trunks, and Two-Way Combination Trunks)

Digital Trunk Service provides a Customer with a digital connection operating at a full DS1 speed of 1.544 Mbps which is time division multiplexed into 24 individual voice-grade telephonic communications channels, each of which can be used to place one-way inbound, one-way outbound and two-way (combination) trunks. Digital Trunks are provided for connection of compatible Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Digital Trunk is provided with dual tone multi-frequency (DTMF) or multi-frequency (MF) signaling, as specified by the Customer. Digital Trunks may be configured into hunt groups with other Company-provided Digital Trunks for the same Customer within the same local calling area. The terminal interface for each Digital Trunk Service is a smart jack.

Non-recurring and monthly recurring rates per Digital Trunk per point, apply as follows:

Link and Port:	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Per T-1	\$772.00	\$500.00
Port Element: DID, DID/DOD	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Per Channel	\$50.00	\$30.00

- 11.4.2 DID Trunk Service transmits the dialed digits for all incoming calls allowing the Customer's incoming calls to be routed corresponding to each individual DID number. Charges for DID number blocks are listed below.

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SECTION 11 - EXCHANGE ACCESS SERVICE (CONT'D)

11.4.3 Non-recurring and Recurring charges per DID's apply as follows:

<u>Rate Group</u>	<u>Non-Recurring Charge</u>	<u>Recurring Charge</u>
All Zones	\$10.00	\$10.00 for blocks of 100

11.5 Direct Inward Dial (DID) Service

11.5.1 DID service can be purchased in conjunction with Company provided trunk services. DID service transmits the dialed digits for all incoming calls allowing the Customer's PBX to route incoming calls directly to individual stations corresponding to each individual DID number. Charges for DID capability and DID number blocks apply in addition to charges specified for trunk services contained herein.

11.5.2 So the Company may efficiently manage its number resource, the Company, at its sole discretion reserves the right to limit the quantity of DID number blocks a Customer may obtain. Requests for 30 or more DID number blocks must be provided to the Company in writing no less than five (5) months prior to activation. In addition, the Company reserves the right to review vacant DID stations or stations not in use to determine their utilization. Should the Company determine, based on its own discretion, that there is inefficient number utilization, the Company may reassign the DID numbers.

11.5.3 The Customer has no property right to the telephone number or any other call number destination associated with DID service furnished by the Company, and no right to the continuance of service through any particular end office. The Company reserves the right to change such numbers, or the end office designation associated with such number, or both, assigned to the Customer, where the Company deems it necessary to do so in the conduct of its business.

	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Individual DID Numbers	\$10.00	\$1.00 per DID Number

11.6 Directory Listings

For each Customer of Company-provided Exchange Access Service(s), Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no charge. At a Customer's option, Company will arrange for additional listing at the following rates:

	<u>Non-Recurring</u>	<u>Monthly Recurring</u>
Each Additional Listing:	\$0.00	\$1.42

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE

12.1 Description

Local Calling Service provides a Customer with the ability to originate calls from a Company-provided exchange access line to all other stations on the public switched telephone network bearing the designation of any central office of the exchanges and zones defined as local. The rates set forth in this section apply to all direct dialed local calls. For operator-assisted (non-aggregator) local calls, the operator charges listed in Section 12.3 apply in addition to the charges listed below.

12.2 Option 1 Local Calling Plan**12.2.1 Description**

Option 1 Local Calling Plan provides Local Calling Service billable on a per minute basis. Option 1 calls will be billed in one-minute increments with an initial billing period of one minute. The rates set forth in this section apply to all outgoing direct-dialed calls placed to telephone stations within the caller's exchange area as defined in Section 11. Option 1 Local Calling Plan is the standard local calling plan provided with exchange access services, as described in Section 11.

12.2.2 Rates

	<u>Per Minute</u>
First Minute	\$0.06
Each Additional Minute	\$0.05

12.2.3 Information Services Call Blocking

The term "Information Services Call Blocking" denotes the Company's central office call blocking service that allows the Company's residential and business subscribers to block access to all directly-dialed, the Company's operator-assisted and the Company's operator entered billing 976 and 900 programs, and other local service providers within South Dakota and to all Interexchange Carrier 900 calls originating within the Telephone Company's service area

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SECTION 12 - LOCAL CALLING SERVICE (CONT'D)12.3 Operator Services12.3.1 Description

12.3.1.1 Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines which the Customer subscribes to the Company's interexchange outbound calling services.

12.3.2 Definitions

Person-to-Person: Calls completed with the assistance of a Company operator to a particular person, station, department or PBX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card and/or LEC calling card, calling station, called station, or a designated third-party station. Calls are dialed with the assistance of a Company operator.

Station-to-Station: Refers to calls other than person-to-person calls billed to either the end user's commercial credit card and/or non-proprietary calling card. Calls are dialed with the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Operator Dialed Charge: The Customer places the call without dialing the destination number, although the capability to do it himself exists. The Customer will dial "0" for local calls and "00" for long distance calls and then requests the operator to dial the called station.

12.3.3 Rates

In addition to any applicable usage charges, the following operator-assisted charges will apply:

	<u>Per Call Charges</u>
Person-to-Person (Customer Dialed)	\$1.50
Station-to-Station (Customer Dialed) (Billed to Third Party, Collect)	\$0.75
Operator Dialed Charge (applies in addition to other operator charges)	\$0.75

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE (CONT'D)12.3.4 Busy Line Verify and Line Interrupt Service12.3.4.1 Description

Upon request of a calling party the Company will verify a busy condition on a called line.

12.3.4.1.1 The operator will determine if the line is clear or in use and report to the calling party.

12.3.4.1.2 The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

12.3.5 Regulations

12.3.5.1 A charge will apply when:

12.3.5.1.1 The operator verifies that the line is busy with a call in progress.

12.3.5.1.2 The operator verifies that the line is available for incoming calls.

12.3.5.1.3 The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

12.3.5.2 No charge will apply:

12.3.5.2.1 When the calling party advises that the call is to or from an official public emergency agency.

12.3.5.2.2 Under conditions other than those specified in Section 12.3.5.1.

12.3.5.2.3 Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

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LOCAL EXCHANGE SERVICE

SECTION 12 - LOCAL CALLING SERVICE (CONT'D)

- 12.3.5.2.4 The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

12.3.6 Rates

	<u>Per Request</u>
Busy Line Verify Service	\$0.75
Busy Line Verify Verification With Interrupt Service	\$1.55

12.4 Directory Assistance

12.4.1 Description

Customers and Users of the Company's calling services (excluding toll free services), may obtain Directory Assistance in determining telephone numbers within South Dakota by calling the Directory Assistance operator.

12.4.2 Rates

- 12.4.2.1 Customers are allowed three (3) free Directory Assistance calls per month. After the monthly three (3) free call allowance is exhausted, Directory Assistance charges will apply for all requests for which the Company's facilities are used. Each number requested is charged for as shown below. Requests for information other than telephone numbers will be charged the same rate as shown for the applicable request for telephone numbers.

	<u>Rate</u>
Per Number Requested	\$0.29

- 12.4.2.2 A credit will be given for calls to Directory Assistance when:

- 12.4.2.2.1 The Customer experiences poor transmission or is cut off during the call;
- 12.4.2.2.2 The Customer is given an incorrect telephone number; or
- 12.4.2.2.3 The Customer inadvertently misdials an incorrect Directory Assistance NPA.

To receive a credit, the Customer must notify the Company operator or Business Office of the problem experienced.

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LOCAL EXCHANGE SERVICE

SECTION 13 - MISCELLANEOUS SERVICES AND SURCHARGES**13.1 Service Implementation****13.1.1 Description**

Absent a promotional offering, service implementation charges will apply to new service orders or to orders to change existing service.

13.1.2 RatesNon-Recurring

Per Service Order \$30.00

13.2 Restoration of Service**13.2.1 Description**

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities suspended is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

13.2.2 RatesNon-Recurring

Per Occasion \$8.50

13.3 Maintenance of Service

13.3.1 When a Customer reports a trouble to the Company for clearance, and no trouble is found in the Company's facilities, the Customer shall be responsible for payment of a visit charge for the period of time from when Company personnel are dispatched to the Customer's premises to when the work is completed. Failure of Company personnel to find trouble Company facilities will result in no charge if the trouble is actually in those facilities, but not discovered at the time.

13.3.2 Where a NID exists, if the Company is unable to test for dial tone and the problem proves to be beyond the NID (within Customer premises), a maintenance charge is applicable. In the event there is no NID and/or the Company is unable to test for dial tone, then no maintenance charge will be assessed. In those cases where the Customer has bought an inside wire maintenance warranty/plan (a non-regulated service) from the Company, no maintenance charge will be applicable regardless of the dial tone test results or whether a NID exists or not.

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SECTION 13 - MISCELLANEOUS SERVICES AND SURCHARGES (CONT'D)

13.3.3 The Customer shall be responsible for payment of a visit charge when the Company dispatches personnel to the Customer's premises, and the trouble is in the equipment of communications system provided by other than the Company.

13.3.4 No credit allowance will be applicable for the interruption involved if the visit charge applies.

13.4 Rate

The applicable rate is \$65.00 per visit in addition to materials and/or labor charges.

13.5 Presubscription

Customers have a right to chose an intraLATA and an interLATA carrier when equipment and facilities permit. The Company allows Customers to presubscribe to the carrier of their choice for intraLATA and interLATA toll calls, without dialing an access code.

The following charge applies per line or per trunk for each local line or local trunk PIC charge requested. There is no charge for the first PIC charge.

PIC charge	
- per line or trunk	\$5.00

13.6 Telecommunication Relay Service (TRS)

Enables deaf, hard-of-hearing or speech-impaired persons who use a Text Telephone (TT) or similar devices to communicate freely with the hearing population not using TT and vice versa. A Customer will be able to access the state provider to complete such calls. The Company will impose a surcharge to all Customers at a level determined by the Commission.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES

Dedicated Access Services consist of the services offered pursuant to this section, either individually or in combination. Each service is offered independently of the others. Service is offered via the Company's facilities for the transmission of one-way and two-way communications, unless otherwise noted.

14.1 Services Offered

14.1.1 The following dedicated access services are offered in this tariff:

DS3 Service (44.7 Mbps)
DS1 Service (1.5 Mbps)
DS0 Service (up to 64 kbps)

14.1.2 Other services may be provided by the Company on an Individual Case Basis (ICB).

14.2 Type I and Type II Services

14.2.1 DS3 Service and DS1 Service may be provided as either Type I or Type II Services, depending upon the availability of facilities. Type I Service rates apply when both endpoints of the channel are served by the Company's network. Type II Service rates apply when one endpoint of the transmission channel is served by another local exchange carrier's network (Type II Services are provided via a combination of the Company's facilities and another local exchange carrier's facilities).

14.2.2 DS3 and DS1 channels where both endpoints are served by another local exchange carrier's network will be provided at the sole discretion of the Company, on an Individual Case Basis (ICB), applied in a nondiscriminatory manner.

14.3 DS3 SERVICE (44.736 Mbps)

14.3.1 DS3 Service is composed of digital channels provided at 44.736 Mbps for the transmission of one-way and two-way communications. Interconnections to such channels and equipment interfacing to such channels shall meet the following technical characteristics:

Line Rate: 44.736 Mbps +/- 20 ppm
Line Code: Bipolar with three-zero substitution
Test Load: 75 ohms resistive +/- 5 percent

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

Power Levels: For an all-ones transmitted pattern, the power in a 2 KHz band about 22.368 KHz shall be -1.8 to +5.7 dBm and the power in a 2 KHz band about 44.736 MHz shall be at least 20 dB below that in a 2 KHz band about 22.368 KHz. 1

NOTES:

1. The power levels specified by CCITT Recommendation G.703 are identical except that the power is to be measured in 3 KHz bands.

14.3.2 Digital channels at 44.736 Mbps will be provided in one of the following configurations, as specified by the Customer:

14.3.3 Clear Channel DS3: A DS3 signal that is transmitted intact and transparently as provided at the Customer interface. No performance monitoring is performed since all 44.736 Mbps are considered Customer data or voice.

14.3.4 M13 Framed DS3: A DS3 that is channelized into 28 DS1 (1.544 Mbps) signals and include a predefined standard multiplexing scheme as defined in ANSI T1.107a. The M13 DS3 contains parity bits which can be monitored to offer an approximate measure of performance. 43.232 Mbps is Customer data (or voice), the remainder being used for framing, synchronization, parity, etc.

14.3.5 C-bit Parity Framed DS3: A DS3 that can be used for subrated or nonsubrated DS3 signals. This allows DS3 signal monitoring for end-to-end performance measurement on an in-service basis, transmitted on the maintenance data communications channel. The C-bit parity format is defined in ANSI T1.107a. 43.232 Mbps is Customer data (or voice), the remainder being used for framing, synchronization, parity, etc.

14.4 DS1 Service (1.544 Mbps)

14.4.1 DS1 Service is composed of digital channels provided at 1.544 Mbps for the transmission of one-way and two-way communications. Interconnections to such channels and equipment interfacing to such channels shall meet the following technical characteristics:

Line Rate: 1.544 Mbps $\pm$ 130 ppm

Line Code: AMI: bipolar with at least 12.5% average ones density and no more than 15 consecutive zeros;

- or -

B8ZS: no minimum density of ones and no consecutive zeros limit.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

Test Load: 100 ohms resistance.

Pulse Shape: The pulse amplitude shall be between 2.4 and 3.6 volts.

Power Levels: For an all-ones transmitted pattern, the power in a 2 KHz band about 772 KHz shall be 12.4-18.0 dBm and the power in a 2 KHz band about 1544 KHz shall be at least 29 dB below that in a 2 KHz band about 771 KHz.

Pulse

Imbalance: There shall be less than 0.5 dB difference between the total power of the positive pulses and the negative pulses.

NOTES:

1. The CCITT specification is ± 50 ppm.
 2. Recommended for new equipment: The power in a 2 KHz band about 772 KHz shall be 12.6-17.9 dBm. CCITT requirements: The power in a 3 KHz band about 772 KHz is 12.0-19.0 dBm.
 3. CCITT requirements: The power in a 3 KHz band about 1544 KHz shall be at least 25 dB below that in a 3 KHz band about 772 KHz.
- 14.4.2 Digital channels at 1.544 Mbps will be provided in one of the following configurations, as specified by the Customer:
- 14.4.3 Unframed DS1: A DS1 signal that does not follow standard framing formats of 192 bits for data and a 193 Rd bit for framing. An unframed DS1 cannot be synchronized to the network and is not performance monitored.
- 14.4.4 DS/SE DS1: A framed DS1 consisting of 12 frames (2316 bits) of 192 bits preceded by one framing bit (F bit). This service can be coded as AMI or B8ZS.
- 14.4.5 ESF DS1: Extends superframe structure from 12 to 24 frames (4632 bits) and redefines the 8 kbps pattern into 2 kbps for mainframe and robbed-bit signaling synchronization, 2 kbps for CRC-6 and 4 kbps for terminal-to-terminal data link. This service can be coded as AMI or B8ZS.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.5 DS1 Hub Service

DS1 Hub Service allows a Customer to aggregate up to 28 DS1 channels that terminate in the same location into a single DS3.

14.6 DS0 Service

14.6.1 DS0 Services are Digital Channels furnished by the Company at transmission speeds of 2.4 kbps, 4.8 kbps, 9.6 kbps, 19.2 kbps, 64 kbps, or in multiples of 64 kbps up to 1.544 Mbps. Such channels will be configured by the Company to transmit digital data at specified data rates or analog signals converted to digital signals, as described below. Interconnections to such channels and equipment interfacing to such channels shall meet the technical characteristics described below in connection with each service configuration. The NCI Codes referenced below are defined in Bell Communications Research (Bellcore) publication TR-NPL-000335.

14.6.2 Each DS0 channel will be provided in one of the following configurations, as specified by the Customer.

14.6.2.1 Effective 2-Wire Service

Provides a digital transmission channel capable of normally carrying, among other information, the digitized representation of human speech. At the Company's point of interconnection with the User, the service will have the technical characteristics of a standard 2-wire analog telephone circuit. Specific configurations are as follows:

14.6.2.2 2-Wire Transmission Only

2 wire, 600 ohm, open loop (continuously connected) with industry standard demarcation (NCI Code: 02NO2). C4 conditioned circuit connecting two locations, typically used for voice-grade data services.

14.6.2.3 Digital Services

Provides a digital transmission channel capable of normally carrying synchronous digital data signals. The following service configurations are available:

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.6.2.5 64 Kbps Data Service

A 4-wire 135 ohm handoff. Other possible handoffs are RS232/DB25, RS422/DB25, or V.35. Provides point-to-point, 64 Kbps clear channel for a full-duplex synchronous data circuit. No error correction or in-band control codes are supported. (Possible NCI Code: 04DU5-64).

14.6.2.6 DS1 Hub Service

DS1 Hub Service allows a Customer to aggregate up to 24 DS0 channels that terminate in the same location into a single DS1 and the distribution of End Link circuits.

14.7 Rates for Dedicated Access Services**14.7.1 General**

Nonrecurring and monthly recurring rates apply for each Digital Transmission Service furnished by the Company. Monthly recurring rates vary according to the time period for which the Customer commits to take the service. Unless otherwise noted, these standard rate elements are used in calculating the monthly recurring rate for each service:

14.7.1.1 Interoffice Channel Mileage-Fixed: This rate element applies per digital channel whenever there is mileage associated with the channel; a digital channel has mileage associated with it when the endpoints of the channel are located in geographic areas normally served out of separate Customer premises or the Customer premise and the Level 3 Gateway. This rate element applies per circuit endpoint.

14.7.1.2 Interoffice Channel Mileage-Per Mile: This rate element applies whenever there is mileage associated with the digital channel. The unit rate is multiplied by the number of miles (Interoffice Mileage) between the two Customer premises or the Customer premise and the Level 3 Gateway. Fractions of a mile are rounded up to the next whole mile before rates are applied.

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.2 DS3 Service (44.736 Mbps)14.7.2.1 Type I DS3 Service

This service consists of a DS3 (44.736 Mbps) capacity digital channel available on a 24 hour per day, 7 day per week basis between two points. There is a 1-year minimum service period for each Basic DS3.

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$1,200
Interoffice Channel Mileage (Per Mile)	\$30
Nonrecurring Installation Rate	\$1,000

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.2.2 Type II DS3 Service

<u>Monthly Recurring Rate</u>	<u>1 Year</u>
Interoffice Channel Mileage (Fixed)	\$2,025
Interoffice Channel Mileage (Per Mile)	\$41
Nonrecurring Installation Rate	\$1,000

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.7.2.3

Volume Discounts

Volume Discounts for DS3s Volume	Rate Per DS3 Channel		
	1 Year	2 Year	3 Year
\$2,500.00	0%	5%	10%
\$5,000.00	2%	7%	12%
\$10,000.00	3%	8%	13%
\$15,000.00	4%	9%	14%
\$20,000.00	4%	9%	14%
\$35,000.00	5%	10%	15%
\$50,000.00	6%	11%	16%
\$75,000.00	8%	13%	18%
\$100,000.00	9%	14%	19%
\$150,000.00	10%	15%	20%
\$200,000.00	11%	16%	21%
\$250,000.00	12%	17%	22%

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)

14.7.3 DS1 Service (1.544 Mbps)**14.7.3.1 Type 1 DS1 Service**

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$200
Interoffice Channel Mileage (Per Mile)	\$13.55
Nonrecurring Installation Rate	\$525

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.3.2 Type II DSL Service

Monthly Recurring Rate	1 Year
Interoffice Channel Mileage (Fixed)	\$200
Interoffice Channel Mileage (Per Mile)	\$13.55
Nonrecurring Installation Rate	\$525

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)**14.7.4 DS3 Hub Service**

This service consists of up to 28 DS1(1.544 Mbps) digital channels, which are aggregated at a Level 3 Hub onto a standard DS3 circuit with Interoffice Mileage and End Link Access Charges at the terminating end. There is a minimum 1-year service period for each DS3 Hub Service.

Service Configuration	Non-Recurring	Recurring
DS3 Channel between a Customer Location and a Level 3 Gateway	Standard DS3 Rate Schedule	
DS3 Hub Port @ Level 3 Gateway	N/A	\$500
End Link Access Charge	Standard DS1/DS0 Rate Schedule	

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)**14.7.5 Channelized DS3 Service**

This service consists of 28 DS1 (1.544 Mb ps) digital channels which connect two client locations each utilizing Channelized DS3 Service. The connection will be rated as a standard DS3 circuit and at both ends. There is a minimum 1-year service period for each High Capacity DS1 Service.

Service Configuration	Non-Recurring	Monthly Recurring
		1 Yr.
Twenty Eight (28) DS1s between two Customer Locations	Standard DS3 Rate Schedule	
Digital Channels @ Both Customer Locations	No incremental charge	No incremental charge

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.6 DS0 Service14.7.6.1 Basic Type I DS0 Service

DS0 Service	Non-Recurring	Monthly Recurring	
		Fixed Charges	DS0 Mileage
64 kbps	\$300	\$150	.65/mile

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)**14.7.7 DS1 Hub Service**

This service consists of up to 24 DS0 digital channels, which are aggregated at a Level 3 Gateway onto a standard DS1 circuit with Interoffice Mileage at the terminating end. There is a minimum 1 year service period for each Hubbed DS1 Service.

Standard Rate Elements	Non- Recurring	Monthly Recurring
DS1 Channel between Customer location and a Level 3 Gateway	Applying appropriate DS1 Nonrecurring Charge	Standard DS1 Rate Schedule
DS1 Hub @ Level 3 Gateway	N/A	\$500
DS0 End Link	Apply appropriate DS0 Nonrecurring Charge	Standard DS0 Rate Schedule

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LOCAL EXCHANGE SERVICE

SECTION 14 - DEDICATED ACCESS SERVICES (CONT'D)14.7.7.1 Channelized DS1 Service

Service Component	Non-Recurring	Monthly Recurring		
		1 YR.	2 YR.	3 YR.
Mileage Charge	Standard DS1 Rate Schedule	Standard DS1 Schedule	Standard DS1 Schedule	Standard DS1 Schedule
64 Kbps x N (N > 1)	Standard DS0 Rate Schedule	No Incremental Charges	No Incremental Charges	No Incremental Charges
Design Changes and Reinstallation				

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LOCAL EXCHANGE SERVICE

SECTION 15 - SPECIAL ARRANGEMENTS

15.1 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis.

ICBs will be filed with the Communications Division of the Commission.

15.2 Promotional Programs

The Company may make promotional offerings of its tariffed services which may include reducing or waiving applicable charges for the promoted service. No individual promotional offering will exceed six months in duration, and any promotional offering will be extended on a non-discriminatory basis to any Customer similarly classified who requests the specific offer.

At the Company's option, a letter outlining the promotion may be filed with the Commission Staff in lieu of filing language in the tariff.

15.3 Special Assembly

The Company may provide a unique intrastate service arrangement for a Customer where no tariffed services exist for the service. The unique service can be provided via a Special Assembly.

The Company will file the Special Assembly including the contract terms, conditions and rates by letter with the Communications Division.

15.4 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in the tariffs of the Company, special construction and special arrangements may be undertaken on a reasonable efforts basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications not otherwise specified under tariff, or for the provision of service on an expedited basis or in some other manner different from the normal tariff conditions. Special construction is that construction undertaken:

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LOCAL EXCHANGE SERVICE

SECTION 15 - SPECIAL ARRANGEMENTS (CONT'D)

- 15.4.1 where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- 15.4.2 of a type other than that which the Company would normally utilize in the furnishing of its services;
- 15.4.3 over a route other than that which the Company would normally utilize in the furnishing of its services;
- 15.4.4 in a quantity greater than that which the Company would normally construct;
- 15.4.5 on an expedited basis;
- 15.4.6 on a temporary basis until permanent facilities are available;
- 15.4.7 involving abnormal costs; or
- 15.4.8 in advance of its normal construction.

15.5 Basis for Charges

Where the Company furnishes a facility or service on a special construction basis, or any service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include, (1) nonrecurring type charges; (2) recurring type charges, (3) termination liabilities; or (4) combinations thereof. The agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service life of the facilities provided.

15.6 Basis for Cost Computation

The costs referred to in Section 15.4 preceding may include one or more of the following items to the extent they are applicable:

- 15.6.1 installed costs of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Installed costs include the cost of:
 - 15.6.1.1 equipment and materials provided or used,
 - 15.6.1.2 engineering, labor and supervision,
 - 15.6.1.3 transportation,

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LOCAL EXCHANGE SERVICE

SECTION 15 - SPECIAL ARRANGEMENTS (CONT'D)

15.6.1.4 rights of way, and

15.6.1.5 any other item chargeable to the capital account;

15.6.2 annual charges including the following:

15.6.2.1 cost of maintenance;

15.6.2.2 depreciation on the estimated installed cost of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;

15.6.2.3 administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;

15.6.2.4 any other identifiable costs related to the facilities provided; and

15.6.2.5 an amount for return and contingencies.

15.7 Termination Liability

To the extent that there is no other requirement for use by the Company, the Customer may have a termination liability for facilities specially constructed at the request of the Customer, if and only if such liability is clearly stated in a written agreement between the Company and the Customer.

15.7.1 The maximum termination liability is equal to the total cost of the special facility as determined herein, adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided.

15.7.2 The maximum termination liability shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six percent (6%), plus applicable taxes.

15.8 Term

The minimum term for any Level 3 Communications, LLC dedicated access service shall not be less than one (1) year, unless otherwise agreed to by the Company. The Customer and Company may agree to longer minimum terms for particular services.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

TARIFF SCHEDULE APPLICABLE TO
INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES
WITHIN THE STATE OF SOUTH DAKOTA
BY
LEVEL 3 COMMUNICATIONS, LLC

This tariff applies to the Intrastate Interexchange Telecommunications Services furnished by Level 3 Communications, LLC ("Level 3" or "Company") between one or more points in the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at Level 3's principal place of business, 1450 Infinite Drive, Louisville, Colorado 80027.

Issued by:

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

CHECK SHEET

Current pages in this tariff are as follows:

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purposes indicated below.

- (C) To signify changed listing, rule, or condition which may affect rates or charges.
- (D) To signify discontinued material, including listing, rate, rule or condition.
- (I) To signify an increase.
- (L) To signify material relocated from or to another part of tariff schedule with no change in text, rate, rules or conditions.
- (N) To signify new materials including listing, rate, rule or condition.
- (R) To signify reduction.
- (T) To signify change in wording of text but not change in rate, rule or condition.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

APPLICATION OF TARIFF

This Tariff contains the regulations and rates applicable to intrastate telecommunications services provided by Company to Customers for telecommunications between points within the State of south Dakota. Company's services are furnished subject to the availability of facilities and subject to the terms and conditions of this Tariff.

The rates and regulations contained in this Tariff apply only to the services furnished by Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Company.

The Customer is entitled to limit the use of Company's services by end users at the Customer's facilities, and may use other common carriers in addition to or in lieu of Company.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 1 - DEFINITION OF TERMS

Certain terms used generally throughout this tariff for Communications Service of this Company are defined below.

Advance Payment: Part or all of a payment required before the start of service.

Authorized User: A person, firm or corporation which is authorized by the Customer to be connected to the service of the Customer.

Commission: South Dakota Public Utilities Commission.

Company: Level 3 Communications, LLC, the issuer of this tariff.

Customer: The person, firm or corporation which purchases service and is responsible for the payment of charges and compliance with the Company's regulations.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgement entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Major Service Interruption: An interruption of Customer service due to the Company's negligence or due to its noncompliance with the provisions of this tariff.

Operator Dialed: Applies a surcharge to operator station, person-to-person, station collect, person collect and third party rated calls when the Customer has the capacity of dialing all the digits necessary to complete a call, but elects to dial only the appropriate operator code and requests the operator to dial the called station.

Operator Dialed Charge: The end user places the call without dialing the destination number, although the capability to do it himself exists. The end user will dial "0" for local calls and "00" for long distance calls and then requests the operator to dial the called station.

Person-to-Person: A service for which the person originating the call specifies to the company operator a particular person's mobile station, department, extension or office to be reached. If the called party is unavailable and the calling party requests or agrees to speak to a party other than the party initially specified, the call is still billed a person-to-person call.

Premises: The space occupied by a Customer or Authorized User in a building or buildings or contiguous property (except railroad rights-of-way, etc.) not separated by a highway.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 1 - DEFINITION OF TERMS (CONT'D)

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Station-to-Station: Refers to calls other than Person-to-Person calls billed to either the end user's commercial credit card and/or non-proprietary calling card. Calls may be dialed with or without the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or the tariffs of the Company, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Company Services submitted by the Customer in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth herein and pursuant to the tariffs of the Company, but the duration of the service is calculated from the Service Commencement Date.

User: A Customer or any other person authorized by a Customer to use service provided to the Customer under a Level 3 Communications, LLC tariff.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY**2.1 General**

- 2.1.1 The Company does not undertake to transmit messages but offers the use of its facilities for the transmission of communications.
- 2.1.2 Customers and Users may use services and facilities provided under the tariffs of the Company to obtain access to services offered by other companies. The Company is responsible for the services and facilities provided under its tariffs, and for its unregulated services provided pursuant to contract, and it assumes no responsibility for any service (whether regulated or not) provided by any other entity that purchases access to the Company network in order to originate or terminate such entity's own services, or to communicate with such entity's own customers.
- 2.1.3 The Company shall have no responsibility with respect to billings, charges or disputes related to services used by the Customer which are not included in the services herein including, without limitation, any local, regional or long distance services not offered by the Company. The Customer shall be fully responsible for the payment of any bills for such services and for the resolution of any disputes or discrepancies with the service provider.

2.2 Description of Service

Level 3 Communications, LLC Service consists of any of the services offered pursuant to this tariff, either individually or in combination. Each service is offered independent of the others, unless otherwise noted. Service is offered via the Company's facilities or in combination with transmission facilities provided by other certificated carriers.

2.3 Application for Service

Customers desiring to obtain Level 3 Communications, LLC Service must complete the Company's standard service order form(s).

2.4 Shortage of Equipment or Facilities

- 2.4.1 The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control, on a nondiscriminatory basis.
- 2.4.2 The furnishing of service under the tariffs of the Company is subject to the availability on a continuing basis of all the necessary facilities and is limited to the reasonable capacity of the Company's facilities as well as facilities the Company may obtain from other

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

carriers to furnish service from time to time as required at the sole discretion of the Company.

2.5 Terms and Conditions

- 2.5.1 Service shall be provided and billed on the basis of a minimum period of at least one month.
- 2.5.2 Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in the tariffs of the Company. Customer will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.5.3 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the service order and the tariffs of the Company prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- 2.5.4 In any action between the parties to enforce any provision of the tariffs of the Company, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.
- 2.5.5 The tariffs of the Company shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

2.6 Liability of the Company

- 2.6.1 The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omissions, shall be limited to the extension of allowances for interruption as set forth in Section 9.0, following.
- 2.6.2 Except for the extension of allowances to the Customer for interruption in service as set for in Section 9.0, Company will not be liable to a Customer or third party for any direct, indirect, incidental, special, consequential, exemplary or punitive damages, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

provide any service or any failure in or breakdown of facilities associated with the service.

- 2.6.3 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority, national emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.
- 2.6.4 The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers or Users facilities or equipment used for or with the services the Company offers.
- 2.6.5 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or User or due to the failure or malfunction of Customer or User-provided equipment or facilities.
- 2.6.6 The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided.
- 2.6.7 The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this paragraph as a condition precedent to such installations.
- 2.6.8 The Company is not liable for any defacement of or damage to Customer or User premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.
- 2.6.9 Notwithstanding any other provision of this tariff and pursuant to S.D. Codified Laws Sections 49-13-1 and 49-13-1.1, any person claiming to be damaged by Company may either make complaint to the Commission or may bring suit on his own behalf for the

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

recovery of damages in any court of competent jurisdiction in South Dakota, but no person may pursue both remedies at the same time.

- 2.6.10 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer provided equipment or facilities.
- 2.6.11 The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals and delays in actual construction work.
- 2.6.12 The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.
- 2.6.13 **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH IN ITS TARIFFS.**
- 2.6.14 The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Level 3 Communications, LLC.

2.7 Notification of Service-Affecting Activities

To the extent possible, the Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)2.8 Provision of Equipment and Facilities

- 2.8.1 All services along the facilities between the point identified as the Company's origination point and the point identified as the Company's termination point will be furnished by the Company, its agents or contractors.
- 2.8.2 The Company may undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff.
- 2.8.3 The Company undertakes to use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer or Authorized User may not, nor may they permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise tamper with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- 2.8.4 Equipment the Company provides or installs at the Customer's premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company provided the equipment.
- 2.8.5 The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer or Authorized User when the service difficulty or trouble report results from the use of equipment or facilities the Customer or Authorized User provided.
- 2.8.6 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities; subject to this responsibility the Company shall not be responsible for:
- 2.8.6.1 The transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
- 2.8.6.2 The reception of signals by Customer provided equipment. The Customer or Authorized User is responsible for ensuring that Customer provided equipment connected to Company equipment and facilities is compatible with such Company equipment and facilities. The magnitude and character of the voltages and currents impressed on Company provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company provided equipment and wiring or

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

injury to the Company's employees or to other persons. Customer will submit to Company a complete manufacturer's specification sheet for each item of equipment that is not provided by the Company and which shall be attached to the Company's facilities. The Company shall approve the use of such item(s) of equipment unless such item is technically incompatible with Company's facilities. Any additional protective, equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

2.8.6.3 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Level 3 Communications, LLC services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

2.8.6.4 Level 3 Communications, LLC may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carrier which are applicable to such connections.

2.9 Nonroutine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours and/or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.10 Ownership of Facilities

Title to all facilities provided in accordance with the tariffs of the Company remains with the Company, its agents or contractors. The Customer shall not have, nor shall it assert, any right, title or interest in all the fiber optic or other facilities and associated equipment provided by the Company hereunder.

2.11 Optional Rates and Information Provided to the Public

The Company will promptly advise Customers who may be affected of new, revised or optional rates applicable to their service. Pertinent information regarding the Company's services, rates and charges shall be provided directly to Customers, or shall be available for inspection at the Company's local business address. If required by the South Dakota Public Utilities

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

Commission, the Company will cause to have published a notice of its intention to charge its rates, tolls, charges, rules and regulations in one or more newspapers in circulation in the affected area

2.12 Continuity of Service

In the event of prior knowledge of an interruption of service for a period exceeding one day, the Customers will, if feasible, be notified at least one week in advance.

2.13 Governmental Authorizations

The provision of services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Federal Communications Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

2.14 Operator Service Requirements

2.14.1 Company provided intrastate operator assisted communications services will observe the following requirements:

2.14.1.1 Identify itself at the time the end-user accesses its service.

2.14.1.2 Upon request, quote all rates and charges for its services to the end-user accessing its system

2.14.1.3 Arrange to have posted in plain view at each telephone location which automatically accesses the Company's operator service network and where its services are made available to the public or transient end-users:

2.14.1.3.1 the Company's operator service name and address;

2.14.1.3.2 bill and service dispute calling information including the operator service provider's dispute resolution phone number;

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SECTION 2 - UNDERTAKING OF THE COMPANY (CONT'D)

- 2.14.1.3.3 clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and
- 2.14.1.3.4 notice concerning any and all amounts to be billed by the Company's operator services on behalf of any host location or third party which will appear on the operator service provider's bill for services rendered.
- 2.14.1.4 In instances when the Company is unable to complete the call and it requires transfer to another telephone corporation which may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred.
- 2.14.1.5 In the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.
- 2.14.2 The Company will comply with the following provisions:
 - 2.14.2.1 Providers of intrastate operator assisted communications services shall not take any action or enter into any arrangement which restricts end-users selection among competing interexchange telephone corporations or end users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 3 - OBLIGATIONS OF THE CUSTOMER**3.1 General**

The Customer shall be responsible for:

- 3.1.1 the payment of all applicable charges pursuant to the tariffs of the Company;
- 3.1.2 damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer or of any User; or by the noncompliance by the Customer or any User with these regulations; or by fire or theft or other casualty on the Customer's or any User's Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- 3.1.3 providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate the Company facilities and equipment installed on the premises of the Customer or any User; and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- 3.1.4 any and all costs associated with obtaining and maintaining of the rights-of-way from the point of entry at the Customer's location to the termination point where service is finally delivered to the Customer, including, but not limited to, the costs of installing conduit or of altering the structure to permit installation of Company provided facilities. The Customer's use of such rights-of-way shall in all respects be subject to the terms, conditions and restrictions of such rights-of-way and of agreements between the Company and such third parties relating thereto, including without limitation, the duration applicable to and the condemnation of such rights-of-way, and shall not be in violation of any applicable governmental ordinance, law, rule, regulation or restriction. Where applicable, the Customer agrees that it shall assist the Company in the procurement and maintenance of such right-of-way. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- 3.1.5 providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which the Company's employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain the Company's facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company;
- 3.1.6 the Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

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SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.1.7 complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of the Company's facilities and equipment in any Customer or User premises or the rights-of-way for which Customer is responsible under section 3.1.4; and granting or obtaining permission for the Company's agents or employees to enter the premises of the Customer or any User at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- 3.1.8 not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- 3.1.9 making the Company's facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

3.2 Prohibited Uses

- 3.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by the Customer with respect thereto.
- 3.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Commission regulations, policies, orders, and decisions.
- 3.2.3 The Company may, without obtaining any further consent from the Customer, assign any rights, privileges, or obligations under this tariff. The Customer shall not, without prior written consent of the Company, assign, transfer, or in any other manner dispose of, any of its rights, privileges, or obligations under this tariff, and any attempt to make such an assignment, transfer, disposition without such consent shall be null and void.
- 3.2.4 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.
- 3.2.5 A Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

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SECTION 3 - OBLIGATIONS OF THE CUSTOMER (CONT'D)

- 3.2.6 Customer use of any resold service obtained from other service providers shall also be subject to any applicable restrictions imposed by the underlying providers.
- 3.2.7 A Customer or Authorized User shall not represent that its services are provided by the Company, or otherwise indicate to its customers that its provision of services is jointly with the Company, without the written consent of the Company. The relationship between the Company and Customer shall not be that of partners or agents for one or the other, and shall not be deemed to constitute a partnership or agency agreement.
- 3.2.8 A Customer shall not use any service mark, trade mark or trade name of Company or refer to Company in connection with any product, equipment, promotion or publication of the Customer without the approval of Company.

3.3 Claims

With respect to any service or facility provided by the Company, Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- 3.3.1 any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer or User or their employees, agents, representatives or invitees;
- 3.3.2 any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer or User, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between Customer and the Company; or
- 3.3.3 any claim of any nature whatsoever brought by a User with respect to any matter for which the Company would not be directly liable to the Customer under the terms of the applicable Company tariff.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - PAYMENT ARRANGEMENTS**4.1 Payment for Service**

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer.

4.2 Billing and Collection of Charges

4.2.1 Nonrecurring charges are due and payable within 30 days as indicated on the due date on an invoice received by Customer from the Company.

4.2.2 Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or usage based charges.

4.2.3 Charges based on usage will be included on the next invoice rendered following the end of the billing cycle in which the usage occurs, and will be due and payable within 30 days as indicated on the invoice due date.

4.2.4 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

4.2.5 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in the tariffs of the Company or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

4.2.6 With respect to Customers, if any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds which are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, net of taxes, not compounded, multiplied by a monthly late factor of 1.5%.

4.2.7 For any check returned to the Company due to insufficient funds, uncollected funds, or closed account, Customer will be assessed a \$25.00 fee per check returned.

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SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)4.3 Discontinuance of Service

- 4.3.1 Upon nonpayment of any amounts owing to the Company, the Company may, by giving fourteen (14) days prior written notice to the Customer, discontinue or suspend service without incurring any liability.
- 4.3.2 Upon violation of any of the other material terms or conditions for furnishing service including fraud the Company may, by giving three (3) days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- 4.3.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer, or if a condition immediately dangerous or hazardous to life, physical safety or property exists, or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- 4.3.4 Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- 4.3.5 Upon the Company's discontinuance of service to the Customer under paragraphs 4.5.1 or 4.5.2 above, the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of the tariffs of the Company, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the minimum term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent (6%)).
- 4.3.6 Any Customer or Applicant for Service requesting the opportunity to dispute any action or determination of Company under the Commission's Customer Service Rules shall be given an opportunity for a supervisory review by the Company immediately following Customer's request for such review. Service will not be disconnected pending completion of the review.
- 4.3.7 Service may be disconnected, upon written notice, when necessitated by conditions beyond Company's control. These conditions include, but are not limited to, a Customer's call volume or calling pattern that results or may result in network blockages or other service degradation which adversely affect service to the calling party, Customer, or other Customers of Company. Company also reserves the right to discontinue furnishing service, upon written notice, when the Customer is using the service in violation of the provisions contained herein, or in violation of the law.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 – PAYMENT ARRANGEMENTS (CONT'D)

4.3.8 Service may be discontinued by Company, without notice to the Customer, by blocking traffic to certain cities, or NXX exchanges, or by blocking calls using certain Customer authorization codes, when Company deems it necessary to take such action to prevent unlawful use of its service. Company will restore service as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new authorization code to replace the one that has been deactivated.

4.4 Cancellation of Application for Service

4.4.1 Applications for service are noncancellable unless the Company otherwise agrees. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

4.4.2 Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun (all discounted to present value at six percent (6%)).

4.4.3 Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

4.4.4 The special charges described in paragraphs 4.4.1 through 4.4.3, above, will be calculated and applied on a case-by-case basis.

4.5 Change in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - PAYMENT ARRANGEMENTS (CONT'D)**4.6 Taxes**

The Customer is responsible for the payment of Federal excise taxes, gross receipts, access, state and local sales and use taxes and all taxes, fees, surcharges (however designated) and other exactions imposed on the Company or its services by governmental jurisdictions, other than taxes imposed generally on corporations. Any taxes imposed by a local jurisdiction (e.g. county and municipal taxes) will only be recovered from those Customers residing in the affected jurisdictions. All such taxes, fees, and charges shall be separately designated on the Company's invoices, and are not included in the tariffed rates. It should be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.

4.7 Disputed Bills

The Customer may dispute a bill only by written notice to the Company. Unless such notice is received in a timely fashion, the bill statement shall be deemed to be correct and payable in full by Customer. Any Customer who has a dispute shall be advised by the Company that the Customer may file a formal or informal complaint with the Commission.

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INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 5 - USE OF CUSTOMER'S SERVICE BY OTHERS5.1 Transfers and Assignments

- 5.1.1 Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party and any appropriate authorizations, if necessary, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company, (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.
- 5.1.2 If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a Major Service Interruption, Customer agrees to pay to the Company the following sums, within 21 days of the effective date of the cancellation or termination and be payable under the terms set forth in Section 4.0, preceding: all costs, fees and expenses reasonably incurred in connection with:
- 5.1.2.1 All Nonrecurring charges as specified in the Company's tariffs, plus
 - 5.1.2.2 Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus
 - 5.1.2.3 All Recurring Charges specified in the applicable Company tariff for the balance of the then current term.
 - 5.1.2.4 A percentage up to the entire committed total of all usage charges due to Company over the term.

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SECTION 6 - CANCELLATION OF SERVICE

Reserved for future use.

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SECTION 7 - NOTICES AND COMMUNICATIONS

- 7.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 7.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 7.3 All notices or other communications required to be given pursuant to the tariffs of the Company will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 7.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS**8.1 General**

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in the tariffs of the Company. A User may transmit any form of signal that is compatible with the Company's equipment, but except as otherwise specifically stated in its tariffs, the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication.

8.2 Station Equipment

8.2.1 Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company's Point of Connection.

8.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to the Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

8.2.3 Customer provided station equipment may be attached to services provided under the tariffs of the Company subject to Part 68 of the FCC Rules and to any applicable provisions of the tariffs of the Company and is the sole responsibility of the Customer.

8.2.4 The Company is not responsible for malfunctions of Customer-owned telephone sets or other Customer-provided equipment, or for misdirected calls, disconnects or other service problems caused by the use of Customer-owned equipment.

8.3 Interconnection of Facilities

8.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing communications services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

ISSUED:**Issued By**

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 8 - CUSTOMER EQUIPMENT AND CHANNELS (CONT'D)

8.3.2 Communications services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

8.3.3 Facilities furnished under the tariffs of the Company may be connected to customer provided terminal equipment in accordance with the provisions of the tariffs of the Company. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User provided wiring shall be installed and maintained in compliance with those regulations.

8.4 Tests and Adjustments

Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company's facilities in satisfactory operating condition. No interruption allowance will be credited to the Customer for the period during which the Company makes such tests, adjustments, or inspections.

8.5 Inspections

8.5.1 Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the User is complying with the requirements set forth in Section 2.8 for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

8.5.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

ISSUED:

EFFECTIVE:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE**9.1 General**

- 9.1.1 Interruptions in service, which are not due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer or of an Authorized User, or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth below for the part of the service that the interruption affects.
- 9.1.2 For all Company's services for which charges are specified on the basis of per minute of use, or on usage of a fraction of a minute, and in which there may be interruption of an individual call, due to a condition in Company's shared interexchange facilities or in shared access or termination facilities provided by other carriers, which can be remedied by redialing the call:
- 9.1.2.1 A credit allowance will be made for that portion of a call which is interrupted due to poor transmission (e.g. noisy circuit), one-way transmission (one party is unable to hear the other), or involuntary disconnection caused by deficiencies in Company's service. To receive a credit, the Customer must notify their Customer Service Representative and furnish information, including the called number, the service subscribed to, the difficulty experienced, and the approximate time the call was placed. Credit allowances will not be made for (1) interruptions not reported to Company, or (2) interruptions that are due to the failure of power, equipment, systems, or services not provided by Company. If the Customer elects to use another means of communications after one of the above interruptions, or during a period when they are unable to place a call over Company, the Customer must pay the charges for the alternative service used.
- 9.1.2.2 Where a call has been disconnected, the Customer will be given a credit allowance equivalent to the charge for the initial minute of the call made to reestablish communications with the other party. Where a call has been interrupted by poor transmission or one-way transmission, the Customer will be given a credit allowance up to an amount equivalent to the charge for the initial

ISSUED:

Issued By

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EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 9 - ALLOWANCES FOR INTERRUPTIONS IN SERVICE (CONT'D)

minute of the call to the wrong number if they report the situation promptly to a Customer Service Representative.

9.2 No credit allowance will be made for:

- 9.2.1 interruptions due to the negligence of, or noncompliance with the provisions of the tariffs of the Company by, the Customer of an Authorized User, or other common carrier providing service connected to the service of the Company;
- 9.2.2 interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
- 9.2.3 interruptions of service due to the failure or malfunction of facilities, power or equipment provided by the Customer, Authorized User, or other common carrier providing service connected to the services or facilities of the Company;
- 9.2.4 interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- 9.2.5 interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- 9.2.6 interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 9.2.7 interruption of service due to circumstances or causes beyond the control of the Company; and
- 9.2.8 interruptions of service that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

ISSUED:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS**10.1 Special Construction**

Subject to the agreement of the Company and to all of the regulations contained in the tariffs of the Company, special construction and special arrangements may be undertaken on a reasonable efforts basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications not otherwise specified under tariff, or for the provision of service on an expedited basis or in some other manner different from the normal tariff conditions. Special construction is that construction undertaken:

- 10.1.1 where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- 10.1.2 of a type other than that which the Company would normally utilize in the furnishing of its services;
- 10.1.3 over a route other than that which the Company would normally utilize in the furnishing of its services;
- 10.1.4 in a quantity greater than that which the Company would normally construct;
- 10.1.5 on an expedited basis;
- 10.1.6 on a temporary basis until permanent facilities are available;
- 10.1.7 involving abnormal costs; or
- 10.1.8 in advance of its normal construction.

10.2 Basis for Charges

Where the Company furnishes a facility or service on a special construction basis, or any service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include, (1) nonrecurring type charges; (2) recurring type charges, (3) termination liabilities; or (4) combinations thereof. The agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service life of the facilities provided.

10.3 Basis for Cost Computation

The costs referred to in Section 10.2 preceding may include one or more of the following items to the extent they are applicable:

ISSUED:**Issued By**

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS (CONT'D)

- 10.3.1 installed costs of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Installed costs include the cost of:

- 10.3.1.1 equipment and materials provided or used,
- 10.3.1.2 engineering, labor and supervision,
- 10.3.1.3 transportation,
- 10.3.1.4 rights of way, and
- 10.3.1.5 any other item chargeable to the capital account;

- 10.3.2 annual charges including the following:

- 10.3.2.1 cost of maintenance;
- 10.3.2.2 depreciation on the estimated installed cost of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;
- 10.3.2.3 administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;
- 10.3.2.4 any other identifiable costs related to the facilities provided; and
- 10.3.2.5 an amount for return and contingencies.

10.4 Termination Liability

To the extent that there is no other requirement for use by the Company, the Customer may have a termination liability for facilities specially constructed at the request of the customer, if and only if such liability is clearly stated in a written agreement between the Company and the Customer.

- 10.4.1 The maximum termination liability is equal to the total cost of the special facility as determined under 10.3, preceding, adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided.
- 10.4.2 The maximum termination liability as determined in paragraph (1) shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole

ISSUED:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 10 - SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS (CONT'D)

number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six percent (6%), plus applicable taxes.

ISSUED:

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Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
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Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 11 - TEMPORARY PROMOTIONAL PROGRAMS

The Company may establish temporary promotional programs to introduce present or potential customers to a service not previously received by Customers. During specific promotional periods, an offer may be made to reduce nonrecurring charges on a nondiscriminatory basis, up to the full amount, for optional products and services.

ISSUED:

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Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 12 - APPLICATION OF RATES**12.1 General**

Intrastate Services are offered in conjunction with interstate services.

12.2 Computation of Charges for Message Telecommunications Service

12.2.1 The rates for Company's Intrastate Interexchange Telecommunications Service will depend upon the duration of the call and the service plan selected by the Customer. Rates apply seven (7) days a week and are not affected by the time period in which the call is placed. Rates are quoted per minute. Rates applicable on holidays are the same as those applicable for all other days of the year. Billing is based on an initial eighteen (18) second period and thereafter in six (6) second increments or fractions thereof rounded up to the next increment. Third party non-usage recurring charges billed to Company relevant to Customer's use of local serving arrangement with local exchange company are passed directly on to Customer and may be subject to upward adjustment from time to time pursuant to tariff. In addition, any non-recurring third party charges which may be billed to Company relative to interconnection shall be passed directly on to Customer.

12.2.2 Where answer supervision is available, the time of a call begins when the called station is answered, as determined by the standard industry methods selected by the applicable underlying Common Carrier. The Company will not knowingly bill any Customer for unanswered calls. Upon the Customer's request, the Company shall promptly refund or credit, as the case may be, payments or charges for any unanswered call inadvertently billed due to the unavailability of Feature Group D or to the LEC's failure to provide answer supervision. Where answer supervision is not available, any call for which the billed duration exceeds one minute shall be presumed to have been answered.

12.3 Minimum Call Completion Rate

A customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 99.5% during peak use periods for the Company services.

ISSUED:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 13 - DESCRIPTION AND RATES FOR OPERATOR SERVICES**13.1 Operator Assisted Service****13.1.1 Description**

Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines which the Customer subscribes to the Company's interexchange outbound calling services.

13.2 Rates for Operator Assisted Service

IntraLATA calls may be placed on an Operated Assisted basis. The surcharges for Operator Assisted calls are set forth below, and apply in addition to any other applicable usage charges.

	<u>Per Minute Charge</u>	<u>Operator Assisted Surcharge</u>
Station-to-Station	\$.40	\$ 2.10
Third Number Billing	\$.40	\$ 2.50
Collect Calls	\$.40	
Automated Surcharge	\$1.50	
Operator Assisted Surcharge		\$ 2.50
Person-to-Person, Intrastate	\$.40	\$ 6.50
Busy Line Verify, Intrastate	\$.00	\$ 6.50
Busy Line Interrupt, Intrastate	\$.00	\$13.00

13.3 Directory Assistance

Directory Assistance is available to Customers of Company's calling services. Customers may obtain directory assistance in determining telephone numbers by calling the Directory Assistance operator. An undiscounted per call charge will be applied to each call each month for information as to any telephone number within the state.

Directory Assistance, Intrastate	\$.60 per call
Directory Assistance, Interstate	\$.95 per call
Directory Assistance, Call Completion	\$1.50 per call
Per Minute Charge	\$.40 per call

Up to two requests may be made on each call to Directory Assistance. The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number.

ISSUED:**EFFECTIVE:****Issued By**

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 13 - DESCRIPTION AND RATES FOR OPERATOR SERVICES (CONT'D)

A credit allowance will be given to those Customers who comply with the following provisions. A credit allowance will be given; i.e., the charge that would otherwise apply will be waived, when:

1. the Customer experiences poor transmission or is cut-off during the call to Directory Assistance;
 2. the Customer is given an incorrect telephone number by the Directory Assistance operator; or
 3. the Customer has inadvertently misdialed and has reached Directory Assistance for the wrong area code. To obtain such a credit/waiver, the Customer must promptly notify his or her Customer Service Representative.
- 13.3.1 Customers who have been certified in writing as unable to access or use a manual directory because of a visual or other physical impairment are eligible to receive a credit which will be applied against the per-call charge and any applicable operator-assistance surcharges for domestic Directory Assistance as specified in this tariff. This certification must be made by a licensed physician, optometrist, appropriate federal or state agency, or appropriate private agency. Upon request, Company's Customer Service will furnish applicants with a certification form.
- 13.3.2 The written certification of visual or other physical impairment must be provided to Company's Customer Service Center or, at Company's election, proof of certification, as defined above, may be provided to, and maintained on file with, the Customer's Local Exchange Carrier.
- 13.3.3 Credits may be used by: 1) the visually or otherwise physically impaired Customer; 2) an organization established specifically for the purpose of assisting the visually or otherwise physically impaired; or 3) a business where all owner(s) and/or employees of the business on the premises at which a call originates have been certified as visually or otherwise physically impaired. Credits will apply only to directory assistance calls, including any operator-assistance surcharges necessary to complete those calls, that originate from and are billed to the telephone number of the certified visually or otherwise physically impaired person or organization. Only one telephone number per location is entitled to this credit. A maximum of fifty directory assistance calls, including operator-assistance surcharges, per monthly billing period will be eligible for the credit. The actual credit for any one call to directory assistance (including operator-assistance surcharges) shall not exceed \$5.00.

ISSUED:

EFFECTIVE:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 14 - DESCRIPTION AND RATES FOR MESSAGE TELECOMMUNICATIONS SERVICE**14.1 Description**

Company will provide interexchange telecommunications services. Calls are rated based on the duration of the call. In addition, a monthly recurring charge may apply. Unless otherwise indicated, rates are identified in this tariff as per minute rates.

14.2 Message Telecommunications Service

Message Telecommunications Service ("MTS") is a communications service which is available for use by Customers twenty-four (24) hours a day. MTS enables a User of an exchange access line to place to any station on the public switched telecommunications network bearing an NPA/NXX designation associated with points outside the Customer's Local Calling Area, but within the boundaries of the State of South Dakota. MTS is available on a switched basis with a minimum monthly usage requirement of \$100.00. The \$100.00 requirement applies to any monthly MTS usage. The minimum requirement may also be met by the purchase of any other product offered by Company. The minimum requirement cannot be met by either nonrecurring or recurring MTS charges. The requirements may not be met by other taxes or surcharges. In any month where the Customer does not incur the minimum requirement of services, the Customer will be billed the difference between the actual usage and \$100.00.

1 + Long Distance Telecommunications Services

Rate per minute: \$0.15

ISSUED:

EFFECTIVE:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 15 - SPECIAL ARRANGEMENTS**15.1 Special Service Arrangements**

Customer-specific service arrangements, which may include engineering, installation, construction, facilities, assembly and/or other special services, may be furnished in addition to existing tariff offerings. Rates, terms, and conditions plus any additional regulations, if applicable for the special service arrangements will be developed upon the customer's request. Unless otherwise specified, the regulations for the special service arrangements are in addition to the applicable regulations specified in other sections of this tariff.

15.2 Non-Standard Offerings**15.2.1 Individual Case Basis (ICB) Arrangements**

For special situations, rates for Message Telecommunications Service (MTS) will be determined on an Individual Case Basis (ICB) and specified by contract between the Company and the Customer. If required by Commission rules, notice of such contracts will be provided.

ISSUED:

Issued By

Thomas C. Stortz, Senior Vice President, General Counsel, and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

EFFECTIVE:



William P. Hunt, III
Regulatory Counsel

TEL: (303) 926-3555
FAX: (303) 926-3467
bill.hunt@level3.com

RECEIVED

April 14, 1999

APR 19 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

William Bullard, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol Avenue
Pierre, South Dakota 57501

Re: Docket No. TC99-015 Application of Level 3 Communications, LLC for a Certificate of Authority to Provide Resold and Facilities Based Local Exchange and Interexchange Intrastate Telecommunications Service in the State of South Dakota; Revisions to Contacts and Addresses for Correspondence Pertaining to this Application and Questions Concerning the Ongoing Operations of Applicant Following Certification.

Dear Mr. Bullard,

Please be advised of the following changes to the application of Level 3 Communications, LLC in Docket No. TC99-015

Correspondence pertaining to this application should be directed to:

Abby Jensen
Level 3 Communications, LLC
7581 West 103rd Avenue
Westminster, CO 80021
303.635.6802 - Tel
303.635.9525 - Fax

Correspondence pertaining to tariff issues should be directed to:

Greg Rogers
Level 3 Communications, LLC
7581 West 103rd Avenue
Westminster, CO 80021
303.635.9597 - Tel
303.635.9525 - Fax

Questions concerning the ongoing operations of applicant following certification should be directed to:

William P. Hunt III
Regulatory Counsel
Level 3 Communications
1450 Infinite Drive
Louisville, CO 80027
303.926.3555 - Tel
303.926.3467 - Fax

Should you have any questions concerning these changes, please do not hesitate to contact the undersigned.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Wm. P. Hunt III". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

William P. Hunt III
Regulatory Counsel
Level 3 Communications, LLC

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER GRANTING
LEVEL 3 COMMUNICATIONS, LLC FOR A)	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE)	AUTHORITY
TELECOMMUNICATIONS SERVICES,)	
INCLUDING LOCAL EXCHANGE SERVICES, IN)	TC99-015
SOUTH DAKOTA)	

On February 16, 1999, the Public Utilities Commission (Commission) received an application for a certificate of authority from Level 3 Communications, LLC (Level 3).

Level 3 proposes to offer all forms of facilities-based and resold local exchange services. It also intends to offer intrastate interexchange services. A proposed tariff was filed by Level 3.

On February 18, 1999, the Commission electronically transmitted notice of the filing and the intervention deadline of March 5, 1999, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled April 26, 1999, meeting, the Commission considered Level 3's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to rural safeguards, subject to Level 3 furnishing the Commission with a surety bond, and subject to the condition that Level 3 not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. Commission Staff further recommended a waiver of 20:10:24:02(8) and 20:10:32:03(8), (11) and (13).

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and 49-31-69 and ARSD 20:10:24:02, 20:10:24:03 and 20:10:32:03. The Commission finds that Level 3 has met the legal requirements established for the granting of a certificate of authority. Level 3 has, in accordance with SDCL 49-31-3 and 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (8) of ARSD 20:10:24:02 and subparagraphs (8), (11) and (13) of ARSD 20:10:32:03.

The Commission approves Level 3's application for a certificate of authority, subject to rural safeguards, subject to Level 3 furnishing the Commission with a surety bond, and subject to the condition that Level 3 not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. The certificate of authority for Level 3 shall authorize it to offer local exchange services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier. In the future, should Level 3 choose to provide local exchange services statewide, with respect to rural telephone companies, Level 3 will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that

seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that Level 3's application for a Certificate of Authority to provide telecommunications services, including local exchange services, is granted, subject to Level 3 furnishing the Commission with a surety bond, and subject to the condition that Level 3 not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission; and it is

FURTHER ORDERED, that Level 3 shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize Level 3 to offer its local exchange services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier; and it is

FURTHER ORDERED, that the Commission finds good cause to waive subparagraph (8) of ARSD 20:10.24:02 and subparagraph (8), (11) and (13) of ARSD 20:10.32:03.

Dated at Pierre, South Dakota, this 5th day of May, 1999.

CERTIFICATE OF SERVICE The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon. By: <u>Melanie Kaelin</u> Date: <u>5/6/99</u> (OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner



South Dakota Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070



May 6, 1999

Capitol Office
Telephone (605)773-3281
FAX (605)773-3009

Transportation/
Warehouse Division
Telephone (605)773-5288
FAX (605)773-3225

Consumer Hotline
1-800-332-1782

TTY Through
Relay South Dakota
1-800-877-1113

Internet Website
www.puc.state.sd.us/puc/

Jim Burg
Chairman
Paul Nelson
Vice-Chairman
Linda Schenfelder
Commissioner

William Bullard Jr.
Executive Director

Harlan Best
Martin C. Bettmann
Sue Cichos
Karen E. Cremer
Michelle M. Faris
Marlene Fischbach
Shirleen Fugitt
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Lena Healy
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Dave Jacobson
Katie Johnson
Bob Kandle
Delaine Kallio
Jeffrey P. Lammson
Charlene Lund
Terry Marnon
Gregory A. Rishow
Keith Senger
Robynne Ailsa Wiest

Mr. Thomas C. Stortz
Senior Vice President, General Counsel
and Secretary
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027

Re: Level 3 Communications, LLC
Docket No. TC99-015

Dear Mr. Stortz:

Enclosed you will find a copy of the Order Granting Certificate of Authority with reference to Level 3 Communications, LLC. As soon as we receive your surety bond, we will send you your Certificate of Authority.

Very truly yours,

Karen E. Cremer
Staff Attorney

KEC:dk

cc: Mr. William P. Hunt III
Enc.



William P. Hunt, III
Regulatory Counsel

TEL: (720) 888-2516
FAX: (720) 888-5134
bill.hunt@level3.com

RECEIVED

OCT 18 1999

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

October 14, 1999

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
Capitol Building 1st Floor, 500 East Capitol Avenue
Pierre, SD 57501-5070

Re: Docket No. TC99-015 - Bond Requirement

In response to the Order dated May 5, 1999, enclosed is an original \$25,000 bond in the name of Level 3 Communications, LLC.

If you have any questions concerning this matter, please feel free to contact me.

Sincerely,

William P. Hunt, III
Regulatory Counsel

/kmm

Enclosure

*Returned original
on 11/2/99.*

**LICENSE OR
PERMIT BOND**

Bond No. 200103232666BCM
TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
Hartford, Connecticut 06183

KNOW ALL MEN BY THESE PRESENTS:

THAT WE, LEVEL 3 COMMUNICATIONS, LLC, as Principal, and TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, a corporation duly incorporated under the laws of the State of Connecticut, and authorized to do business in the state of South Dakota as Surety, are held and firmly bound unto South Dakota Public Utilities Commission & Consumers of South Dakota, Capitol Building 1st Floor, 500 East Capitol Avenue, Pierre, SD 57501-5070 in the penal sum of Twenty-five Thousand and No/100--- (\$25,000.00) Dollars, for the payment of which we hereby bind ourselves, or heirs, executors and administrators, jointly and severally by these presents.

THE CONDITIONS OF THIS BOND ARE SUCH, that the said Principal has applied for a Certificate of Authority in accordance with the requirements of Docket No. TC99-015 of South Dakota Public Utilities Commission & Consumers of South Dakota and shall save and keep harmless the South Dakota Public Utilities Commission & Consumers of South Dakota from all liability to any person by reason of damage to any person or property as a result of the operations performed under such license.

NOW, THEREFORE, if said Principal shall faithfully perform all the duties to provide telecommunication services including local exchange services within South Dakota Public Utilities Commission & Consumers of South Dakota according to the requirements of Docket No. TC99-015 of South Dakota Public Utilities Commission & Consumers of South Dakota and protect said South Dakota Public Utilities Commission & Consumers of South Dakota from any damage as hereinbefore stated, then this obligation shall be null and void; otherwise to remain in full force and effect.

This bond may be terminated as to future acts of the Principal upon thirty (30) days written notice by the Surety; said notice to be sent to the Capitol Building 1st Floor, 500 East Capitol Avenue, Pierre, SD 57501-5070 of the aforesaid South Dakota Public Utilities Commission & Consumers of South Dakota by certified mail.

Provided, However, that this bond may be continued at the option of the Surety by the issuance of a non-cumulative Continuation Certificate.

This bond becomes effective on the 1st day of November, 1999, for a period ending on the 1st day of November, 2000.

DATED: October 6, 1999

LEVEL 3 COMMUNICATIONS, LLC

By Paul Foss Principal
Paul Foss Title Attorney-in-Fact

RESIDENT AGENT COUNTERSIGNATURE

James K. Stoudt
JAMES K. STOUT
705 OAKWOOD ROAD, SW
WATERTOWN, SD 57201-6657

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

By Claudia A. Rathbun
Claudia A. Rathbun, Attorney-in-fact
Aon Risk Services
5000 Central Park Drive, Suite 101
Lincoln, NE 68504 402/436-2127

POWER OF ATTORNEY

LEVEL 3 COMMUNICATIONS, LLC, a Delaware limited liability company, appoints PAUL FOSS as its Attorney-in-Fact with the authority to act on behalf of the company to execute, acknowledge and deliver any and all agreements, instruments and documents with respect to surety bonds issued for the benefit of the company and its subsidiaries ("Surety Bond Documents"), hereby ratifying and confirming all the PAUL FOSS as said attorney, shall lawfully do or cause to be done by virtue hereof, provided, however, that such grant of authority shall not apply if the stated amount of the related surety bond exceeds \$100,000.

The Company reserves the right to revoke or amend this Power of Attorney.

Signed on behalf of the Company by its duly authorized officers on September 1, 1998.

ATTEST

LEVEL 3 COMMUNICATIONS, LLC


Matthew J. Johnson, Assistant Secretary


Thomas C. Stortz, Senior Vice President

**CERTIFIED COPY OF RESOLUTION
OF BOARD OF MANAGERS OF LEVEL 3 COMMUNICATIONS, LLC**

"RESOLVED, that the Company is hereby authorized to enter into and perform various agreements, instruments and documents with respect to surety bonds issued for the benefit of the Company and its subsidiaries ("Surety Bond Documents"); and further

"RESOLVED, that the President or any Vice President of the Company be, and they hereby are, authorized and directed to execute and deliver in the name of and for and in behalf of the Company a proper Power of Attorney appointing **PAUL FOSS** Attorney-in-Fact for the Company and its name, place and stead to execute, acknowledge and deliver any and all Surety Bond Documents; provided, however, that he shall have no such authority if the amount of the related surety bond exceeds \$100,000; and further provided that the foregoing appointment of **PAUL FOSS** as above specified, is hereby specifically made subject to revocation or amendment thereof as may hereafter be made."

I, Matthew J. Johnson, certify that I am the Assistant Secretary of Level 3 Communications, LLC, a Delaware limited liability company (the "Company").

I certify that: (1) The resolution quoted above was adopted by the Consent Action of the Board of Managers of the Company, signed by all Managers of the Company as of September 1, 1998. (2) Any action of the Board of Managers of the Company may be taken without a meeting if all members of the Board consent in writing. (3) The signed Consent Action has been filed in the Minute Book of the Company. (4) The resolution has not been revoked or amended and is now in full force and effect.

SIGNED AND SEALED on behalf of the Company as of September 15, 1998.

A handwritten signature in dark ink, appearing to read 'Matthew J. Johnson', is written over a horizontal line.

Matthew J. Johnson, Assistant Secretary of
LEVEL 3 COMMUNICATIONS, LLC

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY
Hartford, Connecticut 06183-9062
TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS
Lisle, Illinois 60532

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, a corporation duly organized under the laws of the State of Illinois, and having its principal office in the City of Lisle, County of DuPage, State of Illinois, (hereinafter the "Companies") hath made, constituted and appointed, and do by these presents make, constitute and appoint: John D. Diesing, Jr., James L. Arts, David B. McCue, Connie Magni, Gary E. Lee, Donna J. Lambelet, Patrick M. McCahill, S. P. Eberhart, Claudia A. Rathbun or Diane Atkins * *

of Omaha, NE, their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, or, if the following line be filled in, within the area there designated the following instrument(s):

by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto

and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any time may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED: That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY, FARMINGTON CASUALTY COMPANY and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.



✓

RECEIVED

OCT 28 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

October 25, 1999

Karen Kramer
South Dakota Public Utilities Commission
Capitol Building, First Floor
500 East Capitol Avenue
Pierre, SD 57501-5070

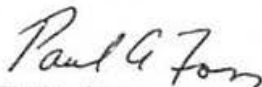
Re: Surety Bond
Bond No.: 20S103232666BCM

Dear Ms. Kramer:

Further to your request to our Insurance Broker, enclosed is a revised bond incorporating the changes you require. Please return the original unacceptable bond for cancellation. If there are any questions, please let me know. My direct line is (303) 635-9213.

Very truly yours,

LEVEL 3 COMMUNICATIONS



Paul A. Foss
Risk Manager

PAF/glg
Enclosure

**LICENSE OR
PERMIT BOND**

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
Hartford, Connecticut 06183

KNOW ALL MEN BY THESE PRESENTS:

THAT WE, LEVEL 3 COMMUNICATIONS, LLC, as Principal, and TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, a corporation duly incorporated under the laws of the State of Connecticut, and authorized to do business in the state of South Dakota as Surety, are held and firmly bound unto South Dakota Public Utilities Commission & Consumers of South Dakota, Capitol Building 1st Floor, 500 East Capitol Avenue, Pierre, SD 57501-5070 in the penal sum of Twenty-five Thousand and No/100--- (\$25,000.00) Dollars, for the payment of which we hereby bind ourselves, or heirs, executors and administrators, jointly and severally by these presents.

THE CONDITIONS OF THIS BOND ARE SUCH, that the said Principal has applied for a Certificate of Authority in accordance with the requirements of Docket No. TC99-015 of South Dakota Public Utilities Commission & Consumers of South Dakota and shall save and keep harmless the South Dakota Public Utilities Commission & Consumers of South Dakota from all liability to any person by reason of damage to any person or property as a result of the operations performed under such license.

NOW, THEREFORE, if said Principal shall faithfully perform all the duties to provide telecommunications services including local exchange services within South Dakota according to the requirements of Docket No. TC99-015 of South Dakota Public Utilities Commission & Consumers of South Dakota and protect said South Dakota Public Utilities Commission & Consumers of South Dakota from any damage as hereinbefore stated, then this obligation shall be null and void; otherwise to remain in full force and effect.

This bond may be terminated as to future acts of the Principal upon thirty (30) days written notice by the Surety; said notice to be sent to the Capitol Building 1st Floor, 500 East Capitol Avenue, Pierre, SD 57501-5070 of the aforesaid South Dakota Public Utilities Commission & Consumers of South Dakota by certified mail.

Provided, However, that this bond may be continued at the option of the Surety by the issuance of a non-cumulative Continuation Certificate.

This bond becomes effective on the 1st day of November, 1999, for a period ending on the 1st day of November, 2000.

DATED: October 22, 1999

LEVEL 3 COMMUNICATIONS, LLC.

By Paul Foss Principal
Paul Foss Title Attorney-in-Fact

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

RESIDENT AGENT COUNTERSIGNATURE

James R. Stoudt
JAMES R. STOUT
705 OAKWOOD ROAD, SW
WATERTOWN, SD 57201-6657

By Claudia A. Rathbun
Claudia A. Rathbun, Attorney-in-fact
Aon Risk Services
5000 Central Park Drive, Suite 101
Lincoln, NE 68504 402/436-2177

POWER OF ATTORNEY

LEVEL 3 COMMUNICATIONS, LLC, a Delaware limited liability company, appoints PAUL FOSS as its Attorney-in-Fact with the authority to act on behalf of the company to execute, acknowledge and deliver any and all agreements, instruments and documents with respect to surety bonds issued for the benefit of the company and its subsidiaries ("Surety Bond Documents"), hereby ratifying and confirming all the FAUL FOSS as said attorney, shall lawfully do or cause to be done by virtue hereof; provided, however, that such grant of authority shall not apply if the stated amount of the related surety bond exceeds \$100,000.

The Company reserves the right to revoke or amend this Power of Attorney.

Signed on behalf of the Company by its duly authorized offices on September 1, 1998.

ATTEST

LEVEL 3 COMMUNICATIONS, LLC


Matthew J. Johnson, Assistant Secretary


Thomas C. Stortz, Senior Vice President

**CERTIFIED COPY OF RESOLUTION
OF BOARD OF MANAGERS OF LEVEL 3 COMMUNICATIONS, LLC**

"RESOLVED, that the Company is hereby authorized to enter into and perform various agreements, instruments and documents with respect to surety bonds issued for the benefit of the Company and its subsidiaries ("Surety Bond Documents"); and further

"RESOLVED, that the President or any Vice President of the Company be, and they hereby are, authorized and directed to execute and deliver in the name of and for and in behalf of the Company a proper Power of Attorney appointing **PAUL FOSS** Attorney-in-Fact for the Company and its name, place and stead to execute, acknowledge and deliver any and all Surety Bond Documents; provided, however, that he shall have no such authority if the amount of the related surety bond exceeds \$100,000; and further provided that the foregoing appointment of **PAUL FOSS** as above specified, is hereby specifically made subject to revocation or amendment thereof as may hereafter be made."

I, Matthew J. Johnson, certify that I am the Assistant Secretary of Level 3 Communications, LLC, a Delaware limited liability company (the "Company").

I certify that: (1) The resolution quoted above was adopted by the Consent Action of the Board of Managers of the Company, signed by all Managers of the Company as of September 1, 1998. (2) Any action of the Board of Managers of the Company may be taken without a meeting if all members of the Board consent in writing. (3) The signed Consent Action has been filed in the Minute Book of the Company. (4) The resolution has not been revoked or amended and is now in full force and effect.

SIGNED AND SEALED on behalf of the Company as of September 15, 1998.

A handwritten signature in dark ink, appearing to read 'Matthew J. Johnson', is written over a horizontal line.

Matthew J. Johnson, Assistant Secretary of
LEVEL 3 COMMUNICATIONS, LLC

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY
Hartford, Connecticut 06183-9062
TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS
Lisle, Illinois 60532

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, a corporation duly organized under the laws of the State of Illinois, and having its principal office in the City of Lisle, County of DuPage, State of Illinois, (hereinafter the "Companies") hath made, constituted and appointed, and do by these presents make, constitute and appoint: John D. Diesing, Jr., James L. Arts, David B. McCue, Connie Magni, Gary E. Lee, Donna J. Lambelet, Patrick M. McCahill, S. P. Eberhart, Claudia A. Rathbun or Diane Akins * *

of Omaha, NE, their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, or, if the following line be filled in, within the area there designated the following instrument(s):

by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto

and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any time may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED: That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY, FARMINGTON CASUALTY COMPANY and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.



South Dakota Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070



November 2, 1999

Mr. William P. Hunt, III
Regulatory Counsel
Level 3 Communications, LLC
1025 El Dorado Boulevard
Broomfield, CO 80021

Re: Level 3 Communications, LLC
Docket TC99-015

Dear Mr. Hunt:

Enclosed you will find the original bond you sent us on October 14, 1999, which had to be revised. We received the revised bond on October 28, 1999.

Very truly yours,

Karen E. Cremer
Staff Attorney

KEC:dk
Enc.

Capitol Office

Telephone (605)773-3201
FAX (605)773-3899

**Transportation/
Warehouse Division**

Telephone (605)773-5280
FAX (605)773-3225

Consumer Hotline

1-800-332-1782

TTY Through

Relay South Dakota
1-800-877-1113

Internet Website

www.puc.state.sd.us/puc/

Jim Burg

Chairman

Pam Nelson

Vice-Chairman

Lanka Schoenfelder

Commissioner

William Bullard Jr.

Executive Director

Hartan Best

Martin C. Bettmann

Sue Cichos

Karen E. Cremer

Michele M. Farris

Marlette Fischbach

Heather K. Forney

Shirleen Fugitt

Mary Giddings

Lewis Hammond

Loni Healy

Camryn Hoesck

Lisa Hull

Dave Jacobson

Katie Johnson

Bob Knudde

Debra Kolbo

Carolene Lund

Terry Norum

Gregory A. Rialov

Keith Senger

Rolayne Alts Wiest

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted April 26, 1999
Docket No. TC99-015

This is to certify that

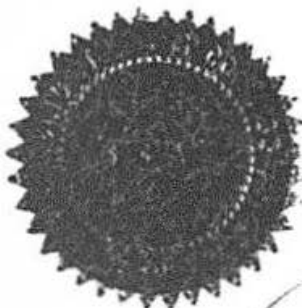
LEVEL 3 COMMUNICATIONS, LLC

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 2nd day of November, 1999.

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:



James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner