

2013 ANNUAL REPORT
NOTICE OF 2014 ANNUAL MEETING
AND PROXY STATEMENT



Some statements made in this Annual Report to Stockholders are forward-looking in nature and are based on management's current expectations or beliefs. These forward-looking statements are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside Level 3's control, which could cause actual events to differ materially from those expressed or implied by the statements. Important factors that could prevent Level 3 from achieving its stated goals include, but are not limited to, the company's ability to: manage risks associated with continued uncertainty in the global economy; increase revenue from its services to realize its targets for financial and operating performance; maintain and increase traffic on its network; develop and maintain effective business support systems; manage system and network failures or disruptions; avert the breach of its network and computer system security measures; develop new services that meet customer demands and generate acceptable margins; manage the future expansion or adaptation of its network to remain competitive; defend intellectual property and proprietary rights; manage continued or accelerated decreases in market pricing for communications services; obtain capacity for its network from other providers and interconnect its network with other networks on favorable terms; attract and retain qualified management and other personnel; successfully integrate future acquisitions; effectively manage political, legal, regulatory, foreign currency and other risks it is exposed to due to its substantial international operations; mitigate its exposure to contingent liabilities; and meet all of the terms and conditions of its debt obligations. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this Annual Report should be evaluated in light of these important factors. Level 3 is under no obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

To Our Stockholders:

Telecommunications continues to be an ever-changing, exciting industry. In today's world, we find that we live with smartphones in hand, our lives revolve around the Internet and we view content in more ways than we ever imagined. We are connecting with colleagues on every continent and sharing information instantaneously from remote locations the world over.

At Level 3, we help make this global reality possible with the commitment to deliver on our vision to be the "trusted connection to the networked world." As owners and operators of one of the world's largest communications networks, we move and protect critical business information for our customers around the globe.

Looking back at 2013, we continued to evolve our company to meet the changing demands of the industry. Just about a year ago, we announced the appointment of Jeff Storey as CEO. Since then, we implemented changes to simplify the company's organizational structure and established profitable growth as a key theme for the company. We have not only centered our efforts around growth, but growth that will drive profit to the bottom line.

As a result, 2013 was a good year for the company and we are entering 2014 with strong momentum to continue to evolve our business, drive profitable growth, and meet the communications needs of customers worldwide.

2013 Milestones

Strategy refresh and alignment. In 2013, we conducted an in-depth review of our strategy and developed detailed operating plans to support that strategy. While we did not make any major changes to our overall strategic direction, our refreshed strategy has enabled us to focus on the right customers, the right products and services and the right operating priorities. Our unified strategy is driving change within the company and deepening alignment across the business. Employees around the globe are working from a common understanding of what we are going to do to drive profitable growth for Level 3. Our products and services, approach to customer targeting and our detailed operational plans are helping position the company for success.

New product launches. In late 2013, we launched two new enterprise-focused products, Voice Complete and Level 3 Cloud Connect Solutions. Voice Complete offers a full portfolio of enterprise voice services using our advanced Session Initiation Protocol (SIP) platform and industry-leading VoIP footprint. Our platform provides secure local IP connections to existing technologies, making the transition to SIP easier for our customers. Level 3 Cloud Connect Solutions enables private network access to cloud and data center service providers to deliver critical enterprise applications and information with greater performance, security and flexibility than the public Internet or other networks. We also announced relationships with two of the leading cloud providers, Amazon Web Services (AWS) and Microsoft Azure.

Strong balance sheet. We continued to strengthen our financial position, completing approximately \$4 billion in capital markets transactions during 2013. These transactions will save the company an estimated \$60 million of cash interest expense on an annualized basis and lowered our average interest rate to 6.8 percent, compared to 7.6 percent at the end of 2012. Additionally, we ended the year with our leverage ratio (Net Debt divided by Adjusted EBITDA) at 4.8 times, within our longstanding target of 3 to 5 times. As a result of our improving operating performance, along with these refinancing activities, we believe our balance sheet is in the best shape it has been in for many years and are now aiming for the lower end of our target leverage ratio.

Looking to the Future: The Opportunity for Continued Growth

Global enterprise opportunity. While the wholesale telecommunications channel remains an important part of our overall global business and we are committed to providing an excellent experience for our wholesale customers, we believe enterprise businesses provide the greatest opportunity for growth.

Enterprises are faced with growing demands for bandwidth, increasingly complex mobile and cloud operating environments, the need for global connectivity and an ever-escalating threat landscape. At the same time, companies are trying to manage within significant cost constraints. Legacy technologies and legacy products do not enable them to meet these challenges. Customers are increasingly turning to

Level 3 as a proven partner to help them meet their challenges. Today, our market share is relatively low in the enterprise market and we believe we are well-positioned to grow that share.

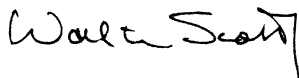
Continued product and service development. We know we will not achieve the growth we expect by standing still. As part of our strategy work, we identified the products and services that enterprises need to solve their communications challenges, but are also a natural extension of the services we offer today. We continue to add capabilities to both Voice Complete and Level 3 Cloud Connect Solutions and build relationships within the industry to continually improve the options for our customers. We are also focused on expanding value-added products like Professional Services to help customers design and build their networks; Managed Services to help them operate their networks more effectively; and Security Services to help them protect their networks. By coupling these value-added services with the continued development of new products and our ability to design, implement and operate complex telecommunications solutions for customers, we expect to further our ability to win.

Operational Excellence. Focusing on operational excellence remains integral to our strategy, specifically related to customer experience and network performance. We believe that a superior customer experience is essential to growing market share in the enterprise market and we continually work to improve customer loyalty. Making it easier to do business with Level 3 is a key part of that strategy and we are investing in our operating platforms to improve the daily interaction for our customers. We also believe that a consistent service experience across all of our regions, regardless of where the customer is based, is key to our future success and we continue implementing global standards for all of our products and services.

As we look to the future, we believe we have the best network in the industry, our employees have a passion for putting the customer first and we have a sound strategy for 2014 and beyond. With the financial guidance we gave at the beginning of 2014, we expect to continue to grow CNS revenue and Adjusted EBITDA, and expect to generate \$225 to \$275 million of Free Cash Flow in 2014. Delivering improving per share financial metrics is a guiding principle in how we look at our business. We are excited about the opportunities in front of us and expect to expand our leadership position in the industry.

As always, we appreciate your support and continued interest in Level 3.

Walter Scott, Jr.



Chairman of the Board

Jeff K. Storey



President and Chief Executive Officer

* * *

On behalf of the entire company, I'd like to thank Walter Scott, Jr. for his many years of service as Level 3's chairman. With Walter's guidance, we have become one of the world's largest internet providers, and his insights, experience and dedication have helped us change the world of communications. As chairman, Walter has led the company through many challenges and just as many opportunities and we would not be where we are today—enabling everything from the most-watched sporting events in the world, to connecting and protecting the networks of multinational companies, to delivering content to every corner of the world—without the counsel and wisdom of our outgoing chairman. Walter, we thank you for your leadership and wish you the best.

-Jeff



LEVEL 3 COMMUNICATIONS, INC.
1025 Eldorado Boulevard
Broomfield, CO 80021

April 11, 2014

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Level 3 Communications, Inc. ("Level 3") to be held at 9:00 a.m. on May 22, 2014, at the Level 3 Communications Headquarters, 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

At the Annual Meeting, you will be asked to consider and act upon the following matters:

- the election to our Board of Directors of 11 directors, each for a one-year term until the 2015 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
- the approval of the named executive officer executive compensation, which vote is on an advisory basis; and
- the transaction of such other business as may properly come before the Annual Meeting.

Our Board of Directors recommends that you elect the 11 nominees for director, each for a one-year term until the 2015 Annual Meeting of Stockholders and approve the named executive officer compensation on an advisory basis. See "ELECTION OF DIRECTORS PROPOSAL" and "VOTE ON COMPENSATION PROPOSAL."

Following the completion of the formal business portion of the Annual Meeting, members of our senior management will be making a presentation. We expect that this presentation will be followed by an open question and answer session with members of our senior management. *We anticipate that the Annual Meeting will conclude at the end of the question and answer period but in any event promptly at 11:00 a.m.*

Information concerning the matters to be considered and voted upon at the Annual Meeting is contained in the attached Notice of Annual Meeting and Proxy Statement. It is important that your shares be represented at the Annual Meeting, regardless of the number you hold. To ensure your representation at the Annual Meeting, if you are a stockholder of record, you may vote in person at the Annual Meeting. We will give you a ballot when you arrive. If you do not wish to vote in person or if you will not be attending the Annual Meeting, you may vote by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials that was previously mailed to you, or, if you requested or otherwise received printed copies of the proxy materials, you can also vote by mail, by telephone or over the Internet as instructed on the proxy card that you received. If you attend the Annual Meeting, you may vote in person even if you have previously returned a proxy card.

Sincerely,

A handwritten signature in black ink that reads "Walter Scott". The signature is written in a cursive, slightly stylized font.

Walter Scott, Jr.
Chairman of the Board

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LEVEL 3 COMMUNICATIONS, INC.

1025 Eldorado Boulevard
Broomfield, CO 80021

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

To be held May 22, 2014

To the Stockholders of Level 3 Communications, Inc.:

The 2014 Annual Meeting of Stockholders or any adjournment or postponement thereof (the "Annual Meeting") of Level 3 Communications, Inc., a Delaware corporation ("Level 3" or "our"), will be held at the Headquarters of Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021 at 9:00 a.m. on May 22, 2014, for the following purposes:

1. To elect 11 directors of the Board of Directors of Level 3 each for a one-year term until the 2015 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve the named executive officer compensation, which vote is on an advisory basis; and
3. To authorize the transaction of such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 31, 2014 as the record date for the determination of the holders of our common stock entitled to notice of, and to vote at, the Annual Meeting. Accordingly, only holders of record of Level 3 common stock at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. As of May 12, 2014, ten days prior to the Annual Meeting, a list of stockholders entitled to notice of the Annual Meeting and that have the right to vote at the Annual Meeting will be available for inspection at the Level 3 offices located at 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

The 11 nominees for director will be elected by a plurality of the votes cast by holders of our common stock present in person or by proxy and entitled to vote at the Annual Meeting.

The proposal to approve the named executive officer compensation on an advisory basis requires the affirmative vote of a majority of the votes cast by holders of our common stock present in person or by proxy and entitled to vote at the Annual Meeting. The proposal to authorize the transaction of such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof requires the affirmative vote of a majority of the votes cast by holders of Level 3 common stock present in person or by proxy and entitled to vote at the Annual Meeting.

The matters to be considered at the Annual Meeting are more fully described in the accompanying Proxy Statement, which forms a part of this Notice.

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, IF YOU DO NOT WISH TO VOTE IN PERSON OR IF YOU WILL NOT BE ATTENDING THE ANNUAL MEETING, YOU MAY VOTE BY PROXY. YOU CAN VOTE BY PROXY OVER THE INTERNET BY FOLLOWING THE INSTRUCTIONS PROVIDED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS THAT WAS PREVIOUSLY MAILED TO YOU, OR, IF YOU REQUESTED OR

OTHERWISE RECEIVED PRINTED COPIES OF THE PROXY MATERIALS, YOU CAN ALSO VOTE BY MAIL, BY TELEPHONE OR OVER THE INTERNET AS INSTRUCTED ON THE PROXY CARD THAT YOU RECEIVED. ANY STOCKHOLDER ATTENDING THE ANNUAL MEETING MAY VOTE IN PERSON EVEN IF THAT STOCKHOLDER HAS RETURNED A PROXY.

Dated: April 11, 2014

By Order of the Board of Directors

A handwritten signature in black ink that reads "Walter Scott". The signature is written in a cursive style with a large, stylized "W" and "S".

Walter Scott, Jr.
Chairman of the Board

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 22, 2014: The Level 3 Communications, Inc. Proxy Statement for the 2014 Annual Meeting of Stockholders and the 2013 Annual Report to Stockholders are available at <http://www.proxyvote.com>.



LEVEL 3 COMMUNICATIONS, INC.

1025 Eldorado Boulevard
Broomfield, CO 80021

PROXY STATEMENT

April 11, 2014

2014 ANNUAL MEETING OF STOCKHOLDERS

May 22, 2014

We are furnishing you this Proxy Statement in connection with the solicitation of proxies on behalf of the Board of Directors of Level 3 Communications, Inc. ("Level 3," the "company," "we," "us," or "our") to be voted at the Annual Meeting of Stockholders to be held on May 22, 2014, or any adjournment or postponements thereof (the "Annual Meeting"). This Proxy Statement, the Notice of Annual Meeting, the accompanying Proxy and the Annual Report to Stockholders are first being mailed or made available to Stockholders on or about April 11, 2014. We sometimes refer to our Board of Directors as the "Board" and to this document as the "Proxy Statement."

BACKGROUND INFORMATION

Why am I receiving these materials?

Our Board of Directors has made these materials available to you in connection with the Board's solicitation of proxies for use at the Annual Meeting, which will take place on May 22, 2014. Our stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this Proxy Statement.

What is included in these materials?

These materials include:

- Our Proxy Statement for the Annual Meeting; and
- Our 2013 Annual Report to Stockholders, which includes our audited consolidated financial statements.

If you received printed versions of these materials by mail, these materials also include the proxy card for the Annual Meeting. These materials can also be viewed online at <http://www.proxyvote.com>.

How can I get electronic access to the proxy materials?

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and is more environmentally friendly. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Where will the Annual Meeting be held?

The Annual Meeting will be held at our headquarters, 1025 Eldorado Boulevard, Broomfield, Colorado 80021 at 9:00 a.m. on May 22, 2014. If you would like directions to the Annual Meeting, please see our website at <http://investors.level3.com/2014annualmeeting>.

Will senior management be making a presentation at the Annual Meeting?

Yes, following the completion of the formal business portion of the Annual Meeting, members of our senior management will be making a presentation. We expect that this presentation will be followed by an open question and answer session with members of our senior management. *We anticipate that the Annual Meeting will conclude at the end of the question and answer period but in any event promptly at 11:00 a.m.*

What items will be voted on at the Annual Meeting?

The following are the items that will be voted on at the Annual Meeting:

1. To elect 11 directors of the Board of Directors of Level 3 each for a one-year term until the 2015 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve the named executive officer compensation, which vote is on an advisory basis.

What are our Board of Directors' voting recommendations?

Our Board of Directors recommends that you **elect** the 11 nominees for director, each for a one-year term until the 2015 Annual Meeting of Stockholders.

Our Board of Directors also recommends that you vote **for** approval of the named executive officer compensation, which vote is on an advisory basis.

Where are Level 3's principal executive offices located, and what is Level 3's main telephone number?

Level 3's principal executive offices are located at 1025 Eldorado Boulevard, Broomfield, Colorado 80021. Our main telephone number is (720) 888-1000.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

Pursuant to the rules adopted by the Securities and Exchange Commission (the "SEC"), we are required to provide access to our proxy materials over the Internet. Accordingly, we have sent a Notice of Internet Availability of Proxy Materials (the "Notice") to our stockholders of record and beneficial owners as well as to employees who participate in the Level 3 Communications 401(k) Plan and hold units in the Level 3 Stock Fund. You will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found on the Notice. In addition, you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Choosing to receive your proxy materials by email saves us the cost of printing and mailing documents to you and is more environmentally friendly.

Who may vote at the Annual Meeting?

If you owned our common stock at the close of business on March 31, 2014 (the "Record Date"), then you may attend and vote at the meeting. At the close of business on the Record Date, we had 237,171,332 shares of common stock issued and outstanding, all of which were entitled to one vote on the matters to be considered at the meeting.

What shares are represented by the proxy card that was delivered?

If we delivered a proxy card to you, the proxy represents all the shares registered in your name with our transfer agent, Wells Fargo Shareowner Services. A proxy that is delivered by your broker, bank or other nominee represents the shares held by you in an account at that institution.

If you are an employee who participates in the Level 3 Communications, Inc. 401(k) Plan, the proxy card that we delivered to you also will include the shares of our common stock that are attributable to the units that you hold in the Level 3 Stock Fund as part of the 401(k) Plan.

What is the difference between holding shares as a stockholder of record and as a beneficial owner of shares held in street name?

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered the stockholder of record with respect to those shares, and the Notice was sent directly to you by Level 3.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in "street name," and the Notice was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account.

What is the quorum requirement for the Annual Meeting?

A majority of Level 3's outstanding common stock on the Record Date must be present at the meeting in order to hold the meeting and conduct business. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, against, withheld or abstained, or broker non-votes, if you:

- Are present and vote in person at the meeting; or
- Have voted on the Internet, by telephone or by properly submitting a proxy card or voting instruction form by mail.

If I am a stockholder of record of Level 3's shares, how do I vote?

If you are a stockholder of record, you may vote in person at the Annual Meeting. We will give you a ballot when you arrive.

If you do not wish to vote in person or if you will not be attending the Annual Meeting, you may vote by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice, or, if you request printed copies of the proxy materials by mail, you can also vote by mail, by telephone or over the Internet as instructed on the proxy card that you received.

If I am a beneficial owner of shares held in street name, how do I vote?

If you are a beneficial owner of shares held in street name and you wish to vote in person at the Annual Meeting, you must obtain a valid legal proxy from the organization that holds your shares.

If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote by proxy. You may vote by proxy over the Internet, or if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone by following the instructions provided in the Notice.

What happens if I do not give specific voting instructions?

Stockholders of Record. If you are a stockholder of record and you sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by our Board on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the meeting.

Beneficial Owners of Shares Held in Street Name. If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters, including the ELECTION OF DIRECTORS PROPOSAL and VOTE ON COMPENSATION PROPOSAL.

If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform our Inspector of Election that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a “broker non-vote.” When our Inspector of Election tabulates the votes for any particular matter, broker non-votes will be counted for purposes of determining whether a quorum is present, but will not otherwise be counted. We encourage you to provide voting instructions to the organization that holds your shares by carefully following the instructions provided in the Notice.

How are the shares of our common stock that are attributable to the units held in the Level 3 Stock Fund that is a part of our 401(k) Plan voted?

If you are an employee who participates in the Level 3 Communications, Inc. 401(k) Plan, your voting instructions will also instruct the trustee of the plan how to vote the shares allocated to your 401(k) Plan account. If you do not vote your proxy (or you submit it with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account in proportion to the way the other 401(k) Plan participants vote their shares. Votes under the Level 3 Communications, Inc. 401(k) Plan receive the same confidentiality as all other votes.

How are abstentions treated?

Abstentions are counted for purposes of determining whether a quorum is present. For the purpose of determining whether the stockholders have approved a matter, abstentions are not treated as votes cast affirmatively or negatively, and therefore do not have any effect on the outcome of a matter to be voted on at the Annual Meeting that requires an affirmative vote of a majority of the votes cast by holders of our common stock present in person or by proxy at the Annual Meeting. Abstentions only have an effect on the outcome of any matter being voted on at the Annual Meeting that requires the approval based on our total shares of common stock outstanding.

None of the proposals to be considered at the Annual Meeting require an affirmative vote based on the total shares outstanding. For proposals where a majority of the total shares outstanding is required to approve a proposal, an abstention is equivalent to a vote against the proposal.

What is the voting requirement to approve each of the proposals?

The following table sets forth the voting requirement with respect to each of the proposals:

Proposal 1—Election of directors	The 11 nominees for director will be elected by a plurality of the votes cast by holders of our common stock present in person or by proxy and entitled to vote at the Annual Meeting.
Proposal 2—The approval of the named executive officer compensation, which vote is on an advisory basis	To be approved by our stockholders, this proposal requires the affirmative vote of a majority of the votes cast by holders of our common stock present in person or by proxy and entitled to vote at the Annual Meeting.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the meeting. You may vote again on a later date on the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the meeting will be counted), or by signing and returning a new proxy card with a later date, or by attending the meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the meeting or specifically request in writing that your prior proxy be revoked. Other than as described here, there are no limitations on your ability to revoke or change your vote. If you hold your shares in street name, you should consult your broker for information regarding how to revoke or change your vote.

Is cumulative voting permitted for the election of directors?

Our Restated Certificate of Incorporation and Amended and Restated By-laws, or By-laws, do not permit you to cumulate your votes.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Level 3 or to third parties, except:

- As necessary to meet applicable legal requirements;
- To allow for the tabulation and certification of votes; and
- To facilitate a successful proxy solicitation.

Occasionally, stockholders provide written comments on their proxy cards, which may be forwarded to management and our Board of Directors.

Who will tabulate the vote?

Broadridge Financial Solutions, Inc. will tally the vote, which will be certified by an Inspector of Election who is a Level 3 employee.

Where can I find the voting results of the Annual Meeting?

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be tallied by the Inspector of Election and will be reported by us through the filing of a Form 8-K, which we expect to file with the U.S. Securities and Exchange Commission, or SEC, on or before May 28, 2014.

Am I entitled to appraisal rights?

The Board has not proposed for consideration at the Annual Meeting any transaction for which the laws of the State of Delaware entitle stockholders to appraisal rights.

Who is paying for the cost of this proxy solicitation?

Level 3 is paying the costs of the solicitation of proxies. We must pay brokerage firms and other persons representing beneficial owners of shares held in street name certain fees associated with:

- Forwarding the Notice to beneficial owners;
- Forwarding printed proxy materials by mail to beneficial owners who specifically request them; and
- Obtaining beneficial owners' voting instructions.

In addition to soliciting proxies by mail, our board members, officers and employees may solicit proxies on our behalf, without additional compensation, personally or by telephone. We will also solicit proxies by email from stockholders who are our employees or who previously requested to receive proxy materials electronically.

What is householding of Proxy Materials?

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this proxy statement or our annual report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you write or call us at the following address or phone number: Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021, (720) 888-1000. If you want to receive separate copies of our annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

What is the deadline to propose actions for consideration at the 2015 Annual Meeting of Stockholders or to nominate individuals to serve as directors?

You may submit proposals, including director nominations, for consideration at future annual meetings of stockholders.

A stockholder who would like to have a proposal considered for inclusion in our 2015 Proxy Statement must submit the proposal so that it is received by us no later than December 12, 2014. SEC rules set standards for eligibility and specify the types of stockholder proposals that may be excluded from a proxy statement. Stockholder proposals should be addressed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

If a stockholder does not submit a proposal for inclusion in our 2015 Proxy Statement, but instead wishes to present it directly at the 2015 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before March 23, 2015, but no earlier than

February 20, 2015, for the proposal to be included in our proxy material relating to that meeting. Proposals received after March 23, 2015 will not be voted on at the 2015 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2015 Annual Meeting, the stockholder's name and record address, the number of shares of our common stock that are owned beneficially or of record by such stockholder, a description of any arrangements or understandings between the stockholder and any other person in connection with such proposal and any material interest of such stockholder in such proposal, and a representation that the stockholder intends to appear in person or by proxy at the 2015 Annual Meeting.

If the stockholder wishes to nominate one or more persons for election as a director, such stockholder's notice must also state the information described below under the caption "ELECTION OF DIRECTORS PROPOSAL—*Nominating Procedures*," and "ELECTION OF DIRECTORS PROPOSAL—*Additional Information for Submission of Nominations for Director*."

All proposals must be directed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

How can I communicate with the independent directors on Level 3's Board?

If you wish to communicate directly with the Board, a committee of the Board or with an individual director, regarding matters related to Level 3, you should send the communication to:

Level 3 Communications, Inc.
Board of Directors [or committee name or
director's name, as appropriate]
1025 Eldorado Boulevard
Broomfield, Colorado 80021

We will forward all stockholder correspondence about Level 3 to the Board, committee or individual director, as appropriate. Please note that we will not forward communications that are spam, junk mail and mass mailings, service complaints, service inquiries, new service suggestions, resumes and other forms of job inquiries, surveys, and business solicitations or advertisements.

ELECTION OF DIRECTORS PROPOSAL

At the Annual Meeting, the 11 directors that are standing for election will be elected to hold office for a one-year term until the 2015 Annual Meeting, or until their successors have been elected and qualified. If any nominee shall, prior to the Annual Meeting, become unavailable for election as a director, the persons named in the accompanying form of proxy will, in their discretion, vote for that nominee, if any, as may be recommended by the Board, or the Board may reduce the number of directors to eliminate the vacancy.

Nomination Procedures

In exploring potential candidates for director, the Nominating and Governance Committee of the Board considers individuals recommended by members of the committee, other directors, members of management, stockholders or self-nominated individuals. The committee is advised of all nominations that are submitted to us and determines whether it will further consider those candidates using the criteria described below. The committee members apply the criteria described below, and also exercise their judgment to select those potential candidates that they believe are best suited to serve as members of our Board and, when considered as a group, provide a diversity of viewpoints, professional experiences, educational backgrounds, professional skills and other individual qualities and attributes that contribute to Board heterogeneity and effectiveness.

In order to be considered, each proposed candidate must:

- be ethical;
- have proven judgment and competence;
- have professional skills and experience in dealing with a large, complex organization or in dealing with complex issues that are complementary to the background and experience represented on the Board and that meet our needs;
- have demonstrated the ability to act independently and be willing to represent the interests of all stockholders and not just those of a particular philosophy or constituency; and
- be willing and able to devote sufficient time to fulfill his/her responsibilities to Level 3 and our stockholders.

After the Nominating and Governance Committee has completed its evaluation, it presents its recommendation to the full Board for the full Board's consideration and approval. In presenting its recommendation, the committee also reports on other candidates who were considered but not selected.

In connection with our acquisition of Global Crossing Limited ("Global Crossing"), on April 10, 2011, we entered into a Stockholder Rights Agreement with STT Crossing Ltd. ("STT Crossing"), which was the majority shareholder of Global Crossing. We refer to this agreement as the STT Stockholder Rights Agreement. Pursuant to the STT Stockholder Rights Agreement, STT Crossing has the right to nominate for election to the Board that number of individuals as required by the terms of that agreement. For 2014, STT Crossing is entitled to designate for nomination three individuals.

Pursuant to the STT Stockholder Rights Agreement, the Nominating and Governance Committee of the Board, subject to the fiduciary duties of the members of that committee and any applicable regulation or listing requirement of the New York Stock Exchange, is obligated to nominate the individuals designated by STT Crossing for election to the Board. In addition, the Board is required to recommend that the stockholders vote in favor of the nominees designated by STT Crossing and we are required to use all reasonable efforts to cause the individuals to be

elected as members of the Board. In making its recommendations to the full Board regarding the nominees for election to our Board at the Annual Meeting, the Nominating and Governance Committee of the Board considered the reasons stated by STT Crossing for why its designees were selected. These reasons are included in the biographies for each of the STT Crossing designees below.

We will report any material change to any of these procedures in a quarterly or annual filing with the SEC and any new procedure will be available on our website at www.level3.com.

The members of the Nominating and Governance Committee believe that each of the nominees meet the criteria described above. In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he should serve as a director, we also believe that all of our nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to Level 3 and our Board.

Information as to Nominees

The respective ages, positions with Level 3, if any, business experience, directorships in other companies and Board committee memberships of the nominees for election are set forth below. All information is presented as of April 4, 2014. Other than Jeff K. Storey, none of these directors is our employee.

Name	Age	Position
Jeff K. Storey	53	President and Chief Executive Officer and Director(4)
General Kevin P. Chilton	59	Director(1)(4)
Admiral Archie R. Clemins	70	Director(1)(5)
Steven T. Clontz	63	Director(3)(5)
Admiral James O. Ellis, Jr.	66	Director(3)(4)
T. Michael Glenn	58	Director(1)
Richard R. Jaros	62	Director(2)(5)
Michael J. Mahoney	63	Director(2)
Peter Seah Lim Huat	67	Director(2)
Peter van Oppen	61	Director(1)(2)
Dr. Albert C. Yates	72	Director(3)

- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Nominating and Governance Committee
- (4) Member of Classified Business and Security Committee
- (5) Member of Strategic Planning Committee

Walter Scott, Jr., Charles C. Miller, III and John T. Reed, each of whom are currently a member of the Board, are not standing for reelection at the Annual Meeting. These individuals will remain members of the Board, however, through the completion of the Annual Meeting.

The members of the Nominating and Governance Committee as well as the full Board believe that the nominees have the following particular experience, qualifications, attributes or skills to serve as a member of our Board.

Jeff K. Storey has been the President and Chief Executive Officer of the Company since April 11, 2013. Prior to that, Mr. Storey was President and Chief Operating Officer of Level 3 from December 2008 until April 11, 2013. From December 2005 until May 2008, Mr. Storey was

President—Leucadia Telecommunications Group of Leucadia National Corporation, where he directed and managed Leucadia's investments in telecommunications companies. Prior to that, beginning in October 2002, Mr. Storey was President and Chief Executive Officer of WilTel Communications Group, LLC until its sale to the Company in December 2005. Prior to this position, Mr. Storey was Senior Vice President—Chief Operations Officer, Network for Williams Communications, Inc., where he had responsibility for all areas of operations for the company's communications network, including planning, engineering, field operations, service delivery and network management. The Board selected Mr. Storey to serve as a director because he is our Chief Executive Officer, and the Board believes that it is critical that our Chief Executive Officer serve as a member of our Board for a variety of reasons, including Mr. Storey's key role in formulating and leading the implementation of our business strategy. Mr. Storey has 30 years of experience in leading companies in various portions of the telecommunications industry. Mr. Storey is a member of the Classified Business and Security Committee.

General Kevin P. Chilton, U.S. Air Force (ret.), has been our director since April 2012. In February 2011, General Chilton retired from the U.S. Air Force after 34 years of service. General Chilton served as Commander, U.S. Strategic Command, from 2007 through 2011, overseeing operations for the U.S. Department of Defense nuclear, space and cyberspace operations. From 2006 to 2007, General Chilton served as Commander of Air Force Space Command, where he was responsible for all Air Force space and nuclear ICBM programs. He previously served in a variety of command positions and as a pilot and test pilot. General Chilton also served as a NASA astronaut from 1987 to 1996, including on three space shuttle flights, and as the Deputy Program Manager for the International Space Station from 1996 to 1998. General Chilton is a director of Anadarko Petroleum Corporation and Orbital Sciences Corporation. General Chilton is also a member of the board of the Aerospace Corporation, a federally funded research and development center that is sponsored by the United States Air Force, and provides objective technical analyses and assessments for space programs that serve the U.S. national interest. The Board selected General Chilton to serve as a director because it will benefit from his extensive command and leadership experience in the Air Force, which provides him with a valuable blend of political, legislative, international and regulatory knowledge and experience as we continue to implement our business strategy and review opportunities to grow our business with various federal, state and local governmental departments and agencies. General Chilton also gained managerial, financial and executive experience with his involvement in preparing the Air Force five-year budget/program for several years. General Chilton is a member of the Board's Audit Committee and Classified Business and Security Committee.

Admiral Archie R. Clemins, U.S. Navy (ret.), has been our director since October 2011. Admiral Clemins has been designated as a nominee by STT Crossing pursuant to the STT Stockholder Rights Agreement. Since January 2000, Admiral Clemins has been the owner and President of Caribou Technologies, Inc., an international consulting firm, and concentrates on the transition and integration of commercial technology to the government sectors, both in the United States and Asia. From 2008 to April 2011, he served as a director of Cyalume Technology Holdings, Inc. He also served as a director of Global Crossing from December 2003 until its sale to us in October 2011. In addition to serving on the boards of other technology, nonprofit and venture capital concerns, Admiral Clemins is a Venture/Limited Partner with Highway 12 Ventures. As an officer of the United States Navy from 1966 through December 1999, Admiral Clemins' active duty service included command of the attack submarine USS Pogy (SSN-647), Commander, U.S. Seventh Fleet, and Admiral and the 28th Commander of the U.S. Pacific Fleet. STT Crossing believes that Admiral Clemins' U.S. Navy leadership positions give him a unique perspective on organizational management and allow him to bring to Level 3's board insights on economic, government and foreign policy issues. STT Crossing also believes that his experience with technology companies gives him great familiarity with many of the types of issues that Level 3 faces in its business as a

telecommunications company. Admiral Clemins is a member of the Board's Audit Committee and the Strategic Planning Committee.

Steven T. Clontz has been our director since April 2012. Mr. Clontz has been designated as a nominee by STT Crossing pursuant to the STT Stockholder Rights Agreement. Mr. Clontz served as a member of the executive committee of Global Crossing from December 2003 until its sale to us in October 2011. Mr. Clontz has been Senior Executive Vice President for North America and Europe of Singapore Technologies Telemedia Pte. Ltd. since January 2010. Effective March 2013, Mr. Clontz is also a Corporate Adviser to Temasek International Advisors Pte. Ltd. He was chief executive officer of StarHub Ltd from 1999 to 2009, and has served as a director of StarHub Ltd since 1999. From December 1995 through December 1998, Mr. Clontz served as chief executive officer, president and a director of IPC Information Systems, based in New York City. Prior to that, Mr. Clontz worked at BellSouth International, joining in 1987 and holding senior executive positions of increasing responsibility, serving the last three years as president Asia-Pacific. Mr. Clontz has served as a director of InterDigital, Inc. since 1998 and served as a director of Equinix from 2005 until 2013. Mr. Clontz began his career as an engineer with Southern Bell in 1973. STT Crossing believes that Mr. Clontz brings to Level 3's board extensive telecommunications business and operating experience, and that his leadership roles at non-U.S. companies bring an international perspective that adds diversity to the deliberations of Level 3's Board. Mr. Clontz is chairman of the Board's Strategic Planning Committee and a member of the Board's Nominating and Governance Committee.

Admiral James O. Ellis, Jr., U.S. Navy (ret.), has been our director since March 2005. Since May 2012, Admiral Ellis has been a private investor and since November 2013, he has served as an Annenberg Distinguished Visiting Fellow of the Hoover Institution at Stanford University. From May 2005 until May 2012, Admiral Ellis was the President and Chief Executive Officer of the Institute of Nuclear Power Operations or INPO, a nonprofit corporation established by the nuclear utility industry in 1979 to promote the highest levels of safety and reliability in the operation of nuclear electric generating plants. Prior to that, Admiral Ellis served as Commander, U.S. Strategic Command in Omaha, Nebraska, reporting directly to the Secretary of Defense, from July 2004 until retiring in May 2005, after 35 years of service in the U.S. Navy. In his Naval career, he held seven commands. A graduate of the U.S. Naval Academy, he also holds M.S. degrees in Aerospace Engineering from the Georgia Institute of Technology and in Aeronautical Systems from the University of West Florida. He served as a Naval aviator, is a graduate of the U.S. Naval Test Pilot School and was qualified in the operation and maintenance of naval nuclear power plants. Admiral Ellis is also a member of the Board of Directors of Dominion Resources, Inc., a major utility company engaged in the generation and distribution of electricity and natural gas and Lockheed Martin Corporation, a global security company. Admiral Ellis served on the Board of Directors of Inmarsat PLC until March 2014. Admiral Ellis has been elected to The National Academy of Engineering, which honors those who have made outstanding contributions to engineering research, practice, or education. Admiral Ellis has over 40 years of experience in managing and leading large and complex technology-focused organizations, in large part as a result of serving for 35 years as an active duty member of the U.S. Navy. The Board selected Admiral Ellis to serve as a director because it believes that it benefits from his insights gained from his years of management and government experience as we continue to implement our business strategy and review various opportunities to grow our business with various federal, state and local governmental departments and agencies. Admiral Ellis is the chairman of the Board's Classified Business and Security Committee and a member of the Nominating and Governance Committee.

T. Michael Glenn has been our director since October 2012. Since 1998, Mr. Glenn has been the Executive Vice President—Market Development and Corporate Communications of FedEx Corporation, a global provider of supply chain, transportation, business and related information

services. Mr. Glenn is a member of the five-person executive committee, responsible for planning and executing FedEx's strategic business activities. Since 2000, Mr. Glenn also serves as President and Chief Executive Officer of FedEx Corporate Services, responsible for all marketing, sales, customer service and retail operations functions for all FedEx companies. From 1994 to 1998, Mr. Glenn was Senior Vice President—Marketing and Corporate Communications of FedEx Express. Mr. Glenn is also a director of Pentair Inc., and was formerly a director of Deluxe Corporation and Renasant Corporation. Mr. Glenn has over 30 years of business leadership experience in an organization that is known for highly developed processes and worldwide operations. The Board selected Mr. Glenn to serve as a director because it believes that he brings extensive executive leadership, strategic, marketing, process development and communications experience on a worldwide basis to our Board from his service as one of the top leaders at FedEx Corporation. Mr. Glenn currently serves as a member of the Board's Audit Committee.

Richard R. Jaros has been our director since June 1993 and served as our President from 1996 to 1997. Mr. Jaros has been a private investor for more than the past five years. Mr. Jaros served as our Executive Vice President from 1993 to 1996 and our Chief Financial Officer from 1995 to 1996. He also served as President and Chief Operating Officer of CalEnergy from 1992 to 1993. Mr. Jaros was previously a director of Commonwealth Telephone Enterprises, Inc. ("Commonwealth"), MidAmerican Energy Holdings Company and RCN Corporation ("RCN"). Mr. Jaros has over 30 years of business, finance and general management experience gained from serving in various capacities with telecommunications, diversified and alternative energy companies. As part of that experience, Mr. Jaros has over 20 years of experience in serving as a member of the board of directors for various companies in the telecommunications industry. The Board selected Mr. Jaros to serve as a director because of his general business and finance experience, and that as a result of that experience, the Board believes he is familiar with many of the same issues that we face. Mr. Jaros has been involved in succession planning, compensation, employee management and the evaluation of acquisition opportunities. Mr. Jaros currently is a member of the Board's Compensation Committee and the Strategic Planning Committee.

Michael J. Mahoney has been our director since August 2007. Mr. Mahoney has been a private investor since March 2007. From 2000 until March 2007, Mr. Mahoney was the President and Chief Executive Officer of Commonwealth. Prior to that, from 1997 until 2000, Mr. Mahoney was President and Chief Operating Officer of RCN. Mr. Mahoney also served as President and Chief Operating Officer of C-TEC Corporation from 1993 until 1997. Mr. Mahoney is a member of the Board of Directors of FairPoint Communications, Inc. and the Board of Trustees of Wilkes University. Mr. Mahoney has over 30 years of experience in leading and directing companies in the telecommunications industry, having most recently served as the Chief Executive Officer of Commonwealth. The Board selected Mr. Mahoney to serve as a director because it believes he has extensive experience related to the delivery of communications services to a wide variety of customers, and because he has run a communications company with many of the same issues that we face. As a former chief executive officer, Mr. Mahoney has been involved in strategic planning, operations, succession planning, compensation, employee management and the evaluation of acquisition opportunities. Mr. Mahoney is the chairman of the Board's Compensation Committee.

Peter Seah Lim Huat has been a member of the Board since October 2011. Mr. Seah has been designated as a nominee by STT Crossing pursuant to the STT Stockholder Rights Agreement. Since January 2005, Mr. Seah has been a member of the Temasek Advisory Panel of Temasek Holdings (Private) Limited and since November 2004 he has been a Deputy Chairman of the board of directors of STT Communications Ltd. He also served as vice chairman of the Board of Directors of Global Crossing from December 2003 until its sale to us in October 2011. From December 2001 until December 2004 he was President and Chief Executive Officer of Singapore Technologies Pte Ltd (which we refer to as Singapore Technologies) and also a member of its board of directors.

Before joining Singapore Technologies in December 2001, he was a banker for the prior 33 years, retiring as Vice Chairman & Chief Executive Officer of Overseas Union Bank in September 2001. He has served on the boards of CapitaLand Limited since 2001, StarHub Ltd and STATS ChipPAC Ltd. since 2002 and LaSalle Foundation Limited since 2007. In addition, Mr. Seah has served on the boards of the DBS Bank Ltd and DBS Group Holdings Ltd since 2009. He also served on the boards of SembCorp Industries Ltd from 1998 to 2010, PT Indosat Tbk from 2002 to 2008, STT from 2004 to 2010, Bank of China Limited from 2006 to 2010 and Singapore Technologies Engineering Ltd from 2002 until 2013. STT Crossing believes that Mr. Seah's service as the chief executive of Overseas Union Bank and Singapore Technologies provides him with valuable business, leadership and management experience. STT Crossing also believes that his many years of experience in banking will give him important insights into Level 3's capital structure and the capital markets. STT Crossing further believes that Mr. Seah's experience on the board of directors of many non-U.S. companies will enable him to bring a global perspective to Level 3's board, including best practices gained from other countries. Mr. Seah is a member of the Board's Compensation Committee.

Peter van Oppen has been our director since March 1, 2013. Mr. van Oppen has been a partner at Trilogy Partnership, a private investment firm focused on technology and telecommunications, since 2006. Prior to joining Trilogy, Mr. van Oppen served as Chief Executive Officer and Chairman of the Board for Advanced Digital Information Corporation ("ADIC"), a data storage company, for twelve years, from 1994 through its acquisition by Quantum Corp. in 2006. Prior to ADIC, Mr. van Oppen served as President and Chief Executive Officer of Interpoint, a predecessor company to ADIC, from 1989 until its acquisition by Crane Co. in October 1996, and had also been a consultant at PricewaterhouseCoopers and Bain & Company. Mr. van Oppen currently serves as the Chairman of the Board of Trustees and is the former Chair of the Investment Committee at Whitman College and serves on the boards of directors of several private companies. Mr. van Oppen was formerly a director of Isilon Systems, Inc. The Board selected Mr. van Oppen to serve as a director because of his experience as a chairman and chief executive officer of a global data storage company for over a decade, his extensive management and consulting experience, as well as his experience as a director of other public and private companies. In addition, Mr. van Oppen has served as and supervised public company chief financial officers and is a member, on inactive status, of the American Institute of Certified Public Accountants. Mr. van Oppen is a member of the Board's Audit Committee and Compensation Committee.

Dr. Albert C. Yates has been our director since March 2005. Dr. Yates retired after 13 years as president of Colorado State University in Fort Collins, Colorado in June 2003. He was also Chancellor of the Colorado State University System until October 2003, and is a former member of the board of the Federal Reserve Board of Kansas City-Denver Branch, the board of directors of First Interstate Bank, Molson Coors Brewing Company and StarTek, Inc. He currently serves as a director of Guaranty Bancorp, a bank holding company that operates 34 branches in Colorado through a single bank, Guaranty Bank and Trust Company. Dr. Yates has over 40 years of experience in academia and management generally. The Board selected Dr. Yates to serve as a director because it believes that it benefits from his insights gained from his years of management experience and his prior senior positions in academia as we continue to implement our business strategy as well as his extensive board and committee experience at both public and private companies. Dr. Yates is chairman of the Board's Nominating and Governance Committee.

Our Corporate Governance Guidelines provide that a director should not be nominated to a new term if he would be over age 73 at the time of the election; however, this limitation may be waived by the Board if the Board feels to do so would be in our interests.

The Board recommends a vote FOR the nominees named above.

Board Structure and Risk Oversight

The Board believes that independent oversight of management is an important component of an effective board of directors. The independent Board members have determined that the most effective Board leadership structure for Level 3 at the present time is for the chief executive officer (“CEO”) position to be separate from the Chairman of the Board position, a structure that has served us well for many years. The independent Board members believe that because the CEO is ultimately responsible for the day-to-day operation of Level 3 and for executing our strategy, and because our performance is an integral part of Board deliberations, the CEO should be an important part of the Board, but that under current circumstances, a different individual should act as Chairman of the Board. The Board retains the authority to modify this structure to best address our unique circumstances, and so advance the best interests of all stockholders, as and when appropriate.

The Board also believes, for the reasons set forth below, that its existing corporate governance practices also achieve independent oversight or management accountability. Our governance practices provide for strong independent leadership, independent discussion among directors and for independent evaluation of, and communication with, many members of senior management. These governance practices are reflected in our Corporate Governance Guidelines and the various Board committee charters, which are available on our website. Some of the relevant processes and other corporate governance practices include the following:

- The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the interests of Level 3 and our stockholders. The Board selects the senior management team, which is responsible for the day-to-day conduct of our business.
- Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.
- The Chairman of the Board and our CEO establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting.
- The Board reviews our long-term strategic plans during at least one Board meeting each year.
- The non-management directors periodically meet in executive session as a part of regularly scheduled Board meetings. The Chairman presides at these meetings, as he is not part of management.
- Directors have full, free and appropriate access to our officers and employees. The Board welcomes regular attendance at each Board meeting of our senior officers.
- We conduct an orientation program for new directors as soon as practical following the meeting at which the new director is elected. This orientation includes presentations by senior management to familiarize new directors with our strategic plans, financial reporting, principal officers, auditing processes, and such other topics as the Board and/or the CEO feel are appropriate. All other directors are also invited to attend the orientation program.
- The Compensation Committee of the Board is responsible to review and approve CEO’s goals and objectives, evaluate the CEO’s performance in light of these corporate objectives, and formulate and present to the independent members of the Board a recommendation for CEO compensation levels consistent with Company philosophy. The Board approves the CEO’s compensation.

- The Board conducts an annual self-evaluation to determine whether it and its committees are functioning effectively. The Chairman of the Board's Nominating and Governance Committee receives comments from all directors and reports to the Board with an assessment of the Board's performance.

The Board oversees our stockholders' interest in our long-term and overall success and our financial performance. The full Board is actively involved in overseeing risk management for us. It does so in part through its oversight of our top executives who supervise day-to-day risk management throughout Level 3. In addition, our executives regularly discuss recurring themes or material risks with the members of the Board, including recurring themes and materials risks raised by the Board members.

In addition, each of our Board committees considers the risks within its areas of responsibilities. For example, the Audit Committee considers financial risk on a quarterly basis, recommends guidelines to various financial related exposures and discusses with management policies with respect to risk assessment and risk management. The Audit Committee also reviews risks related to financial reporting. The Audit Committee discusses any material violations of our policies brought to its attention. Additionally, the outcome of our internal audit risk assessment is presented to the Audit Committee annually; this assessment identifies internal controls risks and drives the internal audit plan for the coming year. Material violations of our Worldwide Business Code of Conduct and related corporate policies are reported to the Audit Committee and/or the Nominating and Governance Committee, depending on the subject matter and, as required, are reported to the full Board. The Compensation Committee reviews our overall compensation program and its effectiveness at both linking executive pay to performance and aligning the interests of our executives and our stockholders. The Nominating and Governance Committee reviews our governance practices on an annual basis.

Corporate Governance

We have Corporate Governance Guidelines that address the governance activities of the Board and include criteria for determining the independence of the members of our Board. These guidelines are in addition to the requirements of the Securities and Exchange Commission and The New York Stock Exchange. The Guidelines also include requirements for the standing committees of the Board, responsibilities for Board members and the annual evaluation of the Board's and its committees' effectiveness. The Corporate Governance Guidelines are available on our website at www.level3.com. At any time that these guidelines are not available on our website, we will provide a copy upon written request made to Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

Although we include references to our website, any information that is included in our website is not part of this Proxy Statement.

Independence

The Board also evaluates the independence of each director in accordance with applicable laws and regulations and its Corporate Governance Guidelines. Based on the recommendation of our Nominating and Governance Committee, the Board has determined that the following nominees are "independent" as required by applicable laws and regulations, by the listing standards of The New York Stock Exchange and by the Board's Corporate Governance Guidelines: General Kevin P. Chilton, Admiral Archie R. Clemens, Steven T. Clontz, Admiral James O. Ellis, Jr., T. Michael Glenn, Richard R. Jaros, Michael J. Mahoney, Peter Seah Lim Huat, Peter van Oppen and Dr. Albert C. Yates. The Board has also concluded that all of the members of each of the Audit, Compensation

and Nominating and Governance committees are “independent” in accordance with these same standards.

Code of Ethics

We have a Worldwide Business Code of Conduct, specific portions of which serve as our “code of ethics” under the standards mandated by the Sarbanes-Oxley Act of 2002, as amended. The complete Worldwide Business Code of Conduct is available on our website at www.level3.com. At any time that the Worldwide Business Code of Conduct is not available on our website, we will provide a copy upon written request made to Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021. If we amend the provisions of the Worldwide Business Code of Conduct that serve as our “code of ethics,” or if we grant any waiver from those provisions that applies to our executive officers or directors, we will publicly disclose such amendment or waiver as required by applicable law, including by posting such amendment or waiver on our website at www.level3.com or by filing a Current Report on Form 8-K.

Stockholder Communications with Directors

A stockholder who wishes to communicate directly with the Board, a committee of the Board or with an individual director, regarding matters related to Level 3 should send the communication to:

Level 3 Communications, Inc.
Board of Directors [or committee name or
director’s name, as appropriate]
1025 Eldorado Boulevard
Broomfield, Colorado 80021

We will forward all stockholder correspondence about Level 3 to the Board, committee or individual director, as appropriate. Please note that we will not forward communications that are spam, junk mail and mass mailings, service complaints, service inquiries, new service suggestions, resumes and other forms of job inquiries, surveys, and business solicitations or advertisements.

Board of Directors’ Meetings

Mr. Jeff K. Storey joined our Board in May 2013 and Mr. Peter van Oppen joined our Board in March 2013. The Board had a total of five meetings in 2013, with no director attending less than 75% of the meetings that were held during the time that he was a Board member. All of our directors attended more than 75% of the meetings of the Board’s committees of which he was a member. In addition, the non-management directors met without any management directors or employees present five times during 2013. These meetings are chaired by the Chairman of the Board.

Although we do not have a formal policy, it is expected that our Board members will attend our annual meetings. All of our Board members at the time of our 2013 Annual Meeting of Stockholders attended that meeting, with the exception of Mr. James Q. Crowe who did not stand for reelection.

Section 16(a) Beneficial Ownership Reporting Compliance

To our knowledge, except as described below, no person that was a director, executive officer or beneficial owner of more than 10% of the outstanding shares of our common stock failed to timely file all reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended.

With respect to the sale pursuant to a Rule 10b5-1 plan of 1,486 shares of our common stock in April 5, 2013, as a result of a clerical error, Admiral Archie R. Clemens failed to timely file a Form 4 reporting the sale of 486 of shares of our common stock.

Audit Committee

The Audit Committee is responsible for appointing, setting compensation for, and overseeing the work of our independent registered public accounting firm. The Audit Committee reviews the services provided by our independent registered public accounting firm, consults with the independent registered public accounting firm and reviews the need for internal auditing procedures and the adequacy of internal controls. For 2013, the members of the Audit Committee were John T. Reed (Chairman) (until the completion of the Annual Meeting), General Kevin P. Chilton, Admiral Archie R. Clemins, T. Michael Glenn and Peter van Oppen. The Board has determined that the members of the Audit Committee are independent within the meaning of the listing standards of The New York Stock Exchange. The Board has determined that Mr. John T. Reed, Chairman of the Audit Committee, qualifies as a “financial expert” as defined by the SEC. The Board has also determined that Mr. Peter van Oppen, qualifies as a “financial expert” as defined by the SEC. In making these determination, the Board considered Messrs. Reed’s and van Oppen’s credentials and financial background. The Audit Committee met six times during 2013. Mr. van Oppen joined the Audit Committee effective February 18, 2014.

The Audit Committee has chosen KPMG LLP or its international affiliates, which we refer to together as KPMG, as our independent registered public accounting firm for 2014. As part of its responsibilities, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to assure the public accountant’s independence. The Audit Committee has adopted a pre-approval process with respect to the provision of audit and non-audit services to be performed by KPMG. This pre-approval process requires the Audit Committee to review and approve all audit services and permitted non-audit services to be performed by KPMG. The Audit Committee establishes pre-approval fee levels for all services to be provided by KPMG annually. Audit services are subject to specific pre-approval while audit-related services, tax services and all other services may be granted pre-approvals within specified categories. Any proposed services exceeding these levels require specific pre-approval by the Audit Committee. Additionally, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. A report, for informational purposes only, of any pre-approval decisions made by a single member of the Audit Committee is made to the full Audit Committee on at least a quarterly basis. One hundred percent of the services that required pre-approval by the Audit Committee received that approval.

The Audit Committee also has the responsibility, among other things, of assisting the Board in meeting its oversight obligations with respect to: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) our independent auditor’s qualifications and independence; (4) the performance of our independent auditors; and (5) the performance of our internal audit function. In so doing, the Audit Committee maintains free and open communications between the directors, the independent auditors, our internal audit department and our financial management team. It is the Audit Committee’s expectation that the financial management team will fulfill its responsibility of bringing any significant items to the attention of the Audit Committee.

One or more representatives of KPMG will be present at the Annual Meeting. Although they will not make a statement at the meeting, they will be available to answer appropriate questions.

The Audit Committee operates pursuant to a written charter. A copy of the Audit Committee’s charter is available on our website at www.level3.com. A copy of the Audit Committee’s 2013 Report is included as Annex 1.

Classified Business and Security Committee

The Classified Business and Security Committee assists the Board in fulfilling its oversight responsibilities relating to our classified business activities and the security of personnel, data, and facilities. The Classified Business and Security Committee also establishes processes and procedures to ensure the security of our U.S. network assets, which include transmission and routing equipment, switches and associated operational support systems and personnel. The Classified Business and Security Committee is comprised solely of members of our Board who are U.S. citizens who, if not already in possession of U.S. security clearances, must apply for U.S. security clearances pursuant to Executive Order 12968 immediately upon their appointment to the committee. The current members of the Classified Business and Security Committee are Admiral James O. Ellis, Jr. (Chairman), General Kevin P. Chilton, Charles C. Miller, III (until June 2013), and John T. Reed (until the completion of the Annual Meeting) and Jeff K. Storey. The Classified Business and Security Committee met four times during 2013.

Compensation Committee

The Compensation Committee is responsible for overseeing our compensation strategy and policies to allow us to attract key employees and to determine that employees are rewarded appropriately for their contributions, that employees are motivated to achieve our objectives, that key employees are retained, and that such strategy and policies support our objectives, including the interests of our stockholders. The Compensation Committee also approves the salaries, bonuses and other compensation for all executive officers, and reviews and recommends to the full Board the compensation and benefits for non-employee directors. The members of the Compensation Committee are Michael J. Mahoney (Chairman), Richard R. Jaros, Peter Seah Lim Huat and Peter van Oppen. The Board has determined that the members of the Compensation Committee are independent within the meaning of the listing standards of The New York Stock Exchange. The Compensation Committee met eight times in 2013.

The Compensation Discussion and Analysis below provides additional information on the Compensation Committee's processes and procedures for consideration of executive compensation as well as the role of the committee's independent compensation consultant, Towers Watson & Co. In addition, the Compensation Committee's report follows at the end of the Compensation Discussion and Analysis. The Compensation Committee operates pursuant to a written charter. A copy of the Compensation Committee's charter is available on our website at www.level3.com.

Compensation Committee Interlocks and Insider Participations

None of the members of the Compensation Committee is currently our officer or employee. Until 1997, Mr. Jaros was an officer of the company.

Nominating and Governance Committee

The Nominating and Governance Committee provides oversight and guidance to the Board to ensure that the membership, structure, policies, and practices of the Board and its committees facilitate the effective exercise of the Board's role in the governance of the company. The Committee (i) reviews and evaluates the policies and practices with respect to the size, composition, independence and functioning of the Board and its committees, (ii) reflects those policies and practices in our Corporate Governance Guidelines and other governance documents, and (iii) evaluates the qualifications of, and recommends to the full Board, candidates for election as directors. The members of the Nominating and Governance Committee are Dr. Albert C. Yates (Chairman), Steven T. Clontz and Admiral James O. Ellis, Jr. The Board has determined that the members of the Nominating and Governance Committee are independent within the meaning of the

listing standards of The New York Stock Exchange. The Nominating and Governance Committee met five times in 2013.

The Nominating and Governance Committee operates pursuant to a written charter. A copy of the Nominating and Governance Committee's charter is available on our website at www.level3.com.

Strategic Planning Committee

In connection with the execution of the STT Stockholder Rights Agreement, we agreed to form a new committee of the Board to be called the Strategic Planning Committee. The Strategic Planning Committee was created to provide advice and assistance to the Board regarding the Board's role in monitoring and implementing our strategic plan, which includes (i) the results of our process of defining our broad strategy to achieve our business objectives and maximize the value of the company for our stockholders and other stakeholders and (ii) the related plans to implement that strategy.

The Strategic Planning Committee provides advice and assistance to the Board with regard to the following matters: the Board's review of our strategic plan, including but not limited to a long term perspective of risks and opportunities; material components of our long-term strategy, such as target customers and market verticals, technology and network strategy and geographic expansion as well as the investments that may be needed to achieve that long-term strategy; evaluating material acquisitions, dispositions, investments and other potential growth and expansion opportunities; strategic issues or opportunities material to us that are outside the scope of our traditional business operations; and our balance sheet strategy and financing strategy, as well as any particular equity or equity-linked financing transaction that would as of the date of issuance (or on an as converted or exchanged basis as of the date of issuance), increase the number of our shares of common stock outstanding by more than 10 percent.

The members of the Strategic Planning Committee are Steven T. Clontz (Chairman), Admiral Archie R. Clemins, Richard R. Jaros and Charles C. Miller, III (until the completion of the Annual Meeting). In addition, the Strategic Planning Committee charter provides that all members of the Board are entitled to notice of, and to attend and participate at, all meetings of the committee. In addition, all members of the Board are able to receive the meeting materials prepared for any meeting of the committee at the Board's member's request, and the meetings of the committee are scheduled so as not to conflict with the meeting of any other Board committee. The Strategic Planning Committee met one time during 2013 in a separate meeting and one time in connection with a full Board meeting.

Additional Information for Submission of Nominations for Director

Our By-laws require that a stockholder who wishes to nominate an individual for election as a director at our Annual Meeting of Stockholders must give us advance written notice not less than 60 days prior to the anniversary date of the prior year's Annual Meeting of Stockholders and not more than 90 days prior to the anniversary date of the prior year's Annual Meeting of Stockholders, and must be a stockholder of record on the date of the giving of the required notice and on the record date for the determination of stockholders entitled to vote at that meeting.

The stockholder's notice must provide as to each person whom the stockholder proposes to nominate for election as a director:

- the name, age, business address and residence address of the person;
- the principal occupation or employment of the person;
- the class or series and number of shares of our capital stock that are owned beneficially or of record by the person; and

- any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

In addition, as to the stockholder giving the notice, the stockholder must indicate:

- the name and record address of such stockholder;
- the class or series and number of shares of our capital stock that are owned beneficially or of record by such stockholder;
- a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names and addresses) pursuant to which the nominations(s) are to be made by such stockholder;
- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and
- any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

This notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected. All notices must be delivered or mailed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

Information About Our Executive Officers

Set forth below is information as of April 4, 2014, about our executive officers other than Mr. Storey. Our executive officers have been determined in accordance with the rules of the SEC.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sunit S. Patel	52	Executive Vice President and Chief Financial Officer
Thomas C. Stortz	63	Executive Vice President, Chief Administrative Officer and Secretary
John M. Ryan	51	Executive Vice President, Chief Legal Officer and Assistant Secretary
Eric J. Mortensen	55	Senior Vice President and Controller
Héctor R. Alonso	56	Regional President Latin America
Andrew E. Crouch	43	Regional President North America
John F. Waters, Jr. . . .	49	Chief Technology Officer

Sunit S. Patel has been Chief Financial Officer and an Executive Vice President of Level 3 since March 2008. Mr. Patel is also currently serving as interim Regional President EMEA. Prior to March 2008, Mr. Patel was Chief Financial Officer from May 2003 and a Group Vice President of Level 3 from March 2003 to March 2008. Prior to that, Mr. Patel was Chief Financial Officer of Looking Glass Networks, Inc., a provider of metropolitan fiber optic networks, from April 2000 until March 2003. Mr. Patel was Treasurer of WorldCom Inc. and MCIWorldcom Inc., each long distance telephone services providers from 1997 to March 2000. From 1994 to 1997, Mr. Patel was Treasurer of MFS Communications Company, Inc.

Thomas C. Stortz has been Executive Vice President, Chief Administrative Officer and Secretary since June 2011. Prior to a brief retirement from the company from April 2011 to June 2011, Mr. Stortz was Executive Vice President, Chief Legal Officer and Secretary from February 2004 through March 2011. Prior to that, Mr. Stortz was Group Vice President, General Counsel and Secretary of the company from February 2000 to February 2004. Prior to that, Mr. Stortz served as

Senior Vice President, General Counsel and Secretary of the company from September 1998 to February 2000. Prior to that, he served as Vice President and General Counsel of Peter Kiewit Sons', Inc. and Kiewit Construction Group, Inc. from April 1991 to September 1998.

John M. Ryan has been Executive Vice President, Chief Legal Officer and Assistant Secretary of Level 3 since June 2011. Mr. Ryan is responsible for Level 3's legal and regulatory functions worldwide. Prior to his current position, Mr. Ryan was Executive Vice President, Chief Legal Officer and Secretary of the company from January 2011 until June 2011. Mr. Ryan was Senior Vice President and Assistant Chief Legal Officer of Level 3 Communications, LLC from March 2007 until January 2011, responsible for the customer and vendor contracting groups and the public policy group. Mr. Ryan was a Senior Vice President within the Legal Department from June 2004, and was a Vice President in the Legal Department from December 1999 through June 2004. Prior to December 1999, Mr. Ryan was a partner and associate at Fraser Stryker Law Firm in Omaha, where his practice focused on the communications industry.

Eric J. Mortensen has been Senior Vice President and Controller of Level 3 since 2003. Prior to that, Mr. Mortensen was Vice President and Controller of Level 3 from 1999 to 2003 and was the Controller of Level 3 from 1997 to 1999. Prior to that, Mr. Mortensen was Controller and Assistant Controller of Kiewit Diversified Group for more than five years.

Héctor R. Alonso has been Regional President Latin America since November 2011. Mr. Alonso joined the management team in connection with our completion of the acquisition of Global Crossing. In this position, Mr. Alonso has responsibility for our business in Latin America. Prior to the acquisition, Mr. Alonso served as managing director—Latin America from May 2007 until November 2011. Mr. Alonso joined Global Crossing after its acquisition of Impsat Fiber Networks, Inc. As managing director, Mr. Alonso oversaw Global Crossing's strategy and operations across Latin America. Prior to the acquisition by Global Crossing, Mr. Alonso served as Chief Financial Officer of Impsat, in which capacity he was responsible for finance, administration, planning, human resources and information management systems. Prior to becoming chief financial officer in June 2002, Mr. Alonso served as Impsat's Chief Operating Officer in Latin America and the U.S. and president of its Colombian operations. Prior to his tenure at Impsat, Mr. Alonso was managing director of Lime S.A., a waste management company in Colombia, and held other key positions in the Pescarmona group of companies.

Andrew E. Crouch has been Regional President North America since October 2012. Mr. Crouch has responsibility for the overall business results of the region including sales, marketing and operations. Prior to this position, Mr. Crouch was Regional President Sales for North America from October 2011 to October 2012 and President of Sales from August 2010 to October 2011. Prior to that, Mr. Crouch was President of the Wholesale Markets Group from February 2008 to August 2010. From August 2005 to February 2008, Mr. Crouch was promoted to positions of increasing responsibility within the Sales organization. From January 2004 to August 2005, Mr. Crouch led the Enterprise Voice product team and from November 2001 to January 2004, held senior positions within the Sales organization.

John F. Waters, Jr. has been our Chief Technology Officer since October 2011. Prior to that, Mr. Waters was our President Global Network Services and Chief Technology Officer from March 2007 until February 2008. Prior to that, Mr. Waters was Executive Vice President, Chief Technology Officer from January 2004 to February 2008. Prior to that, Mr. Waters was Group Vice President and Chief Technology Officer of the Company from February 2000 to January 2004. Mr. Waters joined Level 3 in November 1997 as Vice President, Engineering. Prior to that, Mr. Waters was an executive staff member of MCI Communications from 1994 to November 1997.

COMPENSATION DISCUSSION AND ANALYSIS

I. Executive Summary and Overview of Compensation Decisions

The Compensation Committee of our Board, or the Committee, is committed to a philosophy of pay for performance. We continually review our compensation programs to ensure that our compensation programs and practices are aligned with the interests of our stockholders, are designed to incent our employees to create long-term stockholder value through outstanding performance, and reward employees when that performance is achieved.

The following Compensation Discussion and Analysis describes:

- the elements of compensation for the Named Executive Officers identified in the Summary Compensation Table;
- the Committee's analysis of our performance during 2013;
- the 2013 compensation these officers received; and
- how our compensation practices further our compensation philosophy and objectives.

The Committee reviews our compensation programs on a regular basis, based in part on feedback we receive from our stockholders, and does make changes from time to time. Some of the changes made to these programs that are effective beginning in 2014 and which will be described in more detail in our 2014 Compensation Discussion and Analysis are briefly discussed below.

In this Compensation Discussion and Analysis, we refer to the individuals who remain employed with Level 3 and are named in the Summary Compensation Table—Jeff K. Storey, Sunit S. Patel, Thomas C. Stortz, Andrew E. Crouch and Héctor R. Alonso—as our “Current Named Executive Officers,” and we refer to the Current Named Executive Officers along with Messrs. James Q. Crowe and Charles C. Miller, III as our “Named Executive Officers.”

In April 2013, the Board appointed Mr. Storey as our President and Chief Executive Officer, replacing Mr. Crowe. Unlike Mr. Crowe and in response to feedback received from our larger stockholders, Mr. Storey was not offered an employment contract in connection with his appointment.

A. Our 2013 Performance

Our Committee has structured our executive compensation programs to tie compensation levels to our performance. The Committee has concluded that the total 2013 compensation provided to our Named Executive Officers appropriately rewarded our Named Executive Officers for delivering positive financial, operational and strategic results. In addition, the Committee believes that the Management Incentive and Retention Plan that was implemented in March 2012 and terminated at the end of 2013 achieved its desired outcome, and that the payments to our Named Executive Officers appropriately rewarded these individuals for delivering positive results against the objectives of that plan. These conclusions are based on the following factors and others described later in this discussion:

- our 2013 Core Network Services revenue increased 2.9% over 2012, measured on a constant currency basis, representing approximately 99.5% of our budget target;
- our 2013 Enterprise Core Network Services revenue increased 6.8% over 2012, measured on a constant currency basis;
- our 2013 Adjusted EBITDA increased 11% over 2012, representing approximately 102.9% of our budget target;

- our December 2013 Core Network Services Run Rate was \$12 million above (or 102.5% of) our budget target;
- our Sustainable Free Cash Flow for 2013 was \$23 million favorable to our budget target of negative \$68 million;
- we reduced our year end 2013 net debt to EBITDA ratio to 4.8x from 5.3x and our weighted average cost of debt decreased to 6.8%; and
- our year end stock price has improved year-over-year for each of the last three years—15.6%, 36.0% and 43.5% for 2011, 2012 and 2013, respectively.

Reconciliations to the closest GAAP measure and/or an explanation of how we calculate these measures are contained in Annex 2 to this proxy statement.

Our Committee makes all final decisions for the total direct compensation—that is, the base salary, bonus and stock-based long-term incentive or LTI awards—of our Named Executive Officers other than for Jeff K. Storey, our Chief Executive Officer. For Mr. Storey, the Committee reviews and approves his goals, evaluates his performance in light of these goals, and formulates and presents to the independent members of the full Board a recommendation for his compensation levels consistent with our compensation philosophy. Our compensation program seeks to achieve an efficient balance between competitive fixed salaries, short-term performance-based bonuses that provide the opportunity to earn above-market cash compensation for strong performance against important financial and business goals, and long-term compensation that is tied to the future performance of the company and our common stock. We believe that each of these elements plays a meaningful role in a broad-based compensation program and work together to incent sustainable performance creating long-term value for our stockholders while supporting our recruiting and retention needs.

B. 2013 Say-on-Pay Vote

Every year our stockholders have the opportunity to cast an advisory vote on executive compensation, which is commonly referred to as a “say-on-pay” vote. At our May 2013 Annual Meeting of Stockholders, approximately 54% of the votes cast on the say-on-pay proposal relating to 2012 compensation were voted in favor of the proposal. Some stockholders that voted “no” on the say-on-pay proposal also withheld their votes in favor of the reelection of some or all of the members of the Committee. At the 2013 Annual Meeting, the members of the Committee received a lower total number of votes in favor of their reelection than the other nominees, with approximately 20% of the votes withheld for their reelection.

After the 2013 Annual Meeting, the Committee chairman and members of senior management discussed the results of the vote with several of our larger stockholders. Based on this feedback, the Committee believes that the negative votes were heavily influenced by the terms of Mr. Crowe’s March 2012 employment agreement and the resulting compensation he received when his employment terminated in April 2013.

In addition, to increase our stockholder engagement on compensation related questions, we have implemented a practice that when members of senior management meet one-on-one with stockholders, the meeting agenda includes a discussion of the stockholder’s views of our executive compensation programs and the stockholder’s assessment of how closely the programs tie to performance.

The Committee has implemented several changes to our compensation programs in response to the results from both the 2012 and 2013 Annual Meetings, the feedback received from our larger

stockholders and the Committee's continued evaluation of how well our compensation programs are tied to our performance. These changes include:

- Mr. Storey did not receive an employment agreement when he was appointed as our President and Chief Executive Officer in April 2013;
- Mr. Storey's compensation will be approved by all of the independent members of the Board based on a recommendation from the Committee;
- Beginning in 2014, awards of LTI compensation will have a "double-trigger" that will need to be satisfied before payout upon a change of control;
- Beginning in 2014, outperform stock appreciation rights, or OSOs, will no longer be awarded;
- Beginning in 2014, we will award performance-based restricted stock unit awards, which will use a two-year performance measurement period, with the specific performance criteria to be determined by the Committee for each annual award cycle, and will vest 50% on the second anniversary of grant (after the relevant performance has been measured) and the second 50% vesting on February 1st of the following year as a retention component; and
- For compensation decisions beginning in 2014, the Committee removed certain members of our peer group—CA Technologies, eBay, Inc., QUALCOMM Incorporated, VMWare, Inc. and Yahoo! Inc.—in order to ensure that the peers continue to remain similar to the company in terms of lines of business, revenue and geography.

The Committee will continue to take stockholder feedback regarding compensation into consideration for future compensation decisions.

II. 2013 Executive Compensation Components

For the year ended December 31, 2013, the principal components of Named Executive Officer compensation, other than for Mr. Crowe, were:

- base salary;
- discretionary cash bonus;
- long-term equity incentive compensation; and
- the 2012 Management Incentive and Retention Plan, or MIRP, which was effective through 2013 and has now expired.

Mr. Crowe's 2013 compensation components required by his employment agreement included base salary and discretionary bonus. Mr. Crowe did not participate in the MIRP.

Our base salary and bonus decisions are designed to attract and retain talented executives, reward annual achievements and to be commensurate with the executive's scope of responsibilities, demonstrated leadership abilities, and management experience and effectiveness. The other elements of compensation—in particular our LTI program and the MIRP—focus on retaining, motivating and challenging the executive to achieve superior, longer-term, sustained results and increases in stockholder value.

For additional background information regarding the 2013 compensation components for our Named Executive Officers, please see "*VI. 2013 Executive Compensation Components—Background*" later in this Compensation Discussion and Analysis.

III. Metrics for Performance Based Compensation

A. 2013 Executive Bonus Program

Our Executive Bonus Program is designed to reward our executives for their performance against short-term financial and business goals. In February 2013, our Committee determined the 2013 financial and business goals for the Executive Bonus Program. Bonuses for 2013 did not have a preset minimum or maximum payout.

The 2013 Executive Bonus Program goals were:

- *Meet overall 2013 financial goals, with overweighting on achievement of cash flow target and budgeted revenue growth.* Performance against this goal is measured against 2013 Board approved budget targets, with substantial weight applied towards achievement of sustainable free cash flow targets and core network services revenue December exit run rate (that is, the amount of monthly recurring core network services revenue as of the end of 2013). We defined sustainable free cash flow for 2013 as Adjusted EBITDA, less capital expenditures, less net cash interest expense, plus/less changes in working capital. This goal was given a 70% initial weighting by the Committee.
- *Continue focus on improving the customer experience; maintain and improve 2012 scores.* Performance against this goal is based on an assessment of customer surveys and other internal company metrics that measure our customers' satisfaction with their experience in receiving services from Level 3. This goal was given a 15% initial weighting by the Committee.
- *Ensure the company attracts and retains the appropriate workforce.* Performance against this goal is measured by an assessment of voluntary turnover rates for our high performing employees and for our vice presidents and above along with employee satisfaction. This goal was given a 15% initial weighting by the Committee.

The Committee also takes into account additional factors such as mergers, acquisitions, divestitures and capital markets activities, prevailing market and economic conditions and the subjective assessment of individual performance. For additional information regarding our Executive Bonus Program see "IV. Determination of Total Compensation for 2013—Bonus" and "VI. 2013 Executive Compensation Components—Background—Bonus" below.

B. 2012 Management Incentive and Retention Plan—Incentive Award

In connection with the completion of our October 2011 acquisition of Global Crossing Ltd., the Committee established the 2012 Management Incentive and Retention Plan, or MIRP. The Committee established the MIRP to encourage key management personnel to remain employed with us through the critical transition and integration period after the acquisition and to incentivize and reward those key management personnel for the achievement of established performance criteria taking into account expectations for our performance following that acquisition. The term of the MIRP has expired. Since the Committee implemented the MIRP to address the critical period after the completion of the Global Crossing acquisition, the MIRP has not been replaced. Participants in the MIRP included a small number of senior members of management designated by the Committee, including each of Messrs. Storey, Patel, Stortz, Crouch, Alonso and Miller. Mr. Crowe did not participate in the MIRP.

The MIRP provided an opportunity to receive two types of awards: a retention award and an incentive award.

The value of both the cash component and the equity component of each Current Named Executive Officer's incentive award was based upon the amount by which our 2013 Adjusted EBITDA (normalized and annualized based on fourth quarter Adjusted EBITDA as discussed below) exceeded the benchmark level of \$1.328 billion. If 2013 Adjusted EBITDA exceeded the benchmark by less than 19%, no cash or equity incentive award would be made.

In February 2014, the Committee determined that the 2013 Adjusted EBITDA represented a 37% increase from the benchmark Adjusted EBITDA established in the MIRP. The Committee determined the 2013 Adjusted EBITDA on a run rate basis, first by normalizing Adjusted EBITDA for the fourth quarter of 2013 (which included on a net basis the elimination of \$3 million of net benefits to operating costs recognized in the quarter that the Committee determined was appropriate to eliminate), and then by multiplying that amount by four to determine 2013 Adjusted EBITDA under the MIRP. The Committee started with Adjusted EBITDA, which means our net income (loss) from our Consolidated Statements of Operations before income taxes, total other income (expense), non-cash impairment charges, depreciation and amortization and non-cash stock compensation expense (other than non-cash stock compensation expenses relating to bonus payments made in the form of stock for 2013 bonus payments), on a consolidated basis. The accounting elements constituting Adjusted EBITDA are determined in accordance with generally accepted accounting principles and consistent with past practice. For additional information regarding the incentive awards granted under the MIRP see “IV. Determination of Total Compensation for 2013—MIRP Incentive Awards” below.

IV. Determination of Total Compensation for 2013

Given the Current Named Executive Officers’ roles in leading Level 3 during 2013, the Committee considers the total remuneration provided to the Current Named Executive Officers as set forth below for 2013 to be appropriate given the company’s positive financial, operational and strategic achievements. The Committee has also concluded that the total compensation paid to the Current Named Executive Officers for 2013 is consistent with our compensation philosophy of paying for performance and rewarding the creation of stockholder value.

Mr. Crowe’s 2013 compensation was dictated by his employment agreement. While he was an employee, Mr. Miller’s 2013 compensation was determined as described below. Mr. Miller’s severance package was determined by the provisions of the Key Executive Severance Plan.

For detailed information on the development and operation of our compensation programs, please see “VI. 2013 Executive Compensation Components—Background” later in this Compensation Discussion and Analysis.

A. Base Salary

In February 2013, the Committee reviewed the 2013 base salary for our Chief Executive Officer and the base salaries for the other individuals who were the named executive officers in our 2012 Annual Meeting proxy statement. These base salaries were based on recommendations by Mr. Crowe, our Chief Executive Officer at the time. In February 2013, the Committee determined not to increase the base salaries of any of these individuals. Mr. Crowe’s base salary was determined by his March 2012 employment agreement. As Messrs. Crouch and Alonso were not named executive officers for our 2012 Annual Meeting proxy statement, their base salaries were determined by Mr. Storey, their direct supervisor during 2013.

In April 2013, the Board appointed Mr. Storey as our President and Chief Executive Officer, replacing Mr. Crowe. Unlike Mr. Crowe and in response to feedback received from our larger stockholders, Mr. Storey was not offered an employment contract. In connection with his appointment, the Committee did approve an increase in Mr. Storey’s base salary to \$950,000 from \$650,000. We believe that Mr. Storey’s revised 2013 salary as a multiple of the other Named Executive Officers’ salaries is in line with traditional multiples for the chief executive officer, and that the differences in base salary are explained by the positions that the individuals hold.

Also in April 2013, Mr. Storey increased Mr. Alonso’s annual base salary to \$434,227 from \$405,820. While Mr. Alonso’s salary is denominated in U.S. dollars, it is paid in Argentine pesos.

Mr. Alonso's base salary was increased to remain competitive in the local market. Mr. Alonso's base salary increase was discussed and reviewed with the Committee.

B. Bonus

In the first quarter 2014, when determining the 2013 bonus compensation for the Current Named Executive Officers, the Committee considered the Current Named Executive Officers' performance as a group against the objectives described above. These results included the following items.

2013 financial goals. The following table summarizes our Board of Directors-approved budget targets, which may differ from our publicly issued guidance, as well as our actual results for 2013, as adjusted during 2013 for payments of severance and accelerated interest payments that were not anticipated when the budget was initially set.

<u>Metric (\$ in Millions)</u>	<u>2013 Budget</u>	<u>2013 Actual Results</u>
CNS Revenue	\$5,640	\$5,613
Adjusted EBITDA	\$1,587	\$1,633
CNS Run Rate	\$ 479	\$ 491
Sustainable Free Cash Flow	\$ (68)	\$ (45)

The actual 2013 Core Network Services revenue was approximately 99.5% of budget. Adjusted EBITDA was approximately 102.9% of budget. December Core Network Services Run Rate was 102.5% of budget. Sustainable Free Cash Flow for 2013 was approximately \$23 million favorable to budget.

Customer experience. During the course of the year, our performance against this goal was measured by various customer satisfaction survey data. Our surveys use a seven point scale, with a score of seven (the top "box") representing very satisfied and a score of one (the bottom "box") representing very dissatisfied. Based on results collected during the first quarter of 2013, our overall customer satisfaction scores were 51% in the top two boxes (essentially equal to 2012), and 14% in the bottom two boxes (an increase from 10% in 2012). Since those results were collected, the company has modified the timing of and methods used for its surveys for tracking overall customer satisfaction. Management and the Committee were satisfied with the performance for this objective.

Attract and Retain an Appropriate Workforce. Given the nature of this objective, no specific quantitative targets were established by the Committee. The Committee determined that the company has been able to attract and retain the appropriate workforce, based in part on the review of a variety of voluntary turnover rate statistics, including a review of market and competitive data from 2012 (the most recent available at the time of the assessment) showing that our turnover rates were positive relative to the data reviewed.

Other Factors. In addition to the review of the above factors, the Committee also considered capital markets related refinancing activities completed during 2013. Through capital markets activities, we refinanced a total of \$3.9 billion of debt, significantly improved our debt maturity profile and reduced our cash interest expense beginning in 2014 by approximately \$63 million. As a result of the refinancing activities, our net debt to EBITDA ratio decreased to 4.8x at year end 2013 from 5.3x at year end 2012 and our weighted average cost of debt has decreased to 6.8%.

For the year ended December 31, 2013, the Committee and the full Board of Directors was satisfied with Mr. Storey's leadership of the company given the company's financial results, the performance with respect to the customer satisfaction and employee retention objectives, our success in our capital markets transactions as well as our stock price performance. The Committee's

assessment of our performance against the objectives described above, with an emphasis on the financial results, informed the Committee’s determination of the level at which to fund the bonus pool for the broad employee base.

Based on the performance described above, the Committee approved the payment of bonuses as indicated in the table below. Based on the performance described above, the Board approved the payment of Mr. Storey’s bonus, based on a recommendation from the Committee:

<u>Name</u>	
Jeff K. Storey	\$1,425,000
Sunit S. Patel	\$ 651,475
Thomas C. Stortz	\$ 621,863
Andrew E. Crouch	\$ 521,180
Héctor R. Alonso	\$ 330,059

Mr. Alonso’s bonus was paid in two parts: \$132,024 in cash and 5,319 shares of our common stock.

C. Stock Based Awards

In February 2013, a fixed total award pool for all eligible employees was determined for restricted stock units, or RSUs, and OSOs, as well as each eligible employee’s award level, consistent with the Committee’s practices and the philosophy described in “VI. 2013 Executive Compensation Components—Background” later in this Compensation Discussion and Analysis.

Based on the subjective view of the relative contribution of Messrs. Storey, Patel, Stortz and Miller by James Q. Crowe, our Chief Executive Officer in February 2013, to the team’s overall performance and his assessment of competitive information from our Peer Group, he provided to the Committee his recommendations for each individual’s long-term incentive, or LTI, award level. Mr. Crowe developed his recommendations by first applying his judgment to what is an appropriate distribution of LTI awards among these individuals and then making adjustments based on his own subjective view of the individual’s contribution through the individual’s role and/or whether the distribution is equitable. Mr. Crowe’s adjustments, however, were not made by way of an assessment of the individual’s performance using set individualized targets or performance measures. The Committee establishes the level of LTI awards for these individuals after taking into account this recommendation along with its own assessment of competitive information.

In connection with his April 2013 appointment as our President and Chief Executive Officer, the Committee increased Mr. Storey’s 2013 LTI award to 100,000 OSOs (from 75,000) and 100,000 RSUs (from 75,000). These awards were effective July 1, 2013.

Mr. Storey made the determination of LTI awards for Messrs. Crouch and Alonso, who were not included in Mr. Crowe’s recommendations in February 2013. These determinations were based on Messrs. Crouch’s and Alonso’s assigned compensation grade. The determination of our various compensation grades is made by the Human Resources department, based on the roles and responsibilities for employees in each grade, general salary surveys and an assessment of internal equity. Mr. Storey’s LTI award decisions respecting Messrs. Crouch and Alonso were reviewed with the Committee.

For 2013, each Named Executive Officer had the following award levels.

<u>Name</u>	<u>RSUs</u>	<u>OSOs</u>
Jeff K. Storey	100,000	87,500
Sunit S. Patel	50,000	50,000
Thomas C. Stortz	50,000	50,000
Andrew E. Crouch	25,000	25,000
Héctor R. Alonso	17,500	17,500
James Q. Crowe	0	0
Charles C. Miller, III	50,000	50,000

During calendar year 2013, as participants in our LTI program, each Named Executive Officer received the RSUs and OSOs indicated in the table below.

<u>Name</u>	<u>RSUs</u>	<u>OSOs(1)</u>
Jeff K. Storey	100,000	87,500
Sunit S. Patel	50,000	50,000
Thomas C. Stortz	50,000	50,000
Andrew E. Crouch	27,500	25,000
Héctor R. Alonso	17,500	17,500
James Q. Crowe	0	0
Charles C. Miller, III	0	25,000

(1) Includes OSOs that were granted in January 2013, which were part of the award determination made by the Committee for the individual in February 2012.

Mr. Crowe did not receive any RSU or OSO awards during 2013.

D. MIRP Incentive Awards

As described above, incentive awards granted under the MIRP consisted of both cash awards and equity awards, the amount of which was based on the achievement of 2013 Adjusted EBITDA. In February 2014, the Committee determined that the 2013 Adjusted EBITDA represented a 37% increase from the benchmark Adjusted EBITDA established in the MIRP. The earned incentive awards were paid in the first quarter 2014. Based on that determination of the 2013 Adjusted EBITDA under the MIRP, the Named Executive Officers received the following cash incentive payments as part of the MIRP. Mr. Crowe was not a participant in the MIRP.

<u>Name</u>	
Jeff K. Storey	\$1,072,500
Sunit S. Patel	\$ 948,750
Thomas C. Stortz	\$ 948,750
Andrew E. Crouch	\$ 450,483
Héctor R. Alonso	\$ 442,344
James Q. Crowe	\$ 0
Charles C. Miller, III	\$ 0

In addition, and based on the determination of the 2013 Adjusted EBITDA under the MIRP, the Current Named Executive Officers received the following incentive RSU awards, which were made in March 2014. The shares of our common stock represented by these RSUs were issued immediately.

<u>Name</u>	<u>RSUs</u>
Jeff K. Storey	123,750
Sunit S. Patel	82,500
Thomas C. Stortz	82,500
Andrew E. Crouch	21,800
Héctor R. Alonso	19,075
James Q. Crowe	0
Charles C. Miller, III	0

E. MIRP Retention Awards

The Named Executive Officers received in December 2013 the following retention bonus payments as part of the MIRP. The amount of the cash retention award was a percentage of the participant's base salary in effect as of April 1, 2012, and was paid in two equal installments. The percentage in the case of each of Messrs. Storey, Patel, Stortz and Miller was 150% and in the case of Messrs. Crouch and Alonso was 100%. The first installment was paid as part of the Named Executive Officer's final paycheck in 2012, and the second installment was paid as part of the final paycheck in 2013, with Mr. Miller's payment being accelerated as part of his severance package.

<u>Name</u>	
Jeff K. Storey	\$487,500
Sunit S. Patel	\$431,250
Thomas C. Stortz	\$431,250
Andrew E. Crouch	\$206,644
Héctor R. Alonso	\$202,910
James Q. Crowe	\$ 0
Charles C. Miller, III	\$431,250

F. Other Compensatory Benefits

The day-to-day design and administration of savings, health, welfare and paid-time-off plans and policies applicable to our employees in general and our Named Executive Officers are handled by teams from our Human Resources, Finance and Legal Departments. The Committee (and in certain cases the entire Board) remains responsible for certain fundamental changes to these plans and policies outside of the day-to-day administrative requirements.

As salaried employees, the Named Executive Officers participate in a variety of health and welfare and paid-time-off benefits designed to enable us to attract and retain our workforce in a competitive marketplace. Health and welfare and paid-time-off benefits help ensure that we have a productive and focused workforce through reliable and competitive health and other benefits.

G. Perquisites

We limit the perquisites that we make available to our Named Executive Officers. For personal use of our corporate aircraft by Messrs. Crowe and Storey we impute as income the cost of personal travel and, when required by Internal Revenue Service regulations, the personal travel of any guest that accompanies them on business travel. To calculate the amount of imputed income, we use the Internal Revenue Service's Standard Industry Fare Level, or SIFL, rates.

For 2013, Mr. Crowe had \$77,642 of imputed income and Mr. Storey had \$36,630 of imputed income. These amounts differ from the amounts disclosed in the Summary Compensation Table below, which we have calculated as approximately \$77,006 and \$31,269, for Mr. Crowe and Mr. Storey, respectively. The amounts included in the Summary Compensation Table represent our incremental cost to provide the benefit when it is used solely for personal reasons and not when a guest accompanies them on business travel.

In 2013, Messrs. Patel, Stortz, Crouch and Alonso did not use the aircraft for solely personal reasons. Mr. Crowe did not have access to our corporate aircraft after his employment terminated in April 2013.

V. Compensation Framework, Philosophy and Risk Considerations

A. Compensation Program Philosophy and Characteristics

Our success depends in large part on our ability to attract, retain and motivate qualified employees who possess the skills necessary to grow our business. Management and the Committee believe that our compensation programs should reflect a core compensation philosophy and characteristics that include the following:

- our bonus program and LTI programs should be linked to company performance and the creation of long-term stockholder value;
- our employees should be rewarded fairly and competitively based on the results they achieve;
- our compensation programs set expectations, measure results, reward achievement and hold employees accountable for expected results;
- we reward results that are achieved while adhering to our corporate values, including by paying above market total compensation for results that exceed expectations;
- employee ownership for our more senior employees demonstrates an economic stake in our business that helps align their interests with those of our stockholders; and
- our compensation programs for our more senior employees should be based heavily on creating long-term value.

B. Assessment of Risk

In structuring our compensation programs and awards, the Committee seeks to discourage employees from engaging in risky behavior, or trading short-term results for long-term performance, by balancing the use of short-term cash compensation (base salary and bonus) with long-term, stock-based compensation that is intended to reward the creation of long-term stockholder value.

The Committee believes that our short-term bonus program does not encourage unnecessary or excessive risk-taking, since the payment of a bonus to any individual or the executive officers as a group is entirely at the discretion of our Committee. The bonus program's full discretion component allows the Committee to make adjustments to the extent that it believes business decisions are being made with only short-term objectives in mind.

The Committee also believes that our LTI program does not incent participants to take unnecessary or excessive risks, since the vesting schedule for our RSUs, and the three-year cliff vesting feature of our OSOs, serve as an incentive for our Named Executive Officers and other recipients of these awards to remain with us long-term and to focus their efforts on all elements of our performance that create long-term value. Having regular fixed award dates that are coupled with vesting requirements over multiple years provides a recurring schedule of potential award payouts that encourages participants to avoid taking actions to generate short-term gains that are to our

long-term detriment. Moving forward, we also intend to use a variety of measurable financial performance objectives in our performance-based restricted stock unit program to avoid short-term management focus on any single financial metric.

Taken as a whole, we have concluded that our compensation structure, elements and incentives for 2013 are not reasonably likely to have a future material adverse effect on Level 3.

C. Setting Executive Compensation

The Committee has structured our executive compensation programs to motivate executives to achieve our business goals and reward the executives for their performance against these goals. Compensation decisions for our Named Executive Officers generally take place on an annual basis in February, when the Committee determines:

- the base salary for the current year;
- the LTI award levels for the next 12 months;
- the extent to which bonus compensation will be paid for the recently completed year, which determination is informed by our performance when compared to previously set goals and objectives along with other matters that the Committee decides to consider; and
- the goals and objectives for the bonus program for the current year.

In making its determinations on compensation, the Committee considers, among other factors, the executive's experience, skills, job position and responsibilities, individual contribution, and prior and expected future performance, as well as retention needs, internal pay equity, and surveys of Peer Group data. The Committee uses Peer Group data as a guideline to inform its action, but does not benchmark compensation decisions against the members of our Peer Group.

The determination of any bonus payout is at the full discretion of the Committee. In exercising this discretion, our Committee's decisions are based on the Committee's assessment of the performance of our Named Executive Officers as a team in meeting our overall corporate goals and objectives as well as the Committee's consideration of the Chief Executive Officer's recommendations. Individual performance targets or performance measures are not set for our Named Executive Officers.

Similar to our approach for short-term bonus, we do not set individual performance targets or performance measures for our Named Executive Officers to receive awards of LTI compensation that will vest in the future. The determination of these awards is made by the Committee in their discretion, which is informed by, among other things, equity dilution metrics, a review of Peer Group information to provide an assessment of the competitive market, management's recommendations and the executive team's overall performance.

D. Role of the Executive Officers and Consultants

Our Chief Executive Officer provides recommendations for each Named Executive Officer's base salary and short- and long-term incentive compensation. Our Chief Executive Officer develops his recommendations by first applying his judgment to determine an appropriate distribution of base salary and incentive compensation among the Named Executive Officers. He then makes adjustments based on his subjective view of the individual's contribution based on the individual's role, our prior performance with respect to expectations for short-term incentive compensation, and whether the distribution is equitable. Our Chief Executive Officer does not provide an assessment of the Named Executive Officers' performance using set individualized targets or performance measures.

The Committee retained Towers Watson & Co. as its compensation consultant for its 2013 compensation determinations. Towers Watson provided the Committee with competitive information on compensation levels, programs and practices of our Peer Group and provided input for the determination of the Peer Group. Towers Watson provides additional consulting services to us, primarily related to our EMEA region and as actuaries to the trustees under a pension plan that we acquired for certain EMEA employees. None of our Named Executive Officers, executive officers or any of our Board members participate in that pension plan. In addition, the consulting team at Towers Watson that provides these other services does not consult with the team that provides services to the Committee.

For 2013, we paid Towers Watson approximately \$190,000 for services provided to the Committee and approximately \$223,000 for the other consulting services. For these other consulting and actuarial services, the decision to engage Towers Watson was not made by the management team that supports the Committee. Level 3 management does not retain any other compensation consultants to address the base pay, bonus and LTI awards of our Named Executive Officers. During 2013, the Committee conducted an evaluation of Towers Watson's independence after considering the relevant regulations of the Securities and Exchange Commission and the listing standards of the New York Stock Exchange, and it concluded that Towers Watson was independent of management and that the other services performed by Towers Watson raised no conflict of interests with respect to the advice provided to the Committee.

Towers Watson provides our Chief Executive Officer with the same information and analysis that is provided to the Committee, which in part informs his recommendations. With respect to 2013 compensation determinations, Mr. Crowe, our Chief Executive Officer at the time that decisions were made (other than with respect to 2013 bonus and MIRP incentive payments), was also provided analyses that informed his recommendations by our Executive Vice President, Chief Administrative Officer and Secretary, our Chief Human Resources Officer and our Senior Vice President responsible for compensation and benefits in our Human Resources Department. The Committee can exercise its discretion to implement, reject or modify any recommendations provided by any member of management, including our Chief Executive Officer.

E. Peer Group

The Committee uses a Peer Group as an additional source of information in reviewing compensation decisions and overall compensation program design for our senior executives, including the Named Executive Officers. The Committee determines the Peer Group members based on a Towers Watson recommendation. Towers Watson develops its recommendation based on first reviewing companies that are in our industry, adding companies that are our competitors for talent and eliminating companies based on employee base size and other characteristics, such as lines of business, revenue and geography, that are not comparable with us. The Committee does not use information from the Peer Group to benchmark its compensation decisions.

The following companies were included in our Peer Group for 2013 compensation decisions:

Automatic Data Processing, Inc.	Liberty Global Inc.
CA Technologies	MetroPCS Communications, Inc.
Cablevision Systems Corporation	NCR Corp.
CenturyLink, Inc.	NetApp, Inc.
Charter Communications Inc.	NII Holdings, Inc.
Computer Sciences Corporation	QUALCOMM Incorporated
Dish Network Corp.	Telephone & Data Systems Inc.
eBay, Inc.	United States Cellular Corp.
Fiserv, Inc.	VMware, Inc.
Frontier Communications Corp.	Windstream Corporation
Harris Corp.	Yahoo! Inc.
Juniper Networks, Inc.	

We note that Motorola Mobility Holdings, Inc., which was previously part of the Peer Group was acquired during 2012 and was therefore not included in any 2013 determinations. We also note that for compensation decisions beginning in 2014, the Committee added T-Mobile US, Inc. (since MetroPCS Communications, Inc. was acquired by T-Mobile during 2013) and removed CA Technologies, eBay, Inc., QUALCOMM Incorporated, VMWare, Inc. and Yahoo! Inc. in order to ensure that the peers continue to remain similar to the company in terms of lines of business, revenue and geography.

As an indication of how Level 3 compares to the other members of the Peer Group, we note that for the most recent available fiscal year for Level 3 and the other companies in the Peer Group, Towers Watson estimated that Level 3's percent ranking within the Peer Group for the metrics of total revenue, market capitalization, enterprise value and EBITDA (earnings before interest, taxes, depreciation and amortization) was 49%, 31%, 45% and 10%, respectively.

When compared against the available information from the Peer Group, the Committee observed that the base salaries to be paid to our Named Executive Officers, other than Mr. Crowe were generally at or above the 50th percentile of the Peer Group. Variations generally relate to the experience level of the individual and the fact that roles for a participating title may not match particularly well company to company. Mr. Crowe's salary as fixed in his employment agreement was above the 75th percentile.

F. Compensation Mix

A significant percentage of total target compensation for our Named Executive Officers is allocated to bonus and LTI awards. We do not have a pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee reviews information provided by Towers Watson as well as our executives to determine the appropriate level and mix of base and incentive compensation. We also adjust our compensation programs based on the evolving business and economic environment. Ultimately, however, the Committee exercises its full discretion to determine the allocation between cash and non-cash or short-term and long-term incentive compensation.

VI. 2013 Executive Compensation Components—Background

Base Salary. Base salary levels are typically considered annually as part of our performance review process, as well as upon a promotion or other change in job responsibility.

Bonus. Our Executive Bonus Program is designed to reward our executives for performance against short-term financial and business goals. Our Committee does not establish performance

targets that if met in full or in part automatically results in the payment of a bonus to a Named Executive Officer. Instead, the Committee considers the performance against preset goals as one factor that influences the Committee's decision to pay a bonus. These goals are not intended as specific targets.

The Committee assesses these goals and objectives after completion of the year and determines the percentage or level at which to fund the bonus pool for the full employee base. As discussed in "*III. Metrics for Performance Based Compensation—A. 2013 Executive Bonus Program*" above, the Committee also assesses other factors such as mergers, acquisitions, divestitures and capital markets activities, prevailing market and economic conditions and the subjective assessment of individual performance in the exercise of its discretion in paying a bonus. Where performance is above the targeted level of performance, the Committee may elect to pay a bonus above the range of expected payouts. Performance goals are generally assigned a weighting, which is not absolute in its application, but serves as a guideline to inform the Committee's determination of the bonus payment level.

From time to time during the course of the year, the Committee reviews the goals for the Executive Bonus Program to confirm that they remain appropriate. The Committee reserves the right to make adjustments during the year to the goals or the relative weighting assigned to the goals. Although no changes were made during 2013 to the goals discussed in "*III. Metrics for Performance Based Compensation—A. 2013 Executive Bonus Program*" above or to their relative weightings, the Committee did also take into consideration other strategic and subjective factors in determining the final payouts under the 2013 Executive Bonus Program, as described in that section above.

Stock Awards. A critical component of our compensation philosophy is providing appropriate incentives to employees through our LTI program. For 2013, our LTI program provided for two types of equity awards. The first is a stock-indexed security referred to as an outperform stock appreciation right—or OSO. The second is restricted stock units—or RSUs—that vest over a period of years, depending on the participant's continued employment and the terms of the specific grant. We believe these awards (i) encourage key personnel to focus on sustainable long-term performance, (ii) strengthen the relationship between compensation and stock price performance and align management's financial interests with those of the stockholders and (iii) help attract and retain talented personnel.

LTI award determinations are made annually effective beginning on April 1. The award level for each Named Executive Officer, other than Mr. Crowe, was determined by the Committee in its full discretion, using as a guideline competitive data from the Peer Group, as well as the general factors discussed above.

Individual LTI awards are made after the Committee has determined the total number of awards or "pool" that will be available for the annual grants. The Committee considers several factors to inform its determination of the total number of awards in the pool. These factors include the Shareholder Value Transfer methodology, the "run rate" and additional factors that the Committee determines are appropriate.

The Shareholder Value Transfer methodology informs the determination of the number of shares for annual LTI awards, new hire and promotion LTI awards and any off-cycle LTI awards approved by the Board for all employees, including all officers, directors, employees and new hires. This approach limits the number of shares available for grant to a set number each year and can vary in grant date value depending upon the company stock price on the date of grant. The Shareholder Value Transfer methodology analyzes, as of the date of its calculation, the aggregate fair value or expense of issued and unvested LTI awards as a percent of our total market capitalization, and is calculated on a gross basis without taking into account cancellations and forfeitures of awards.

“Run rate” refers to a measure of the annual dilution to stockholders from our grant of common stock based awards, and is defined as a fraction, the numerator of which is the shares issued pursuant to a plan and the denominator of which is the total shares outstanding.

In February 2013, the Shareholder Value Transfer percentage used by the Committee as a guideline to determine the 2013 annual LTI program award pool was approximately 1.3% of our market capitalization (as compared to a one-year average of 0.96% at the 50th percentile and 1.62% at the 75th percentile for the Peer Group), and the run rate was approximately 1.19%, both of which the Committee concluded were appropriate. For 2013, the actual LTI program awards made would have resulted in a Shareholder Value Transfer measurement of 0.89% compared to the 1.3% approved in February 2013.

The company’s Shareholder Value Transfer percentage for purposes of the LTI program is higher than some of the companies in the Peer Group because OSOs granted in 2013 are valued at approximately 100.9% of the award’s face value for purpose of this metric, while most non-qualified options used by the companies in the Peer Group are valued at approximately 30% to 50% of face value. In addition, Shareholder Value Transfer determinations can be adversely affected by movements in stock prices from the time that the award pool is established until the actual award grant dates.

OSOs. OSOs derive value only if our performance results in our common stock price performing better than the S&P 500® Index during the three year life of the award. Upon vesting and settlement, which will both occur on the third anniversary of the grant date subject to continued employment, the holder receives shares of our common stock (or, in the Committee’s discretion in connection with a change in control, cash) equal to the “spread” between the adjusted base price and the price of our common stock multiplied by a “success multiplier,” which ranges from 0 to 4 on a straight line basis to reflect the amount, ranging from 0% to 11%, by which our common stock outperforms the S&P 500® Index. OSOs are granted on a quarterly basis, and the Committee feels that the fixed settlement of the OSOs three years from the date of grant provides a meaningful holding period that supports the alignment of our LTI program to provide compensation for performance that increases our common stock price and mitigates against inappropriate or excessive risk-taking.

RSUs. An RSU represents our agreement to issue to the employee shares of our common stock (or, in the Committee’s discretion in connection with a change in control, cash) on the date that the restrictions lapse, so long as the employee is employed on that date. RSUs are granted on a regular, fixed basis once per year. The restrictions on RSUs generally lapse in equal annual installments over three or four years, subject to the employee’s continued employment and the terms of the specific grant. Upon retirement, all outstanding RSUs held by that person lapse. When the restrictions lapse, the employee is issued the number of shares of common stock equal to the number of RSUs for which the restrictions have lapsed on that date.

Change in Control. Our OSOs generally settle upon a change of control of Level 3 Communications, Inc. In addition, the restrictions on our RSUs generally lapse upon a change of control. This type of benefit on a change of control is often referred to as a “single trigger” provision. A “double trigger” provision by contrast would require that the employee also have his or her position terminated or materially changed in order for the awards to accelerate. For all equity awards in 2014 and moving forward, the Committee has determined that the company will move to a “double trigger.”

The definition of what constitutes a “change of control” is set forth in our Level 3 Communications, Inc. Stock Plan. The following summary of the definition of what constitutes a “change of control” is qualified in its entirety by reference to the full definition included in the Stock Plan:

- a change in ownership or control of Level 3 Communications, Inc. effected through a transaction or series of related transactions (other than an offering of our common stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any “person” (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934) or any two or more persons deemed to be one “person” (as used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934), other than Level 3 Communications, Inc. or any of its affiliates (as defined in the Stock Plan), or an employee benefit plan maintained by Level 3 Communications, Inc. or any of its affiliates, directly or indirectly acquire “beneficial ownership” (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities of Level 3 Communications, Inc. possessing more than fifty percent (50%) of the total combined voting power of Level 3 Communications, Inc.’s securities outstanding immediately after such acquisition; or
- the date upon which individuals who, as of May 20, 2010, constitute the Board of Directors of Level 3 Communications, Inc. (the “Incumbent Board”), cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to May 20, 2010, whose election, or nomination for election by the Level 3 Communications, Inc. stockholders, was approved by a vote of at least a majority of the directors then constituting the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board since May 20, 2010, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or
- the sale or disposition, in one or a series of related transactions, of all or substantially all of the assets of Level 3 Communications, Inc. to any “person” (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934) or to any two or more persons deemed to be one “person” (as used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934) other than Level 3 Communications, Inc.’s affiliates (as defined in the Stock Plan).

In addition, the Committee may, by a written determination prior to the consummation of an event or transaction, determine that such event or transaction does not constitute a Change in Control, provided that the Committee reasonably concludes that such event or transaction (i) is not likely to result in a significant change to the identities of the persons functioning as our senior management, either immediately or in the foreseeable future (it being understood that the Committee need not conclude that no changes in our senior management are likely to occur), and (ii) is not likely to result in control of the Board (or a significant portion of the Board’s functions) being transferred to a single person or entity, either immediately or in the foreseeable future, with certain specified exceptions.

We also have a requirement that the change of control must also qualify as a “change in control event” as defined in Treasury Regulation 1.409A-3(i)(5)(i), so that our RSUs will be compliant with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended. In the event that there is a change in control as defined by the Stock Plan that does not qualify as a change in control event under Section 409A, if the employee undergoes a separation from service on account of his or her termination of employment by us without cause following that change in control, we will, in our sole discretion, either (a) issue all unissued shares of our common stock issuable pursuant to

the RSU award to the employee or (b) pay the employee in a combination of cash and stock the value of those shares of our common stock as provided for in the Stock Plan.

LTI program awards made prior to 2014 have a single trigger acceleration upon a change of control. The Committee had previously maintained the use of a single trigger acceleration because: single trigger vesting allows for continuing employees to be treated in the same manner as employees who are terminated after a change in control with respect to outstanding equity grants; the employing company that made the original equity grant will no longer exist in the same form after a change in control and employees should not be required to have the fate of their outstanding equity tied to the new company's future success; and a single trigger on equity vesting can serve as a retention device during change in control discussions, especially for more senior executives where equity represents a significant portion of their total pay package. However, based on the Committee's continued evaluation of investor sentiment and expectations for the treatment of compensation upon a change of control, the Committee determined that a single trigger is no longer appropriate and the single trigger has been replaced with a double trigger effective for awards beginning in 2014.

Modifications. From time to time, our Committee evaluates all elements of our LTI programs. Our Committee from time to time may make changes to any or all of the elements of these programs to reflect the changing needs related to attracting, retaining and motivating our Named Executive Officers. These changes may be based, in part, on market conditions and the LTI program of competitors. Management and the Committee regularly review our compensation programs to determine whether these programs are accomplishing our goals in the most cost-effective manner.

Perquisites. We limit the perquisites that we make available to our Named Executive Officers. With two exceptions, our Named Executive Officers are entitled to no benefits that are not otherwise available to all of our employees. We do not provide club memberships, financial consulting, pension arrangements, post-retirement health coverage or similar benefits for our Named Executive Officers. We do provide our U.S.-based Named Executive Officers the opportunity for personal use of our corporate aircraft. We also provide Mr. Alonso, who is based in Argentina, a car for safety reasons.

We provide our Named Executive Officers personal use of our corporate aircraft because we believe that this benefit generally affords us increased security and allows our executives to work more efficiently and productively when traveling for personal reasons. For U.S.-based Named Executive Officers other than Messrs. Crowe and Storey, any personal use of our corporate aircraft is pursuant to an Aircraft Time-Share Agreement, pursuant to which the Named Executive Officer is responsible to reimburse us for our incremental cost of providing his personal use of the corporate aircraft. In 2013, none of Messrs. Patel, Stortz, Crouch and Alonso used the corporate aircraft for personal use. For the Named Executive Officers, when a guest accompanies the Named Executive Officer on business travel and when required by applicable Internal Revenue Service regulations, we impute as income to that executive the cost of that additional travel.

Post-Employment Compensation

Pension Benefits. We do not provide pension arrangements for our Named Executive Officers. Our U.S.-based Named Executive Officers are eligible to participate in our 401(k) plan. We provide a matching contribution to all participants in the 401(k) plan, including our participating Named Executive Officers, through units in the Level 3 Stock Fund. For 2013, we matched up to 100% of participants' contributions up to 4% of eligible earnings, or regulatory limits if lower. Neither these Named Executive Officers nor our other U.S.-based employees are able to purchase units in the Level 3 Stock Fund. All of these Named Executive Officers have more than three years of service with us, and as a result, each of them is fully vested in the units of the Level 3 Stock Fund in his 401(k) plan account.

Retirement Benefits. Upon a Named Executive Officer's retirement in accordance with our retirement program, the restrictions on all outstanding RSUs lapse and OSOs are retained by the individual until those OSOs settle on the third anniversary of their grant. In addition, under our Executive Bonus Program for Named Executive Officers that are U.S. residents, upon such a Named Executive Officer's retirement, he is eligible for a prorated bonus based on the number of actual days worked during the year. The bonus payment is calculated by multiplying the Named Executive Officer's individual bonus target first by the bonus pool funding percentage determined by the Committee for the region in which the Named Executive Officer works and second by an assumed 100% performance rating for the individual.

Pursuant to the terms of his employment agreement, upon his retirement, Mr. Crowe would have been entitled to continued access for himself, his spouse and his dependents to our group health plan, at his expense for a period of two years from the date of his retirement.

In connection with the implementation of PRSUs to replace OSOs, going forward the Committee is modifying the retirement treatment of both PRSUs and RSUs. Instead of the restrictions on transfer accelerating for all awards, the restrictions on transfer will be accelerated for awards of PRSUs and RSUs on a pro-rata basis.

Nonqualified Deferred Compensation. We do not provide any nonqualified defined contribution or other deferred compensation plans.

Other Post-Employment Payments. At December 31, 2013, all of our then employed U.S.-based Named Executive Officers were employees-at-will and as such did not have employment contracts with us. However, each of Messrs. Storey, Patel, Stortz and Crouch (together, the "U.S. Named Executive Officers") participates in the Key Executive Severance Plan, or KESP, which provides for payments in certain circumstances upon termination.

The Committee adopted the KESP to provide severance and welfare benefits to each eligible executive who is involuntarily terminated from employment by the company without cause or who voluntarily terminates employment with good reason. Participants in the KESP include senior members of management designated by the Committee.

A U.S. Named Executive Officer in the KESP will be entitled to the following severance benefits upon a termination of employment by us without cause or by the person with good reason:

- a prorated bonus for the year of termination based on his most recent target annual bonus;
- two times the sum of his base salary and most recent target annual bonus for Messrs. Storey, Patel and Stortz and one times the sum of his base salary and most recent target annual bonus for Mr. Crouch;
- a lump sum cash payment equal to our paid portion of continued medical and dental insurance coverage to cover twenty-four months for Messrs. Storey, Patel and Stortz and twelve months for Mr. Crouch;
- reimbursement of up to \$10,000 for the cost of outplacement services; and
- vesting of a portion of his equity-based awards as described below.

If a U.S. Named Executive Officer is not retirement-eligible under our retirement benefit at the time of termination, the accelerated vesting will apply to that portion of his equity awards that would have vested during the twelve-month period following his termination. If a U.S. Named Executive Officer is retirement-eligible, the accelerated vesting will apply to all of his equity awards, which currently consist of RSUs and OSOs. Of our U.S. Named Executive Officers, only Mr. Stortz is retirement eligible.

Participation in the KESP is conditioned upon the execution of a restrictive covenant agreement containing customary covenants of noncompetition (effective only if payments are received under the KESP), nonsolicitation and nondisparagement (both of which are effective upon signing). All severance benefits under the KESP are also conditioned upon the U.S. Named Executive Officer's execution of a general release of claims against us.

Pursuant to the terms of the Level 3 Communications, Inc. Stock Plan, unless award agreements specify otherwise, awards granted under the plan vest upon a change of control. Pursuant to the terms of the applicable award agreements, all equity awards granted before April 1, 2014, and currently held by the Current Named Executive Officer vest upon a change in control of the company regardless of whether a termination occurs. Pursuant to the KESP, all outstanding equity awards held by each Current Named Executive Officer at the time will vest upon a change in control of the company regardless of whether a termination occurs; provided, that with respect to performance-vested awards issued in the future, if any (which do not include OSOs), the vesting under the KESP will apply only to the extent that the applicable performance criteria are satisfied as of such change in control based on pro-forma performance over the entire performance period extrapolated from the first date of the performance period through the change in control.

We view the KESP as reasonable and in line with competitive practice.

Héctor R. Alonso's severance arrangements are governed by Argentine law, which generally provides for a lump sum severance payment equal to the employee's highest monthly salary multiplied by the sum of his or her number of years of service (currently 20 years) plus two.

The estimated liabilities for various termination scenarios are outlined below under "*Potential Payments Upon Termination or Change of Control*".

In connection with the implementation of PRSUs to replace OSOs, the Committee is amending the KESP's retirement treatment of both PRSUs and RSUs. Instead of the restrictions on transfer accelerating for all awards under the KESP on a termination that is covered by the KESP when the participant is retirement eligible, the restrictions on transfer will be accelerated for awards of PRSUs and RSUs on a pro-rata basis. Under the terms of the KESP, this amendment will be effective in mid-2015.

VII. James Q. Crowe Employment Agreement

Effective April 11, 2013, Mr. Storey was named our President and Chief Executive Officer, replacing Mr. Crowe as Chief Executive Officer. As a result, Mr. Crowe's employment with the company terminated, and he became entitled to the benefits under his employment agreement. In connection with the receipt of his severance benefits, Mr. Crowe executed a general release and a restrictive covenant agreement containing customary non-competition and non-solicitation obligations that are applicable through December 31, 2014.

For details regarding these payments and benefits, please see "*Potential Payments Upon Termination or Change of Control*" below.

VIII. Stock Ownership Guidelines

The Committee has adopted guidelines for ownership of our common stock for our senior executives and the members of our Board. The Committee reviews these guidelines at least annually, and may update or modify them based on a variety of factors including the composition of our senior management team and stock market conditions.

The current stock ownership guidelines are as follows:

<u>Title</u>	<u>Number of Shares</u>
CEO and President	300,000
Chief Administrative Officer/Chief Financial Officer	50,000
Regional Presidents/Chief Legal Officer/Chief Technology Officer	20,000
Controller	10,000
Members of Board of Directors	20,000

For our senior executives, stock held by the individual, his or her spouse and minor children, along with shares of our common stock held in the individual's 401(k) Plan account and in trusts for the benefit of these individuals, will be included for purposes of determining the individual's satisfaction of the ownership guidelines.

We do not provide grants of restricted stock or restricted stock units to assist members of management in meeting our stockownership guidelines. In addition, the Committee has concluded not to require private or open market purchases of our common stock to meet the ownership guidelines. Rather, the Committee has concluded that until such time as the individual is in compliance with these guidelines, at least 50% of the shares of our common stock issuable upon any OSO exercise or settlement of RSUs, after shares are sold to cover taxes, should be held by the individual in the form of shares of our common stock until such time as the guideline has been met. The failure of an individual to make a good faith effort to meet the guidelines in a timely manner and to maintain compliance with the guidelines will be a significant factor in the Committee's and senior management's determinations of the individual's future bonus payments and LTI compensation awards.

For members of our Board of Directors, the Board requires that each member of the Board hold all shares of our common stock received as compensation for Board service until such time as the Board member's ownership of common stock meets the ownership guideline. To determine a Board member's compliance with the ownership guideline, all issued restricted stock units will be treated as shares of issued common stock on a one for one basis. In addition, shares of common stock held by the Board member, his or her spouse and minor children, along with shares of common stock held in the individual's retirement accounts and in trusts for the benefit of these individuals, will be included for purposes of determining the Board member's satisfaction of the ownership guideline.

The Board encourages each Board member to hold all shares of common stock received as compensation for Board service, or otherwise acquired, until the Board member is no longer a Board member. Any Board member that sells or otherwise transfers shares of common stock where after giving effect to the sale or transfer, the Board member would own common stock in an amount less than the ownership guideline must volunteer to resign from the Board. The Board does not believe that such person(s) should necessarily leave the Board. However, there should be an opportunity for the Board through the Board's Nominating and Governance Committee to review the continued appropriateness of the Board member's continued membership on the Board under the circumstances.

IX. Potential Effect on Compensation from Executive Misconduct

If our Board determines that an executive officer has engaged in fraudulent or intentional misconduct, the Board would take action to remedy the misconduct, prevent its recurrence, and impose such discipline on the wrongdoer as would be appropriate. Discipline would vary depending on the facts and circumstances, and may include, without limit, termination of employment and initiating an action for breach of fiduciary duty. If the misconduct resulted in a significant restatement of our financial results, discipline may also include seeking reimbursement of any compensation paid

or awarded to the executive that is greater than what would have been paid or awarded if calculated based on the restated financial results. These remedies would be in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

X. Section 162(m) of the Internal Revenue Code

The Committee takes into consideration the tax deductibility limitation of Section 162(m) of the Internal Revenue Code of 1986, or the Code, when making compensation decisions for our Named Executive Officers. Generally, Section 162(m) limits the amount of compensation that a public company can deduct for federal income tax purposes to the extent that the compensation is greater than \$1.0 million and does not fall within that section's exemptions. Our OSO program is intended to meet the requirements for "qualified performance-based compensation" exempt from these deductibility limitations. Our bonus program, however, would not qualify for the exemptions contained in Section 162(m). The Committee does not believe it is advisable to adopt a strict policy against paying nondeductible compensation, and may pay that compensation in appropriate circumstances. While the Committee takes into consideration the tax deductibility limitation of Section 162(m), at the present time, the Committee's determination with respect to the payment of compensation to our Named Executive Officers is not affected by this tax deductibility limitation in light of our significant net operating loss carryforwards for U.S. federal income tax purposes, but may be affected for those states where we do not have net operating loss carryforwards available in the particular state.

XI. Compensation Committee Report

The Compensation Committee of the Board has reviewed this Compensation Discussion and Analysis and discussed that analysis with management. Based on its review and discussions with management, the committee recommended to our Board that this Compensation Discussion and Analysis be included in Level 3's Form 10-K for the year ended December 31, 2013 and Level 3's Proxy Statement with respect to the 2014 Annual Meeting of Stockholders. This report is provided by the following independent directors, who comprise the committee:

Michael J. Mahoney (Chairman)
Richard R. Jaros
Peter Seah Lim Huat
Peter van Oppen

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(2)	Non-Equity Incentive Plan Compensation\$(3)	All Other Compensation(4)	Total
Jeff K. Storey President and Chief Executive Officer	2013	\$ 857,692	\$1,912,500	\$ 2,108,000	\$ 2,026,071	\$1,072,500	\$ 41,469	\$ 8,018,232
	2012	\$ 650,000	\$1,115,300	\$ 7,493,250	\$ 1,715,802		\$ 16,667	\$10,991,019
	2011	\$ 572,962	\$1,500,000	\$ 1,957,075	\$ 1,537,587		\$ 27,558	\$ 5,595,182
Sunit S. Patel Executive Vice President and Chief Financial Officer	2013	\$ 575,000	\$1,082,725	\$ 1,054,000	\$ 1,149,883	\$ 948,750	\$ 10,200	\$ 4,820,558
	2012	\$ 575,000	\$ 914,250	\$ 4,995,500	\$ 1,122,978		\$ 10,000	\$ 7,617,728
	2011	\$ 510,769	\$1,750,000	\$ 1,141,627	\$ 896,926		\$ 7,350	\$ 4,306,672
Thomas C. Stortz Executive Vice President and Chief Administrative Officer	2013	\$ 575,000	\$1,053,113	\$ 1,054,000	\$ 1,149,883	\$ 948,750	\$ 10,200	\$ 4,790,946
	2012	\$ 575,000	\$ 948,250	\$ 4,995,500	\$ 1,122,978		\$ 10,000	\$ 7,651,728
	2011	\$ 425,692	\$1,250,000	\$ 1,141,627	\$ 896,926		\$ 724,104	\$ 4,438,349
Andrew E. Crouch Regional President, North America and APAC	2013	\$ 460,000	\$ 727,824	\$ 584,775	\$ 574,941	\$ 450,483	\$ 10,200	\$ 2,808,223
	2012	\$ 417,696	\$ 575,350	\$ 1,369,050	\$ 461,013		\$ 17,501	\$ 2,840,610
	2011	\$ 396,202	\$ 266,314	\$ 549,000	\$ 431,325		\$ 7,350	\$ 1,650,191
Hector R. Alonso(5) Regional President, Latin America	2013	\$ 427,125	\$ 334,934	\$ 566,935	\$ 402,459	\$ 442,344	\$ 22,790	\$ 2,196,587
	2012	\$ 403,850	\$ 331,210	\$ 1,640,186	\$ 398,115		\$ 24,415	\$ 2,797,776
	2011	\$ 98,500	\$ 66,056	\$ —	\$ —		\$ —	\$ 164,556
Former Executive Officers								
James Q. Crowe Chief Executive Officer	2013	\$ 442,308	\$ —	\$ —	\$ —	\$ —	\$7,199,833	\$ 7,642,141
	2012	\$1,155,269	\$2,100,000	\$23,850,000	\$13,206,378		\$ 397,323	\$40,708,970
	2011	\$ 834,788	\$4,000,000	\$ 3,400,469	\$ 2,671,570		\$ 354,737	\$11,261,564
Charles C. Miller, III Executive Vice President & Vice Chairman	2013	\$ 274,231	\$ —	\$ —	\$ 547,383	\$ —	\$3,018,046	\$ 3,839,660
	2012	\$ 575,000	\$ 914,250	\$ 4,995,500	\$ 1,136,902		\$ 10,000	\$ 7,631,652
	2011	\$ 523,565	\$3,000,000	\$ 1,250,329	\$ 982,271		\$ 7,350	\$ 5,763,515

- (1) Amounts in this column for 2013 include cash payments made to Messrs. Storey (\$487,500), Patel (\$431,250), Stortz (\$431,250), Crouch (\$206,644) and Alonso (\$202,910) for the retention portion of the MIRP, which has now terminated. For more information regarding the implementation of and payouts under the 2012 Management Incentive and Retention Plan, or the MIRP, please see the "Compensation Discussion and Analysis—III. Metrics for Performance Based Compensation" above. Other amounts in this column for 2013 include amounts paid under our Executive Bonus Program.
- (2) For the years shown in this table, we award both restricted stock units ("RSUs"), and outperform stock appreciation rights ("OSOs"), as part of our long-term incentive program. These awards vest over a number of years. When an award is made, the fair value of all shares granted, regardless of vesting schedules, is determined. For RSUs, fair value is calculated using the closing price of our common stock on the day before the grant, and for OSOs, fair value is calculated using a formula based methodology. These columns represent the full grant date fair value of the RSUs and OSOs awarded to the Named Executive Officer, without any reduction in the grant date fair value of the awards for the possibility of service-based forfeiture. For additional information relating to the assumptions made by us in valuing these awards for 2013, refer to note 14 of our financial statements in our Form 10-K for the year ended December 31, 2013, as filed with the SEC.
- Mr. Alonso's bonus in 2012 and 2013 was partially paid in the form of shares of our common stock. Amounts in this column for Mr. Alonso include the value of the common stock issued to him for 2012 of \$192,451 and for 2013 of \$198,035.
- Amounts for 2012 in this column for all individuals other than Mr. Crowe also include the full grant date fair value of RSUs granted to these individuals pursuant to the incentive and retention award portions of the MIRP.
- (3) Amounts in this column for 2013 include cash payments made to Messrs. Storey, Patel, Stortz, Crouch and Alonso for the incentive portion of the MIRP, which has now terminated. For more information regarding the implementation of and payouts under the 2012 Management Incentive and Retention Plan, or the MIRP, please see the "Compensation Discussion and Analysis—III. Metrics for Performance Based Compensation" above.
- (4) This column includes \$10,200 of company matching contributions to each Named Executive Officer's 401(k) plan account for 2013 other than Mr. Crowe and Mr. Alonso, and \$5,769 for Mr. Crowe. These contributions were made in the form of units of the Level 3 Stock Fund.
- For Mr. Crowe, amounts in this column includes \$26,286 for the premiums associated with life and/or disability insurance coverage for 2013 under his employment agreement. These payments do not continue past 2013.
- For Mr. Crowe and Mr. Storey, amounts in this column also include \$77,006 and \$31,269 related to their respective personal use of our aircraft in 2013, pursuant to the arrangement described above under the caption "Compensation Discussion and Analysis—IV. Determination of Total Compensation for 2013—G. Perquisites." The calculation of the amounts set forth in the table for personal use of our aircraft by Messrs. Crowe and Storey is based on our incremental cost relating to their use of the aircraft, which includes only the variable costs incurred as a result of personal flight activity, including fuel, oil, lubricants, other additives, travel expenses of the crew, including food, lodging and ground transportation, hanger and tie-down costs away from the aircraft's base of operations, insurance obtained for the specific flight, landing fees, airport taxes and similar assessments, customs, foreign permit and similar fees directly related to the flight, in-flight food and beverages, passenger ground transportation, and flight planning and weather contract services. It excludes non-variable costs, such as exterior paint, interior refurbishment and regularly scheduled inspections, which would have been incurred regardless of whether there were any personal use of aircraft.
- Amounts in this column for 2013 for Mr. Crowe and Mr. Miller include \$7,090,771 and \$3,007,846 of cash severance, respectively.
- (5) Mr. Alonso joined Level 3 in October 2011, upon the completion of our acquisition of Global Crossing Limited.

Grants of Plan Based Awards in 2013

This table provides information about equity awards granted to the Named Executive Officers in 2013.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units(1)	All Other Option Awards: Number of Securities Underlying Options(2)	Exercise or Base Price of Option Awards(3)	Grant Date Fair Value of Stock and Option Awards(4)
Jeff K. Storey	1/1/2013		18,750	\$23.11	\$ 437,212
	4/1/2013		18,750	\$20.29	\$ 383,861
	7/1/2013		25,000	\$21.08	\$ 531,743
	10/1/2013		25,000	\$26.69	\$ 673,255
	7/1/2013	100,000			\$2,108,000
Sunit S. Patel	1/1/2013		12,500	\$23.11	\$ 291,475
	4/1/2013		12,500	\$20.29	\$ 255,908
	7/1/2013		12,500	\$21.08	\$ 265,872
	10/1/2013		12,500	\$26.69	\$ 336,628
	7/1/2013	50,000			\$1,054,000
Thomas C. Stortz	1/1/2013		12,500	\$23.11	\$ 291,475
	4/1/2013		12,500	\$20.29	\$ 255,908
	7/1/2013		12,500	\$21.08	\$ 265,872
	10/1/2013		12,500	\$26.69	\$ 336,628
	7/1/2013	50,000			\$1,054,000
Andrew E. Crouch	1/1/2013		6,250	\$23.11	\$ 145,737
	4/1/2013		6,250	\$20.29	\$ 127,954
	7/1/2013		6,250	\$21.08	\$ 132,936
	10/1/2013		6,250	\$26.69	\$ 168,314
	1/1/2013	2,500			\$ 57,775
	7/1/2013	25,000			\$ 527,000
Héctor R. Alonso	1/1/2013		4,375	\$23.11	\$ 102,016
	4/1/2013		4,375	\$20.29	\$ 89,568
	7/1/2013		4,375	\$21.08	\$ 93,055
	10/1/2013		4,375	\$26.69	\$ 117,820
	3/14/2013	8,329			\$ 175,742
	3/25/2013	929			\$ 18,617
	7/1/2013	17,500			\$ 368,900
Charles C. Miller, III	1/1/2013		12,500	\$23.11	\$ 291,475
	4/1/2013		12,500	\$20.29	\$ 255,908

(1) This column shows the number of RSUs granted in 2013 to the Named Executive Officers. For each of the Named Executive Officers receiving grants in 2013, each of these grants of RSUs, will vest and settle in shares in four equal installments on the first, second, third and fourth anniversaries of the date of grant. Mr. Miller's RSU awards were fully vested in connection with his termination.

(2) This column shows the number of OSOs granted in 2013 to the Named Executive Officers. The number of shares issued upon settlement of OSOs is subject to increase or decrease based on

the relative performance of our common stock when compared with the performance of the S&P 500® Index over the period between the date of grant of the OSO and the date immediately preceding the date of settlement. For details on the formula to determine the number of shares of our common stock that are issued upon settlement of vested OSOs, please see the discussion under the caption “*Compensation Discussion and Analysis—VI. 2013 Executive Compensation Components—Background—OSOs,*” above. OSO awards provide for acceleration of settlement in the event of a change of control as defined in our Level 3 Communications, Inc. Stock Plan.

- (3) OSOs have an initial base price that is equal to the closing market price of our common stock on the trading day immediately prior to the date of grant. This base price is adjusted over time until the settlement date (but not below the initial base price) to reflect the percentage appreciation or depreciation in the value of the S&P 500® Index during the term of the OSO. For details on the formula to determine the adjustment to the Initial Price for OSOs, please see the discussion under the caption “*Compensation Discussion and Analysis—VI. 2013 Executive Compensation Components—Background—OSOs,*” above.
- (4) This column shows the full grant date fair value of RSUs and the full grant date fair value of OSOs granted to the Named Executive Officers in 2013. Generally, the full grant date fair value is the amount that we would expense in our financial statements over the award’s vesting schedule.

For purposes of the RSUs, fair value is calculated using the closing price of our stock the day before the grant date of \$21.10 for March 14, 2013, \$20.04 for March 25, 2013 and \$21.08 for July 1, 2013.

For purposes of the OSOs, the fair value is calculated using a calculation value factor of:

January 1, 2013	\$23.32
April 1, 2013	\$20.47
July 1, 2013	\$21.27
October 1, 2013	\$26.93

For additional information on the valuation assumptions with respect to the 2013 grants, refer to note 14 of our financial statements in our Form 10-K for the year ended December 31, 2013, as filed with the SEC.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013 Table

A critical component of our compensation philosophy is providing appropriate incentives to employees through our LTI program. For 2013, our LTI program provided for two types of equity awards. The first is a stock-indexed security referred to as an outperform stock appreciation right—or OSO. The second is restricted stock units—or RSUs—that vest over a period of years, depending on the participant’s continued employment and the terms of the specific grant.

OSOs derive value only if our performance results in our common stock price performing better than the S&P 500® Index during the three year life of the award. Upon vesting and settlement, which will both occur on the third anniversary of the grant date subject to continued employment, the holder receives shares of our common stock (or, in the Compensation Committee of the Board of Director’s discretion in connection with a change in control, cash) equal to the “spread” between the adjusted base price and the price of our common stock multiplied by a “success multiplier,” which ranges from 0 to 4 on a straight line basis to reflect the amount, ranging from 0% to 11%, by which our common stock outperforms the S&P 500® Index. OSOs are granted on a quarterly basis, with the fixed settlement of three years from the date of grant for the OSOs providing a meaningful holding period that supports the alignment of our LTI program to provide compensation for performance that increases our common stock price and mitigates against inappropriate or excessive risk-taking.

An RSU represents our agreement to issue to the employee shares of our common stock (or, in the Compensation Committee's discretion in connection with a change in control, cash) on the date that the restrictions lapse, so long as the employee is employed on that date. RSUs are granted on a regular, fixed basis once per year. The restrictions on RSUs generally lapse in equal annual installments over three or four years, subject to the employee's continued employment and the terms of the specific grant. Upon retirement, all outstanding RSUs held by that person lapse. When the restrictions lapse, the employee is issued the number of shares of common stock equal to the number of RSUs for which the restrictions have lapsed on that date.

Pursuant to the terms of his employment agreement, Mr. Crowe did not receive any grants of LTI awards during 2013.

For additional information regarding the LTI program awards, please see "Compensation Discussion and Analysis—VI. 2013 Executive Compensation Components—Background" above.

Outstanding Equity Awards at 2013 Fiscal Year End

The following table provides information on the holdings of unvested OSOs and unvested RSUs by the Named Executive Officers as of December 31, 2013. Each grant is shown separately for each Named Executive Officer. The vesting schedule for each grant is shown following this table, based on the award grant date. For additional information about the OSO and RSU awards, see the descriptions under the caption "Compensation Discussion and Analysis—VI. 2013 Executive Compensation Components—Background" above. Because the number of shares underlying any OSO is subject to change by way of a formulaic multiplier based upon the performance of our common stock relative to the performance of the S&P 500® Index, a zero included in the column titled Number of Securities Underlying Unexercised Options indicates that the OSOs comprising those specific grants have a zero multiplier resulting in a zero dollar value (\$0) at December 31, 2013, indicating that our common stock price had not outperformed the S&P 500® Index from the grant date of these OSOs through December 31, 2013. Each OSO is unexercisable prior to its respective vesting date, at which time it automatically vests and settles in full.

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#)(1) Unexercisable	Option Exercise Price (\$)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)(3)	
Jeff K. Storey	1/1/2011	19,226	\$21.34	1/1/2014				
	4/1/2011	1,240	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	13,886	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	5,409	\$29.68	7/1/2015				
	10/1/2012	9,003	\$29.10	10/1/2015				
	1/1/2013	8,378	\$29.58	1/1/2016				
	4/1/2013	21,859	\$23.60	4/1/2016				
	7/1/2013	28,085	\$23.96	7/1/2016				
	10/1/2013	13,010	\$28.97	10/1/2016				
	1/1/2010				2,093(a)	\$ 69,425		
	7/1/2010				13,368(b)	\$ 443,417		

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#)(1)	Option Exercise Price (\$)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested #(3)	
	7/1/2011				26,736(c)	\$ 886,833		
	7/1/2012				56,250(d)	\$1,865,813		
	7/1/2013				100,000(e)	\$3,317,000		
	4/2/2012				56,250(a)	\$1,865,813		
	4/2/2012						112,500(g)	\$3,731,625
Sunit S. Patel	1/1/2011	11,215	\$21.34	1/1/2014				
	4/1/2011	723	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	8,099	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	3,606	\$29.68	7/1/2015				
	10/1/2012	6,002	\$29.10	10/1/2015				
	1/1/2013	5,585	\$29.58	1/1/2016				
	4/1/2013	14,573	\$23.60	4/1/2016				
	7/1/2013	14,043	\$23.96	7/1/2016				
	10/1/2013	6,505	\$28.97	10/1/2016				
	1/1/2010				1,283(a)	\$ 42,557		
	7/1/2010				7,798(b)	\$ 258,660		
	7/1/2011				15,596(c)	\$ 517,319		
	7/1/2012				37,500(d)	\$1,243,875		
	7/1/2013				50,000(e)	\$1,658,500		
	4/2/2012				37,500(a)	\$1,243,875		
	4/2/2012						75,000(g)	\$2,487,750
Thomas C. Stortz	1/1/2011	11,215	\$21.34	1/1/2014				
	4/1/2011	723	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	8,099	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	3,606	\$29.68	7/1/2015				
	10/1/2012	6,002	\$29.10	10/1/2015				
	1/1/2013	5,585	\$29.58	1/1/2016				
	4/1/2013	14,573	\$23.60	4/1/2016				
	7/1/2013	14,043	\$23.96	7/1/2016				
	10/1/2013	6,505	\$28.97	10/1/2016				
	1/1/2010				1,364(a)	\$ 45,244		
	7/1/2010				7,798(b)	\$ 258,660		
	7/1/2011				15,596(c)	\$ 517,319		
	7/1/2012				37,500(d)	\$1,243,875		
	7/1/2013				50,000(e)	\$1,658,500		
	4/2/2012				37,500(a)	\$1,243,875		
	4/2/2012						75,000(g)	\$2,487,750
Andrew E. Crouch	1/1/2011	5,393	\$21.34	1/1/2014				
	4/1/2011	348	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	3,895	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	1,442	\$29.68	7/1/2015				

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#)(1)	Option Exercise Price (\$)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested #(3)	
	10/1/2012	2,401	\$29.10	10/1/2015				
	1/1/2013	2,793	\$29.58	1/1/2016				
	4/1/2013	7,286	\$23.60	4/1/2016				
	7/1/2013	7,021	\$23.96	7/1/2016				
	10/1/2013	3,253	\$28.97	10/1/2016				
	1/1/2010				735(a)	\$ 24,380		
	7/1/2010				3,000(b)	\$ 99,510		
	10/1/2010				562(f)	\$ 18,642		
	7/1/2011				7,500(c)	\$ 248,775		
	7/1/2012				15,000(d)	\$ 497,550		
	1/1/2013				2,500(i)	\$ 82,925		
	7/1/2013				25,000(e)	\$ 829,250		
	4/2/2012				10,000(a)	\$ 331,700		
	4/2/2012						20,000(g)	\$ 663,400
Héctor R. Alonso	1/1/2012	3,116	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	1,262	\$29.68	7/1/2015				
	10/1/2012	2,101	\$29.10	10/1/2015				
	1/1/2013	1,955	\$29.58	1/1/2016				
	4/1/2013	5,100	\$23.60	4/1/2016				
	7/1/2013	4,915	\$23.96	7/1/2016				
	10/1/2013	2,277	\$28.97	10/1/2016				
	1/1/2012				6,750(h)	\$ 223,898		
	7/1/2012				13,125(d)	\$ 435,356		
	7/1/2013				17,500(e)	\$ 580,475		
	4/2/2012				8,750(a)	\$ 290,238		
	4/2/2012						17,500(g)	\$ 580,475
James Q. Crowe	1/1/2011	33,405	\$21.34	1/1/2014				
	4/1/2011	2,154	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	24,126	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
Charles C. Miller, III	1/1/2011	12,282	\$21.34	1/1/2014				
	4/1/2011	792	\$30.36	4/1/2014				
	7/1/2011	0	\$50.59	7/1/2014				
	10/1/2011	0	\$36.06	10/1/2014				
	1/1/2012	8,871	\$24.66	1/1/2015				
	4/1/2012	0	\$33.35	4/1/2015				
	7/1/2012	3,606	\$29.68	7/1/2015				
	10/1/2012	6,002	\$29.10	10/1/2015				
	1/1/2013	5,585	\$29.58	1/1/2016				
	4/1/2013	14,573	\$23.60	4/1/2016				

(1) The number of shares of our common stock indicated in this column is the result of determining the OSO value at December 31, 2013, and has been computed based upon the OSO formula and multiplier as of that date and the closing sale price of our common stock on that date. For additional information on the valuation assumptions we made with respect to these grants, refer to note 14 of our financial statements in our Form 10-K for the year ended December 31, 2013, as filed with the SEC. The value of an OSO is subject to change based upon the performance of

our common stock relative to the performance of the S&P 500® Index from the time of the grant of the OSO award until the award is settled. Since the value of an OSO depends on the degree to which our common stock outperforms the index, the number of shares issued upon settlement of a vested OSO will change from time to time.

- (2) OSOs have an initial base price that is equal to the closing market price of our common stock on the trading day immediately prior to the date of grant. This initial base price is referred to as the Initial Price. On the settlement date, the Initial Price is adjusted (but not below the initial base price)—as of the date of settlement—by a percentage that is equal to the aggregate percentage increase or decrease in the S&P 500® Index over the period beginning on the date of grant and ending on the trading day immediately preceding the settlement date of the OSO. The amounts shown in this column represent the adjusted base price for the OSOs as of December 31, 2013.
- (3) Amounts in this column show the number of shares of our common stock that would be paid out to the Named Executive Officer pursuant to the RSU component of that officer's incentive award under the MIRP assuming target performance.

Vesting Information

OSOs. OSOs vest and fully settle on the third anniversary of the grant date, with the OSOs awarded to Mr. Crowe pursuant to his employment agreement fully settling on April 1, 2015. OSO awards provide for acceleration of settlement in the event of a change of control as defined in our Level 3 Communications, Inc. Stock Plan.

RSUs. RSUs vest as follows.

- (a) vests on January 1, 2014
- (b) vests on July 1, 2014
- (c) vests in equal installments on July 1, 2014 and 2015
- (d) vests in equal installments on July 1, 2014, 2015, and 2016
- (e) vests in equal installments on July 1, 2014, 2015, 2016 & 2017
- (f) vests on October 1, 2014
- (g) vests 100% on December 31, 2013, subject to performance. Amounts included assume target performance under the MIRP. The actual number of RSUs that were awarded in February 2014, which immediately vested, are set forth in the table below:

<u>Name</u>	<u>RSUs</u>
Jeff K. Storey	123,750
Sunit S. Patel	82,500
Thomas C. Stortz	82,500
Andrew E. Crouch	21,800
Hector R. Alonso	19,075

- (h) vests in equal installments on January 1, 2014, 2015, and 2016
- (i) vests in equal installments on January 1, 2014, 2015, 2016 & 2017

Options Exercised and Stock Vested in 2013

The following table provides information for the Named Executive Officers relating to (1) OSO settlements during 2013, including the number of shares acquired upon settlement and the value realized including the value realized if no shares of our common stock were issued and (2) the number of shares acquired upon the lapsing of restrictions for RSUs and the value realized, in each case before payment of any applicable withholding tax and broker commissions.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Jeff K. Storey	11,326	\$302,282	110,946	\$ 2,459,969
Sunit S. Patel	6,607	\$176,331	71,242	\$ 1,582,182
Thomas C. Stortz . . .	6,607	\$176,331	71,598	\$ 1,590,293
Andrew E. Crouch . .	3,178	\$ 84,796	25,546	\$ 565,338
Héctor R. Alonso . . .	—	\$ —	24,633	\$ 539,455
James Q. Crowe . . .	19,679	\$525,217	742,129	\$20,424,244
Charles C. Miller, III .	7,236	\$193,109	176,533	\$ 5,070,559

Equity Compensation Plan Information

We have two equity compensation plans under which we may issue shares of our common stock to employees, officers, directors and consultants. They are The Level 3 Communications, Inc. Stock Plan and the 2003 Global Crossing Limited Stock Incentive Plan. We assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan in connection with the acquisition of Global Crossing. Options outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at the closing of the acquisition were automatically exchanged for options to purchase shares of our common stock and the plan was amended to provide for the issuance of shares of our common stock. The following table provides information about the shares of our common stock that may be issued upon exercise of awards under The Level 3 Communications, Inc. Stock Plan (in the “Equity compensation plans approved by stockholders” category) and the 2003 Global Crossing Limited Stock Incentive Plan (in the “Equity compensation plans not approved by stockholders” category) as of December 31, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	5,268,215*	\$23.99**	11,925,668
Equity compensation plans not approved by stockholders	26,665***	\$14.43***	3,352,982

* Includes, among other awards, awards of outperform stock appreciation units (“OSOs”). For purposes of this table, each OSO was considered to use a single share of our common stock from the total number of shares reserved for issuance under The Level 3 Communications, Inc. Stock Plan even though the actual payout multiplier may range from zero to four, as described below.

** At December 31, 2013, the only type of award outstanding under The Level 3 Communications, Inc. Stock Plan that included an “exercise price” was the OSOs. The

weighted-average exercise price indicated was for the outstanding OSOs at the date of grant. The exercise price of an OSO is subject to change based upon the performance of our common stock relative to the performance of the S&P 500® Index from the time of the grant of the award until the award has been exercised.

*** Includes awards of options only. The 2003 Global Crossing Limited Stock Incentive Plan provides for the granting of (i) stock options, (ii) stock appreciation rights and (iii) other stock-based awards, including, without limitation, restricted share units, to eligible participants. The vesting of outstanding awards may be accelerated and the securities issuable pursuant to outstanding awards may be adjusted upon the occurrence of certain corporate events. No awards may be granted under the plan after December 8, 2013. For additional information about the plan, see Note 14 “Employee Benefits and Stock-Based Compensation” to our consolidated financial statements included in this annual report on Form 10-K.

OSOs derive value from the appreciation of our common stock above a base price equal to the fair market value of our common stock on the date of grant as adjusted (but not below the initial base price) to reflect the change in value of the S&P 500® Index during the term of the OSO. Upon vesting and settlement, which for awards granted in 2013 will both occur on the third anniversary of the grant date, subject to continued employment, the holder will receive an amount equal to the “spread” between the adjusted base price and the price of our common stock multiplied by a “success multiplier,” which ranges from 0 to 4 on a straight line basis to reflect the amount, ranging from 0% to 11%, by which our common stock outperforms the S&P 500® Index.

Beginning in 2014, OSOs will no longer be awarded. Instead, we will award performance-based restricted stock unit awards, which will use a two-year performance measurement period, with the specific performance criteria to be determined by the Compensation Committee of the Board of Directors for each annual award cycle, and will vest 50% on the second anniversary of the grant date (after the relevant performance has been measured) and the second 50% vesting February 1st of the following year to serve as a retention tool.

Potential Payments Upon Termination or Change of Control

As described in the Compensation Discussion and Analysis above, at December 31, 2013, the Current Named Executive Officers did not have employment agreements with us.

The information below describes and quantifies certain compensation that would become payable under existing plans and arrangements if the Current Named Executive Officer's employment had terminated on December 31, 2013, given the Named Executive Officer's compensation and, if applicable, based on our closing stock price on that date. As of December 31, 2013, Messrs. Storey, Patel, Stortz and Crouch participate in the 2012 Management Incentive and Retention Plan and the Key Executive Severance Plan.

For Mr. Alonso, under Argentine law, in the case of an involuntary not-for-cause termination, a voluntary termination with good reason or a change in control termination, an employee is entitled to a lump sum severance payment equal to the employee's highest monthly salary multiplied by the sum of his or her number of years of service (currently 20 years in the case of Mr. Alonso) plus two. In the case of a death or disability separation, an employee is entitled to a payment equal to half of the lump sum severance payment described in the preceding sentence.

Due to the number of factors that affect the nature and amount of any benefits provided upon the occurrence of the events discussed below, any actual amounts paid or distributed may be different. Factors that could affect these amounts include the timing during the year of any such event, our common stock price and the executive's age.

Death, Disability and Retirement. If one of the Current Named Executive Officers were to die, become disabled or retire, the OSOs will remain outstanding until the applicable settlement date. Any remaining restrictions on awards of RSUs would lapse immediately. For these purposes, “disability” generally means total disability, resulting in the grantee being unable to perform his job. At December 31, 2013, Mr. Stortz was the only Named Executive Officers who was eligible to retire pursuant to our retirement benefit opportunity. The information presented in the following table is provided with respect to OSOs that would be retained until settlement and RSUs the restrictions upon which will lapse upon the death or disability of the Named Executive Officers. OSO value is determined based upon the OSO mechanisms described above as of December 31, 2013. RSU value is determined based on the closing price of our common stock of \$33.17 on December 31, 2013. In addition, the information below reflects the results required under the 2012 Management Incentive and Retention Plan and the Key Executive Severance Plan. The amounts for Mr. Alonso represents an estimate of the amounts that would be owed to him under applicable laws in Argentina. The amount in the Cash column also includes the payment of health and welfare benefits of approximately \$29,000 for each of the Current Named Executive Officers other than Mr. Alonso. Mr. Alonso is not entitled to any payments for health and welfare benefits.

Death and Disability

Name	As of December 31, 2013			
	Cash	OSOs	RSUs	Total
Jeff K Storey	\$ 28,885	\$3,983,569	\$6,582,487	\$10,594,941
Sunit S. Patel	\$ 29,328	\$2,333,552	\$3,720,911	\$ 6,083,791
Thomas C. Stortz	\$ 29,328	\$2,333,552	\$3,723,598	\$ 6,086,478
Andrew E. Crouch	\$ 29,328	\$1,122,206	\$1,801,031	\$ 2,952,565
Héctor R. Alonso	\$367,423	\$ 687,473	\$1,239,729	\$ 2,294,625

Retirement

Name	As of December 31, 2013			
	Cash	OSOs	RSUs	Total
Jeff K Storey	\$—	\$ —	\$ —	\$ —
Sunit S. Patel	\$—	\$ —	\$ —	\$ —
Thomas C. Stortz	\$—	\$2,333,552	\$3,723,598	\$6,057,150
Andrew E. Crouch	\$—	\$ —	\$ —	\$ —
Héctor R. Alonso	\$—	\$ 687,473	\$1,239,729	\$1,927,202

Involuntary Separation from Service. If one of the Current Named Executive Officers were to have his employment with the company involuntarily terminated other than for cause and not related to a change of control, or if the Current Named Executive Officer were to terminate his employment with us for good reason as defined in the Key Executive Severance Plan, his OSOs will remain outstanding until the applicable settlement date. Any remaining restrictions on awards of RSUs would lapse immediately.

The information presented in the following table is provided with respect to OSOs that would be retained until settlement. OSO value is determined based upon the OSO mechanisms described above as of December 31, 2013. RSU value is determined based on the closing price of our common stock of \$33.17 on December 31, 2013. In addition, the information below shows the results required under the 2012 Management Incentive and Retention Plan and the Key Executive Severance Plan. Amounts in the Cash column also include the cost of health and welfare benefits for all of the Named Executive Officers and the cost of outplacement services for the Named

Executive Officers. The amounts for Mr. Alonso represent an estimate of the amounts that would be owed to him under applicable laws in Argentina as described above.

Name	As of December 31, 2013			
	Cash	OSOs	RSUs	Total
Jeff K Storey	\$6,213,885	\$ 678,841	\$4,273,258	\$11,165,984
Sunit S. Patel	\$2,914,328	\$ 395,991	\$2,633,001	\$ 5,943,320
Thomas C. Stortz	\$2,914,328	\$2,333,552	\$4,967,473	\$10,215,353
Andrew E. Crouch	\$1,419,328	\$ 190,429	\$ 992,513	\$ 2,602,270
Héctor R. Alonso	\$ 734,846	\$ 687,473	\$1,529,966	\$ 2,952,285

Mr. Crowe's employment terminated effective April 11, 2013. As a result of that termination and pursuant to the terms of his employment agreement, Mr. Crowe received \$7,083,333, representing his remaining 2013 base salary of \$833,333, his 2014 base salary of \$1,250,000, his target bonus for 2013 of \$2,500,000, his target bonus for 2014 of \$2,500,000, plus interest of \$7,438. These amounts were payable in equal bi-weekly installments. The restrictions on transfer relating to 730,576 RSUs (with a value on April 11, 2013 of \$15,890,028) held by Mr. Crowe lapsed, and he was entitled to retain 612,590 OSOs (with a value on April 11, 2013 of \$155,765), with payments, if any, to be made upon settlement.

Mr. Miller's employment terminated effective June 7, 2013. At that time, Mr. Miller was a participant in the KESP. As a result, after he satisfied the conditions outlined in the KESP, Mr. Miller received the following payments: \$247,160, representing his prorated bonus for 2013; \$2,300,000, representing two times the sum of his base salary and most recent target annual bonus; \$29,436, representing a lump sum cash payment equal to our paid portion to cover twenty-four months of continued medical and dental insurance coverage; \$431,250, representing his remaining retention cash payment under the MIRP; and vesting of 135,109 RSUs (with a value of \$2,914,301 as of June 7, 2013) and 122,281 OSOs (with a value of \$68,440 as of June 7, 2013), since Mr. Miller was retirement eligible at the time of his separation.

Change of Control. As described above in the Compensation Discussion and Analysis, OSOs will automatically be settled upon the occurrence of a change of control of Level 3 Communications, Inc. as defined in The Level 3 Communications, Inc. Stock Plan, and any remaining restrictions on RSUs would lapse immediately upon such a change of control and in such case we will, in our sole discretion, either (a) issue all unissued shares of our common stock issuable pursuant to the RSU award to the employee or (b) pay the employee in a combination of cash and stock the value of those shares of our common stock as provided for in the Level 3 Communications, Inc. Stock Plan.

Notwithstanding the foregoing, if the change of control does not qualify as a "change in control event" as defined in Treasury Regulation 1.409A-3(i)(5)(i) under Section 409A of the Internal Revenue Code of 1986, as amended, then the Named Executive Officer must also undergo a separation from service on account of his termination of employment by us without cause following that change in control in order for the remaining restrictions on his RSUs to lapse. In such case, the issuance of the shares or the payment of the cash would be delayed until the date six months and one day following his separation from service.

OSO value is determined based upon the OSO mechanisms for a change of control described above, and is calculated at the highest value during the 60 day period prior to December 31, 2013, as dictated by the terms of the OSO awards. In addition, we will provide gross-ups for our Named Executive Officers, other than Mr. Alonso, from any taxes due under Section 4999 of the Internal Revenue Code of 1986 incident to a change of control for awards granted prior to April 1, 2012. The effects of Section 4999 generally are unpredictable and can have widely divergent and unexpected effects based on an executive's personal compensation history.

The following tables summarize the dollar value, as of December 31, 2013, of cash payments that would be owed, including for any Section 4999 gross-ups and these accelerations assuming that a change of control that qualifies as a change of control event of Level 3 Communications, Inc. had occurred on December 31, 2013 along with or without a termination of the Named Executive Officers having occurred on December 31, 2013.

The information below reflects the results required under the 2012 Management Incentive and Retention Plan and the Key Executive Severance Plan in the context of a change of control and a termination of employment that is effective December 31, 2013. Amounts in the Cash column also include the cost of health and welfare benefits. The amounts for Mr. Alonso represent an estimate of the amounts that would be owed to him under applicable laws in Argentina. Mr. Alonso does not participate in the KESP.

Name	As of December 31, 2013			
	Cash	OSOs	RSUs	Total
Jeff K Storey	\$7,828,534	\$3,983,569	\$12,179,924	\$23,992,027
Sunit S. Patel	\$4,112,059	\$2,333,552	\$ 7,452,536	\$13,898,147
Thomas C. Stortz	\$4,104,393	\$2,333,552	\$ 7,455,223	\$13,893,168
Andrew E. Crouch	\$1,974,351	\$1,122,206	\$ 2,796,131	\$ 5,892,688
Héctor R. Alonso	\$1,140,666	\$ 687,473	\$ 2,110,441	\$ 3,938,580

The information below reflects the results required under the 2012 Management Incentive Retention Plan in the context of a change of control without a termination of employment. The amounts for Mr. Alonso represent an estimate of the amounts that would be owed to him under applicable laws in Argentina.

Name	As of December 31, 2013			
	Cash	OSOs	RSUs	Total
Jeff K Storey	\$1,572,292	\$3,983,569	\$12,179,924	\$17,735,785
Sunit S. Patel	\$1,162,747	\$2,333,552	\$ 7,452,536	\$10,948,835
Thomas C. Stortz	\$1,151,959	\$2,333,552	\$ 7,455,223	\$10,940,734
Andrew E. Crouch	\$ 413,288	\$1,122,206	\$ 2,796,131	\$ 4,331,625
Héctor R. Alonso	\$ 405,820	\$ 687,473	\$ 2,110,441	\$ 3,203,734

At December 31, 2013, our Current Named Executive Officers did have non-compete agreements other than as described above in the Compensation Discussion and Analysis with respect to Mr. Crowe's employment agreement and with respect to the other Named Executive Officers participating in the MIRP and the Key Executive Severance Plan.

Director Compensation

During 2013, each of our directors (other than Mr. Scott, whose compensation is described below) who was not employed by us during 2013 earned fees for his Board service consisting of a \$75,000 annual cash retainer. The directors who serve as the chairmen of the Audit Committee and the Compensation Committee each earned an additional \$30,000 annual cash retainer for serving as chairmen of those committees. Each chairman of the Nominating and Governance Committee, the Classified Business and Security Committee and the Strategic Planning Committee receives an additional \$20,000 for serving as chairman of that committee. Any member of the Board who was not employed by us during 2013 earned a \$15,000 annual cash retainer for each non-chair membership on the Audit Committee and the Compensation Committee. Any member of the Board who was not employed by us during 2013 earned a \$10,000 annual cash retainer for each non-chair membership on the Nominating and Governance Committee, the Classified Business and Security Committee and the Strategic Planning Committee. These payments are made on a quarterly basis.

Mr. Mahoney also received a onetime payment of \$20,000 as the Chairman and Messrs. Clontz, Jaros and Reed each received a onetime payment of \$10,000 as members of the Transition Planning Committee, which was dissolved during 2013. Walter Scott, Jr., our Chairman of the Board, received an annual cash retainer of \$250,000 for serving as our Chairman of the Board. This retainer is paid on a monthly basis.

We also compensate our non-employee directors with grants of RSUs. Each non-employee member of the Board receives a grant of RSUs as of July 1 of each year, with the number of units determined by dividing \$150,000 (or \$180,000 for Mr. Scott) by the volume-weighted average price of our common stock over the period from January 1 to June 30. The total number of RSUs issued to each non-employee member of the Board with respect to a calendar year's compensation is subject to an overall cap of 6,666 shares (or 8,000 shares for Mr. Scott). These RSUs vest and settle in shares of our common stock on the first anniversary of grant.

We also award an initial grant of RSUs to new members of our Board. This initial grant has a value of \$150,000 on the date of grant. The restrictions on transfer for this initial grant lapse 100% on the third anniversary of the date of grant. During 2013, we made an initial grant of restricted stock units to Mr. van Oppen. In 2014 the Board determined to eliminate the automatic granting of restricted stock units to new Board members, but the Board retained the discretion to modify this decision on a case by case basis.

We reimburse our non-employee directors for travel, lodging and other reasonable out-of-pocket expenses in connection with the attendance at Board, committee and stockholder meetings, as well as for other reasonable expenses related to service on the Board. We also provide liability insurance for our directors and officers. A group of insurance companies provides this coverage. The annual cost of this coverage is approximately \$1.8 million.

We do not maintain any pension, nonqualified defined contribution or other deferred compensation plans for our non-employee directors.

The following table summarizes for 2013 the fees earned or paid in cash to our directors, the full grant date fair value stock awards made to our directors other compensation received by our directors.

<u>Name</u>	<u>Fees Earned or Paid in Cash(\$)</u>	<u>Stock Awards (\$)(1)</u>	<u>All Other Compensation(\$)</u>	<u>Total(\$)</u>
Walter Scott, Jr., Chairman	250,000	174,480	86,701(2)	511,181
Kevin P. Chilton	100,000	145,385		245,385
Archie R. Clemins	100,000	145,385		245,385
Steven T. Clontz	88,750	145,385		234,135
James O. Ellis, Jr.	112,500	145,385		257,885
T. Michael Glenn	84,375	145,385		229,760
Richard R. Jaros	110,000	145,385		255,385
Michael J. Mahoney	124,000	145,385		269,385
Charles C. Miller, III(3)	23,750	72,758		96,508
Peter Seah Liam Huat	90,000	145,385		235,385
John T. Reed	125,000	145,385		270,385
Peter van Oppen(4)	51,875	272,912		324,787
Albert C. Yates	100,000	145,385		245,385
Former Director				
James Q. Crowe	0	0		0

(1) This column represents the full grant date fair value of the restricted stock units issued to our non-employee directors during 2013. For additional information relating to the assumptions made by us in valuing these awards for 2013, refer to note 14 of our financial statements in our annual report on Form 10-K for the year ended December 31, 2013, as filed with the SEC.

The following indicates the restricted stock units held by our non-employee directors at December 31, 2013:

<u>Name</u>	<u>Number of Shares</u>
Walter Scott, Jr., Chairman	8,000
Kevin P. Chilton	12,670
Archie R. Clemins	13,708
Steven T. Clontz	12,670
James O. Ellis, Jr.	6,666
T. Michael Glenn	13,291
Richard R. Jaros	6,666
Michael J. Mahoney	6,666
Charles C. Miller, III	3,336
Peter Seah Lim Huat	13,708
John T. Reed	6,666
Peter van Oppen	13,146
Albert C. Yates	6,666

(2) We provide secretarial services to Mr. Scott. The amount indicated represents our incremental costs for the provision of those secretarial services.

(3) Mr. Miller became a non-employee Director effective June 8, 2013.

(4) Mr. van Oppen joined our Board in March 2013.

Certain Relationships and Related Transactions

Review and Approval of Related Party Transactions. We review all relationships and transactions in which we and (i) our directors, (ii) our executive officers, (iii) any person known by us to beneficially own more than five percent of our outstanding common stock or (iv) their respective immediate family members, are participants pursuant to a written related party transactions policy to determine whether these persons have a direct or indirect material interest. Members of our Legal Department are primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, related person transactions that are determined to be directly or indirectly material to the company or a related person are disclosed in our Proxy Statement. In addition, our Audit Committee reviews and determines whether to approve or ratify any related person transaction that has a value equal to or in excess of \$50,000. In the course of its review of a related party transaction that meets this threshold, the Audit Committee will consider:

- the benefits to the company;
- the effect on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, stockholder or executive officer;
- the availability of other sources for comparable products or services;
- the terms of the transaction; the terms available to unrelated third parties or to employees generally; and
- any other matters the Audit Committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction; provided, however, that such member may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Related Party Transactions

The Audit Committee has reviewed and approved or ratified all of the following transactions which took place during 2013.

Company Aircraft. We impute as income the cost of personal travel using our corporate aircraft. We note that when a guest accompanies a member of our senior management on business travel and if required by applicable U.S. Internal Revenue Service regulations, we impute as income the cost of that additional travel to that executive. To calculate the amount of imputed income, we use the Internal Revenue Service's Standard Industry Fare Level, or SIFL, rates. In addition, in certain limited circumstances we impute as income the cost of personal travel to an executive to the extent that the personal use of the corporate aircraft is at the direction of the company and for the company's benefit in attracting and retaining a member of senior management. For 2013, no one had imputed income of \$120,000 or more. For additional information regarding the personal use of aircraft, please see "Compensation Discussion and Analysis—IV. Determination of Total Compensation for 2013—Perquisites" above.

VOTE ON COMPENSATION PROPOSAL

Under the rules of the SEC, we are required to provide you with the opportunity to cast a vote on the compensation for our Named Executive Officers. This proposal is frequently referred to as a “say-on-pay” vote. This vote is on an advisory basis. Our executive compensation program is intended to attract, retain and motivate the executive talent required to achieve our corporate objectives and increase stockholder value.

As part of our efforts to satisfy the need to attract, retain and motivate the individuals who possess the skills necessary to grow our business, management and our Compensation Committee believe that our compensation programs should reflect our compensation philosophy. This philosophy includes the following core beliefs:

- our employees should be rewarded fairly and competitively through a mix of base salary, short- and long-term incentives linked to company performance and the creation of long-term stockholder value, benefits, career growth and development opportunities and a work environment that allows our employees to achieve results;
- our employees should be rewarded fairly and competitively based on the results they achieve;
- our compensation programs set expectations, measure results and hold employees accountable for expected results;
- we reward results that are achieved while adhering to our corporate values, including by paying above market total compensation for results that exceed expectations;
- employee ownership for our more senior employees demonstrates an economic stake in our business that helps align their interests with those of our stockholders; and
- our compensation programs for our more senior employees should be based heavily on creating long-term value.

Our executive compensation program is described in the Compensation Discussion and Analysis, or CD&A, related compensation tables and other narrative executive compensation disclosures required by the disclosure rules of the SEC, all of which are found in this Proxy Statement. In particular, the CD&A, beginning on page 22 of this Proxy Statement, describes our executive compensation program in detail, and we encourage you to review it.

Since the vote on this proposal is advisory, it is not binding on us. Nonetheless, the Compensation Committee, which is responsible for approving the overall design and administering certain aspects of the executive compensation program, will take into account the outcome of the vote when making future executive compensation decisions. The Board of Directors recommends that you approve the following resolution that will be submitted for a vote at the 2014 Annual Meeting in support of our executive compensation program:

RESOLVED, that the compensation paid to the company’s named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in the Proxy Statement, is hereby APPROVED.

The Board recommends a vote FOR, this proposal

Unless you specify otherwise, the Board intends the accompanying Proxy to be voted **for** this item.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock, as of March 31, 2014, by Level 3's directors, the Named Executive Officers, and the directors and executive officers as a group, and each person known by us to beneficially own more than five percent of our outstanding common stock.

<u>Name</u>	<u>Number of Shares of Common Stock</u>	<u>Percent of Common Stock Beneficially Owned(%)</u>
Jeff K. Storey(1)	247,297	*
Sunit S. Patel(2)	213,447	*
Thomas C. Stortz(3)	155,264	*
Andrew Crouch (4)	44,340	*
Héctor R. Alonso	113,359	*
Walter Scott, Jr.(5)	160,758	*
Kevin P. Chilton	4,913	*
Steven T. Clontz	41,413	*
Archie R. Clemins	24,391	*
James O. Ellis, Jr.	50,769	*
T. Michael Glenn	6,656	*
Richard R. Jaros	124,288	*
Michael J. Mahoney	45,649	*
Charles C. Miller, III(6)	213,381	*
John T. Reed(7)	68,925	*
Peter Seah Lim Huat	45,263	*
Peter van Oppen	10,000	*
Albert C. Yates	46,108	*
Directors and Executive Officers as a Group (21 persons)(8)	1,740,754	*
Former Director and Executive Officer		
James Q. Crowe(9)	19,377	*
STT Stockholder Group(10)	55,498,593	23.4
Southeastern Asset Management, Inc.(11) . .	48,481,997	21.7

* Less than 1%.

- (1) Includes 11,152 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (2) Includes 6,506 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014, and 1,000 shares of our common stock held in an individual retirement account.
- (3) Includes 6,506 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (4) Includes 3,129 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (5) Includes 6,646 shares of our common stock held by the Suzanne Scott Irrevocable Trust as to which Mr. Scott shares voting and investment powers. Mr. Scott disclaims beneficial ownership of any shares of our common stock held by the Suzanne Scott Irrevocable Trust.

- (6) Includes 7,125 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (7) Includes 16,666 shares of our common stock held in Mr. Reed's individual retirement account and 6,666 shares of our common stock held by Reed Capital Partners, LLC, of which Mr. Reed and his spouse hold none of the membership interests, but as to which Mr. Reed and his spouse share voting and investment powers. Mr. Reed disclaims beneficial ownership of any shares of our common stock held by Reed Capital Partners, LLC.
- (8) Includes 41,023 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (9) Includes 19,377 shares issuable upon the settlement of OSOs within 60 days of March 31, 2014, assuming the OSO value as of March 31, 2014.
- (10) Based on information provided in Amendment No. 2 to Schedule 13D by these stockholders on May 21, 2012. STT Crossing Ltd. ("STT Crossing") is an indirect subsidiary of Temasek Holdings (Private) Limited ("Temasek"), its ultimate parent entity, and is located at 10 Frere Felix de Valois Street, Port Louis, Mauritius. As of May 21, 2012, STT Crossing owned 55,498,593 shares of our common stock. Temasek, through its ultimate ownership of STT Crossing, may be deemed to have voting and dispositive power over all these shares; however, pursuant to Rule 13d-4 under the Exchange Act, Temasek expressly disclaims beneficial ownership of these shares.
- (11) Address for Southeastern Asset Management, Inc., Longleaf Partners Fund and Mr. O. Mason Hawkins is 6410 Poplar Avenue, Suite 900, Memphis, Tennessee 38119. The following information is based solely on Southeastern Asset Management, Inc.'s Schedule 13G filed with the SEC on February 10, 2014. Percentage of our outstanding common stock is as reported in their Schedule 13G.

Information in the table is presented by Southeastern Asset Management, Inc. as a registered investment adviser. All of the securities reported by Southeastern Asset Management are owned legally by Southeastern Asset Management, Inc.'s investment advisory clients and none are owned directly or indirectly by Southeastern Asset Management, Inc. Includes 15,026,565 shares of our common stock (6.7%) beneficially owned by Longleaf Partners Fund, a series of Longleaf Partners Fund Trust, of which Southeastern Asset Management, Inc. shares voting and dispositive power. Southeastern Asset Management, Inc. exercises sole dispositive power with respect to 24,420,905 shares of our common stock beneficially owned by discretionary managed accounts, 24,061,092 shares of our common stock beneficially owned by discretionary managed accounts for which Southeastern Asset Management has shared dispositive power. Also includes 20,563,329 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has sole voting power, 24,061,092 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has shared voting power and 3,857,576 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has no voting power.

Mr. O Mason Hawkins, Chairman of the Board and C.E.O. of Southeastern Asset Management, Inc., may be deemed to beneficially own the Level 3 common stock held by Southeastern Asset Management, Inc. Mr. Hawkins disclaims beneficial ownership of such common stock.

OTHER MATTERS

It is not anticipated that any matters other than those described in this Proxy Statement will be brought before the Annual Meeting. If any other matters are presented, however, it is the intention of the persons named in the proxy to vote the proxy in accordance with their discretion.

FUTURE STOCKHOLDER PROPOSALS

A stockholder who would like to have a proposal considered for inclusion in our 2015 Proxy Statement must submit the proposal so that it is received by us no later than December 12, 2014. SEC rules set standards for eligibility and specify the types of stockholder proposals that may be excluded from a proxy statement. Stockholder proposals should be addressed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

If a stockholder does not submit a proposal for inclusion in our 2015 Proxy Statement, but instead wishes to present it directly at the 2015 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before March 23, 2015, but no earlier than February 20, 2015, for the proposal to be included in our proxy material relating to that meeting. Proposals received after March 23, 2015 will not be voted on at the 2015 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2015 Annual Meeting, the stockholder's name and record address, the number of shares of our common stock that are owned beneficially or of record by such stockholder, a description of any arrangements or understandings between the stockholder and any other person in connection with such proposal and any material interest of such stockholder in such proposal, and a representation that the stockholder intends to appear in person or by proxy at the 2015 Annual Meeting. If the stockholder wishes to nominate one or more persons for election as a director, such stockholder's notice must comply with additional provisions as set forth in our By-laws, including certain information with respect to the persons nominated for election as directors and any information relating to the stockholder that would be required to be disclosed in a Proxy Statement filing. Any such proposals should be directed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

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AUDIT COMMITTEE REPORT

To the Board of Directors

The Audit Committee reviews Level 3 Communications, Inc.'s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The company's registered public accounting firm is responsible for expressing an opinion on the conformity of our audited financial statements to generally accepted accounting principles. We have reviewed and discussed with management the company's audited financial statements as of and for the year ended December 31, 2013.

The Audit Committee has reviewed and discussed the consolidated financial statements and internal control over financial reporting with management, internal audit and KPMG LLP, the company's independent registered public accounting firm. Management is responsible for the preparation, presentation and integrity of the company's financial statements; accounting and financial reporting principles; establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)); establishing and maintaining internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)); evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. KPMG LLP is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of internal control over financial reporting.

During the course of fiscal 2013, management completed the documentation, testing and evaluation of the company's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Audit Committee received periodic updates provided by management, internal audit and KPMG LLP at each regularly scheduled Audit Committee meeting. The Audit Committee reviewed the report of management contained in the company's Form 10-K for the fiscal year ended December 31, 2013 filed with the Securities and Exchange Commission, as well as KPMG LLP's Report of Independent Registered Public Accounting Firm included in the company's Form 10-K related to its audit of (i) the consolidated financial statements and (ii) the effectiveness of internal control over financial reporting. The Audit Committee continues to oversee the company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2014.

The Audit Committee has discussed with KPMG LLP the matters required to be discussed by the Standards of the Public Company Accounting Oversight Board (PCAOB) (United States), as described in PCAOB AU Section 380, "Communication with Audit Committees." The Audit Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by Rule 3526, Communications with Audit Committees Concerning Independence, by the Professional Standards of the Public Company Accounting Oversight Board (United States), and has discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the financial statements referred to above be included in the company's annual report on Form 10-K for the year ended December 31, 2013.

The Audit Committee has also considered whether the provision of services by KPMG LLP and its international affiliates not related to the audit of the financial statements referred to above and to the reviews of the interim financial statements included in the company's Forms 10-Q for the

quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, respectively, is compatible with maintaining KPMG LLP's independence.

The following table presents fees for professional audit services rendered by KPMG LLP and its international affiliates for the audit of the Level 3 annual financial statements for the years ended December 31, 2013, and 2012 and fees billed for other services rendered by KPMG LLP and its international affiliates during those periods, which have been approved by the Audit Committee.

	<u>2013</u>	<u>2012</u>
Audit Fees(1)	\$5,419,000	\$5,933,000
Audit-Related Fees(2)	622,000	486,000
Tax Fees(3)	429,000	466,000
All Other Fees	<u>0</u>	<u>0</u>
Total Fees	<u><u>\$6,470,000</u></u>	<u><u>\$6,885,000</u></u>

- (1) Audit fees consisted principally of fees for the audit of financial statements, including statutory audits of foreign subsidiaries, audit of internal control over financial reporting, and fees relating to comfort letters and registration statements.
- (2) Audit related fees consisted principally of fees for audits of employee benefit plans, agreed-upon procedures reports, due diligence activities, and other audits not required by statute or regulation.
- (3) Tax fees consisted principally of fees for tax consultation and tax compliance activities.

The Audit Committee:
 John T. Reed, Chairman
 Kevin P. Chilton
 Archie R. Clemens
 T. Michael Glenn
 Peter van Oppen

For the year ended December 31, 2013

NON-GAAP RECONCILIATIONS

Core Network Services (CNS) Revenue consists of revenue from colocation and data center services; transport and fiber; IP and data services; and local and enterprise voice services.

Adjusted EBITDA, as defined by the Company, is net income (loss) from the Consolidated Statements of Operations before income taxes, total other income (expense), non-cash impairment charges, depreciation and amortization and non-cash stock compensation expense. For purposes of comparing actual performance against budgeted results, Adjusted EBITDA is adjusted to reflect the foreign exchange rates assumed in the preparation of the budget.

The following information provides a reconciliation of Net Loss to Adjusted EBITDA as defined by the Company:

(dollars in millions)	Year Ended December 31, 2013
Net Loss	\$ (109)
Income Tax Expense	38
Total Other Expense	737
Depreciation and Amortization Expense	800
Non-Cash Compensation Expense	151
Non-Cash Impairment	7
Adjustment for Budgeted Foreign Currency Exchange Rates	9
Adjusted EBITDA	<u>\$1,633</u>

CNS Run Rate is defined as the amount of monthly recurring core network services revenue.

Sustainable Free Cash Flow is defined as Adjusted EBITDA, less capital expenditures, less net cash interest expense, plus/less changes in working capital.

Sustainable Free Cash Flow is calculated as follows:

(dollars in millions)	Year Ended December 31, 2013
Adjusted EBITDA	\$1,624
Capital Expenditures	(760)
Net Cash Interest	(674)
Changes in Working Capital	(235)
Sustainable Free Cash Flow	<u>\$ (45)</u>

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SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions, except per share amounts)				
Results of Operations:					
Revenue (1)	\$ 6,313	\$ 6,376	\$ 4,333	\$ 3,591	\$ 3,695
Loss from Continuing Operations (2)	(109)	(422)	(827)	(621)	(624)
Income (Loss) from Discontinued Operations, Net (1)	—	—	71	(1)	6
Net Loss	(109)	(422)	(756)	(622)	(618)
Per Common Share:					
Loss from Continuing Operations	(0.49)	(1.96)	(6.03)	(5.61)	(5.73)
Income (Loss) from Discontinued Operations, Net	—	—	0.52	(0.01)	0.05
Net Loss	(0.49)	(1.96)	(5.51)	(5.62)	(5.68)
Dividends (3)	—	—	—	—	—
Financial Position:					
Total Assets	\$ 12,874	\$ 13,307	\$ 13,188	\$ 8,355	\$ 9,062
Current portion of long-term debt (4)	31	216	65	180	705
Long-Term Debt, less current portion (4)	8,331	8,516	8,385	6,268	5,755
Stockholders' Equity (Deficit) (5)	1,411	1,171	1,193	(157)	491

- (1) On October 4, 2011, the Company purchased Global Crossing Limited ("Global Crossing") (the "Amalgamation"). During 2011, the Company recorded revenue attributable to Global Crossing of approximately \$654 million.

On November 14, 2011, the Company completed the sale of its coal mining business to Ambre Energy Limited as part of its long-term strategy to focus on core business operations. Revenue attributable to the coal mining business totaled approximately \$54 million in 2011 through the date of sale, \$60 million in 2010 and \$67 million in 2009. As a result of the transaction, the Company recognized a gain on the transaction of approximately \$72 million, which is included in its consolidated statements of operations within "Income (Loss) from Discontinued Operations, Net." The financial results of the coal mining business are included in the Company's consolidated results of operations through the date of sale, and all periods have been revised to reflect the presentation within discontinued operations.

- (2) In 2009, the Company recognized a gain of approximately \$14 million as a result of debt repurchases and exchanges of certain of the Company's debt securities and \$9 million of restructuring charges.¹

In 2010, the Company recognized a loss of approximately \$59 million associated with the tender offer to repurchase the Company's 12.25% Senior Notes due 2013 and as a result of the redemption of its 10% Convertible Senior Notes due 2011. The Company also recognized a \$91 million benefit

primarily related to the release of foreign deferred tax valuation allowances and \$2 million of restructuring charges.

In 2011, the Company recognized a loss of \$100 million related to the redemption and repurchase of the 3.5% Convertible Senior Notes due in June 2012 and prepayment of the Tranche B Term Loan that was outstanding under the existing Senior Secured Term Loan, the conversion of certain of the 15% Convertible Senior Notes due 2013, the retirement of a portion of the 9.25% Senior Notes due 2014, the redemption of the 5.25% Convertible Senior Notes due 2011 and exchange of the 9% Convertible Senior Discount Notes due 2013. As a result of a change in the estimated useful lives of certain of the Company's property, plant and equipment, the Company recognized a reduction of approximately \$74 million in depreciation expense during the fourth quarter of 2011. The change in accounting estimate was accounted for on a prospective basis effective October 1, 2011. The Company also recognized \$11 million of restructuring charges and \$20 million of charges associated with the impairment of certain wireless spectrum licenses.

In 2012, the Company recognized a \$160 million loss on modification and extinguishment of debt as a result of the refinancing of the \$650 million Tranche B II Term Loan and \$550 million Tranche B III Term Loan in October 2012, the refinancing of the \$1.4 billion Tranche A Term Loan in August 2012 and the repayment of existing vendor financing obligations, the redemption of the 8.75% Senior Notes due 2017 in August 2012, the redemption of the 9.25% Senior Notes due 2014 in February 2012 and the exchange of a portion of the 15% Convertible Senior Notes due 2013 in March 2012. The Company also recognized \$34 million of restructuring charges. The Company completed an updated analysis and revised its estimated future cash flows of its asset retirement obligations as a result of a strategic review of the Company's real estate portfolio in the fourth quarter of 2012. As a result, the Company reduced its asset retirement obligations liability by \$73 million with an offsetting reduction to property, plant and equipment of \$24 million, selling, general and administrative expenses of \$47 million and depreciation and amortization of \$2 million (see Note 6 - Asset Retirement Obligations in the notes to the consolidated financial statements). In addition, as a result of the refinancing of the Tranche A Term Loan in 2012, two interest rate swap agreements maturing in early 2014 that had effectively hedged changes in the interest rate on a portion of the Tranche A Term Loan were deemed "ineffective" under GAAP. The Company recognized a non-cash loss on the agreements of approximately \$60 million (excluding accrued interest), which represented the cumulative loss recorded in Accumulated Other Comprehensive Income (Loss) ("AOCI") at the date the instruments ceased to qualify as hedges.

In 2013, the Company recognized an \$84 million loss on modification and extinguishment of debt as a result of refinancing its \$815 million Tranche B 2019 Term Loan and \$595.5 million Tranche B 2016 Term Loan in August 2013, its \$1.2 billion Tranche B-II 2019 Term Loan in October 2013 and its \$640 million 10% Senior Notes due 2018 and \$300 million Floating Rate Senior Notes due 2015 in December 2013. Additionally, the Company incurred \$47 million of restructuring charges.

- (3) The Company's current dividend policy, in effect since April 1998, is to retain future earnings for use in the Company's business. As a result, management does not anticipate paying cash dividends on shares of common stock in the foreseeable future. In addition, the Company is restricted under certain debt-related covenants from paying cash dividends on shares of its common stock.
- (4) In 2009, the Company received net proceeds of \$274 million as a result of amending and restating its existing senior secured credit facility to increase the borrowings through the creation of a new \$280 million Tranche B Term Loan. The Company exchanged \$142 million of its 6% Convertible Subordinated Notes due 2010 and \$140 million of its 2.875% Convertible Senior Notes due 2010 for \$200 million of 7% Convertible Senior Notes due 2015 and \$78 million of cash. In 2009, the Company received net proceeds of \$274 million from the issuance of its 7% Convertible Senior Notes due 2015, Series B. Also in 2009, the Company repurchased \$126 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2009, \$55 million aggregate principal amount

of its 6% Convertible Subordinated Notes due 2010, \$13 million aggregate principal amount of its 2.875% Convertible Senior Notes due 2010, \$131 million aggregate principal amount of its 5.25% Convertible Senior Notes due 2011, \$56 million aggregate principal amount of its 10% Convertible Senior Notes due 2011, and \$31 million aggregate principal amount of its 3.5% Convertible Senior Notes due 2012. The Company also redeemed the remaining \$13 million of its 11.5% Senior Notes due 2010, repurchased the remaining \$6 million aggregate principal amount of its Floating Rate Notes due 2011 and repaid at maturity the remaining \$55 million of its outstanding 6% Convertible Subordinated Notes due 2009.

In 2010, the Company received net proceeds of \$613 million from the issuance of its 10% Senior Notes due 2018 and net proceeds of \$195 million from the issuance of its 6.5% Convertible Senior Notes due 2016. In connection with the issuance of its 10% Senior Notes due 2018, the Company repurchased \$550 million of the total outstanding 12.25% Senior Notes due 2013 primarily through a tender offer. In addition, the Company redeemed all of the outstanding \$172 million aggregate principal amount of its 10% Convertible Senior Notes due 2011, \$3 million of its 5.25% Convertible Senior Notes due 2011, the remaining \$3 million of its 10.75% Senior Notes due 2011, and \$2 million of its 2.875% Convertible Senior Notes due 2010. Upon maturity, the Company repaid the remaining \$111 million of its 6% Convertible Subordinated Notes due 2010 and the remaining \$38 million of its 2.875% Convertible Senior Notes due 2010.

In 2011, the Company issued approximately \$605 million of 11.875% Senior Notes due 2019 in two separate transactions, as well as \$500 million of its 9.375% Senior Notes due 2019. Proceeds from the first 11.875% Senior Note offering were used to redeem \$196 million of 5.25% Convertible Senior Notes. In the second offering, the Company exchanged \$295 million of 9% Convertible Senior Discount Notes for the 11.875% Senior Notes. Level 3 Escrow, Inc., an indirect wholly owned subsidiary of the Company, issued \$600 million in aggregate principal amount of 8.125% Senior Notes due 2019. Level 3 Escrow, Inc. issued an additional \$600 million in aggregate principal amount of its 8.125% Senior Notes due 2019 under the same indenture as the 8.125% Senior Notes previously issued, which were treated as a single series of notes under the indenture. In connection with the Amalgamation, all of the 8.125% Senior Notes due 2019 were assumed by Level 3 Financing, Inc., a direct wholly owned subsidiary of the Company, and the proceeds were used to refinance certain existing indebtedness of Global Crossing. The Company exchanged approximately \$128 million of its 15% Convertible Senior Notes due 2013 for approximately 5 million shares of its common stock. The Company also paid approximately \$29 million in cash, representing interest due from the conversion through the 2013 maturity date. The Company also repurchased approximately \$20 million of its 3.5% Convertible Senior Notes due 2012. The Company borrowed \$550 million aggregate principal amount of its Tranche B III Term Loan. The net proceeds in addition to cash on hand were used to redeem the remaining \$274 million aggregate principal amount of 3.5% Convertible Senior Notes due 2012 and prepay the \$280 million Tranche B Term Loan that was outstanding under the existing Senior Secured Term Loan. Also in connection with the closing of the Amalgamation, the Company amended its existing credit agreement to incur an additional \$650 million of borrowings through an additional Tranche B II Term Loan. The net proceeds from the Tranche B II Term Loan were used to consummate the Amalgamation, to refinance certain existing indebtedness of Global Crossing in connection with the consummation of the Amalgamation and for general corporate purposes.

In 2012, the Company refinanced its existing \$650 million Tranche B II Term Loan and \$550 million Tranche B III Term Loan under its existing senior secured credit facility through the creation of a new term loan in the aggregate principal amount of \$1.2 billion (the "Tranche B-II 2019 Term Loan") along with cash on hand. The Company also fully repaid the outstanding principal amount of its Commercial Mortgage due 2015 along with accrued interest which was approximately \$63 million. Also in 2012, the Company completed the offering of \$300 million aggregate principal amount of its 8.875% Senior Notes due 2019 in a private offering. The net proceeds from that offering were used for general corporate purposes, including the repurchase, redemption, repayment or refinancing of

the Company's and its subsidiaries' existing indebtedness. Additionally in 2012, the Company completed the offering of \$775 million aggregate principal amount of its 7% Senior Notes due 2020 in a private offering. The net proceeds from the offering of the notes, along with cash on hand, were used to redeem all of the Company's outstanding 8.75% Senior Notes due 2017, including the payment of accrued and unpaid interest and applicable premiums. The Company refinanced its existing \$1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$1.415 billion (the "New Term Loans") along with cash on hand and used the remaining net proceeds to repay \$15 million in principal amount plus a premium for existing vendor financing obligations. Further in 2012, the Company exchanged approximately \$100 million aggregate principal amount of its outstanding 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of its common stock, including an inducement premium. Also in 2012, the Company issued \$900 million aggregate principal amount of its 8.625% Senior Notes due 2020. A portion of the net proceeds from the offering were used to redeem all of the Company's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million.

In 2013, the Company repaid at maturity approximately \$172 million of its 15% Convertible Senior Notes due 2013. The Company also refinanced its existing \$815 million Tranche B 2019 Term Loan through the creation of the \$815 million Tranche B-III 2019 Term loan and its \$595.5 million Tranche B 2016 Term Loan and \$1.2 billion Tranche B-II 2019 Term Loan through the creation of a new term loan in the aggregate principal amount of \$1.796 billion (the "Tranche B 2020 Term Loan"). Additionally, the Company completed the offering of \$640 million aggregate principal amount of its 6.125% Senior Notes due 2021. The proceeds from the offering, together with cash on hand, were used to redeem all of the outstanding 10% Senior Notes due 2018. Also in 2013, the Company completed the offering of \$300 million aggregate principal amount of its Floating Rate Senior Notes due 2018. The net proceeds of these notes, together with cash on hand, were used to redeem all of the outstanding Floating Rate Notes due 2015. Finally in 2013, the holders of approximately \$200 million aggregate principal amount of the Company's outstanding 6.5% Convertible Senior Notes due 2016 converted these notes for approximately 10.8 million shares of the Company's common stock. The remaining \$1 million principal amount of the Company's 6.5% Convertible Senior Notes due 2016 was redeemed with cash on hand.

Long-term debt, less current portion includes capital lease obligations. Refer to "Contractual Obligations" within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the Company's total obligations.

- (5) In 2011, the Company issued approximately 4.7 million shares of common stock in exchange for \$128 million aggregate principal amount of its 15% Convertible Senior Notes. The Company also issued approximately 89 million shares of common stock, valued at approximately \$1.9 billion, as the stock portion of the purchase price to acquire Global Crossing.

In 2012, the Company issued approximately 5.4 million shares of common stock, including an inducement premium, in exchange for approximately \$100 million aggregate principal amount of its outstanding 15% Convertible Senior Notes due 2013.

In 2013, the Company issued approximately 10.8 million shares of common stock when holders of approximately \$200 million of its 6.5% Convertible Senior Notes due 2016 converted these notes.

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 financial statements (including the notes thereto) included elsewhere herein and the description of its business in Item 1, "Business".

Executive Summary

Overview

The Company is a facilities-based provider of a broad range of communications services. Revenue for communications services is generally recognized on a monthly basis as these services are provided. For contracts involving private line, wavelength and dark fiber services, Level 3 may receive upfront payments for services to be delivered for a period of generally up to 25 years. In these situations, Level 3 defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract. At December 31, 2013, for contracts where upfront payments were received for services to be delivered in the future, the Company's weighted average remaining contract period was approximately 12 years.

On October 4, 2011, a wholly owned subsidiary of Level 3 completed its amalgamation with Global Crossing and the amalgamated entity became an indirect wholly owned subsidiary of the Company through a tax free, stock for stock transaction (the "Amalgamation").

Level 3, through its two 50% owned joint-venture surface mines, one each in Montana and Wyoming, sold coal primarily through long-term contracts with public utilities. In November 2011, Level 3 completed the sale of its coal mining business to Ambre Energy Limited as part of its long-term strategy to focus on core business operations. The financial results of the coal mining business are included in the Company's consolidated results of operations through the date of sale, and all periods presented have been revised to reflect the presentation within discontinued operations.

Business Strategy and Objectives

The Company pursues the strategies discussed in Item 1. Business, "Business Overview and Strategy." In particular, with respect to strategic financial objectives, the Company focuses its attention on the following:

- growing revenue by increasing sales generated by our Core Network Services;
- focusing on our Enterprise customers, as this customer group has the largest potential for significant growth;
- continually improving the customer experience to increase customer retention and reduce customer churn;
- launching new products and services to meet customer needs, in particular for enterprise customers;
- reducing network costs and operating expenses;
- achieving sustainable generation of positive cash flows from operations;
- continuing to show improvement in Adjusted EBITDA (as defined in this Item below) as a percentage of revenue;

- localizing certain decision making and interaction with our mid-market enterprise customers, including leveraging our existing network assets;
- concentrating its capital expenditures on those technologies and assets that enable the Company to develop its Core Network Services;
- managing Wholesale Voice Services for margin contribution; and
- refinancing its future debt maturities.

The Company's management continues to review all existing lines of business and service offerings to determine how those lines of business and service offerings enhance the Company's focus on the delivery of communications services and meeting its financial objectives. To the extent that certain lines of business or service offerings are not considered to be compatible with the delivery of the Company's services or with meeting its financial objectives, Level 3 may exit those lines of business or stop offering those services in part or in whole.

The Company has also been focused on improving its liquidity and financial condition, and extending the maturity dates of certain debt, as described below and in greater detail in Note 12 - Long-Term Debt in the notes to the consolidated financial statements.

In November 2013, the Company notified the holders of its 6.5% Convertible Senior Notes that the Company would be redeeming these notes on December 26, 2013 for a redemption price equal to 100% of their principal amount, plus accrued but unpaid interest up to, but not including, the redemption date. The holders of the 6.5% Convertible Senior Notes converted approximately \$200 million aggregate principal amount of the notes into 10,814,264 shares of Level 3 common stock, par value \$0.01 per share. On December 26, 2013, approximately \$1 million aggregate principal amount of the remaining 6.5% Convertible Senior Notes was redeemed at a price equal to 100% of the principal amount plus accrued but unpaid interest.

In November 2013, the Company completed the offering of \$300 million aggregate principal amount of its Floating Rate Senior Notes due 2018. The net proceeds from the offering of the notes, together with cash on hand were used to redeem all of the Company's outstanding Floating Rate Senior Notes due 2015 in December 2013, including accrued interest and expenses. The Floating Rate Notes due 2018 were priced at 100% of their principal amount and will mature on January 15, 2018. Interest on the notes will be payable on May 15 and November 15 of each year, beginning on May 15, 2014.

Also in November 2013, the Company completed the offering of \$640 million aggregate principal amount of its 6.125% Senior Notes due 2021. The net proceeds from the offering of the notes, together with cash on hand were used to redeem all of the Company's outstanding 10% Senior Notes due 2018 in December 2013, including accrued interest, applicable premiums and expenses. The 6.125% Senior Notes were priced at 100% of their principal amount and will mature on January 15, 2021. Interest on the notes will be payable on April 15 and October 15 of each year, beginning on April 15, 2014.

In October 2013, the Company refinanced its existing \$1.2 billion Tranche B-II 2019 Term Loan under its existing senior credit facility by increasing the borrowings under the Tranche B 2020 Term Loan by an aggregate principal amount of \$1.2 billion. The Tranche B 2020 Term Loan new aggregate principal amount is \$1,795.5 million. The \$1,795.5 million Tranche B 2020 Term Loan will bear interest at LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on January 15, 2020. The additional portion of the Tranche B 2020 Term Loan was priced to lenders at par, with the payment to the lenders of an upfront 0.25% fee at closing. The prior Tranche B-II 2019 Term Loan had an interest rate of LIBOR plus 3.25%, with a minimum LIBOR of 1.50% and matured on October 4, 2019.

In August 2013, the Company refinanced its \$595.5 million Tranche B 2016 Term Loan under its existing senior credit facility through the creation of a new Tranche B 2020 Term Loan in the aggregate principal amount of \$595.5 million. The Tranche B 2020 Term Loan has an interest rate of LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on January 15, 2020. The previous Tranche B 2016 Term Loan had an interest rate of LIBOR plus 3.25%, with a minimum LIBOR of 1.50%, and matured on August 1, 2016.

Also in August 2013, the Company refinanced its \$815 million Tranche B 2019 Term Loan under its existing senior credit facility through the creation of a new Tranche B-III 2019 Term Loan in the aggregate principal amount of \$815 million. The Tranche B-III 2019 Term Loan has an interest rate of LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on August 1, 2019. The previous Tranche B 2019 Term Loan had an interest rate of LIBOR plus 3.75%, with a minimum LIBOR of 1.50%, and matured on August 1, 2019.

In January 2013, the Company repaid at maturity approximately \$172 million of its 15% Convertible Senior Notes.

The Company will continue to look for opportunities to improve its financial position and focus its resources on growing revenue and managing costs for the business.

Revenue by Channel:

(dollars in millions)	Year Ended December 31,	
	2013	2012
Core Network Services:		
North America - Wholesale Channel	\$ 1,478	\$ 1,541
North America - Enterprise Channel	2,471	2,299
EMEA - Wholesale Channel	354	364
EMEA - Enterprise Channel	403	372
EMEA - U.K. Government Channel	131	175
Latin America - Wholesale Channel	160	156
Latin America - Enterprise Channel	594	556
Total Core Network Services	5,591	5,463
Wholesale Voice Services and Other	722	913
Total Revenue	\$ 6,313	\$ 6,376

Total revenue consists of:

- Core Network Services revenue from colocation and data center services; transport and fiber; IP and data services; and local and enterprise voice services.
- Wholesale Voice Services and Other revenue from sales of long distance voice services, revenue from managed modem and its related intercarrier compensation services and revenue from the SBC Master Services Agreement, which was obtained through an acquisition in 2005.

Core Network Services revenue represents higher margin services and Wholesale Voice Services and Other revenue represents lower margin services. Core Network Services revenue requires different levels of investment and focus and provides different contributions to the Company's operating results than Wholesale Voice Services and Other revenue. Management believes that growth in revenue from its Core Network Services is critical to the long-term success of its business. The Company also believes it

must continue to effectively manage gross margin contribution from the Wholesale Voice Services component and the positive cash flows from the Other revenue component. The Company believes that trends in its communications business are best gauged by analyzing revenue changes in Core Network Services.

Core Network Services

Colocation and data center services allow customers to place their network equipment and servers in suitable environments maintained by the Company with high-speed links providing on-net access to more than 55 countries. These services are secure, redundant and flexible to fit the varying needs of the Company's customers. Services, which vary by location, include hosting network equipment used to transport high speed data and voice over Level 3's global network; providing managed IT services, installation, maintenance, storage and monitoring of enterprise services; and providing comprehensive IT outsource solutions.

Growth in transport (such as private line and wavelengths) and fiber revenue is largely dependent on increased demand for bandwidth services and available capital of companies requiring communications capacity for their own use or in providing capacity as a service provider to their customers. These expenditures may be in the form of monthly payments or, in the case of private line, wavelength or dark fiber services, either monthly payments or upfront payments. The Company is focused on providing end-to-end transport and fiber services to its customers to directly connect customer locations with a private network. Pricing for end-to-end metropolitan transport services have been relatively stable. For intercity transport and fiber services, the Company continues to experience pricing pressure in locations where a large number of carriers co-locate their facilities. An increase in demand may be offset by declines in unit pricing.

Internet Protocol ("IP") and data services primarily include the Company's Internet services, Virtual Private Network ("VPN"), Content Delivery Network ("CDN"), media delivery, Vyvx broadcast, Converged Business Network ("CBN"), and Managed Services. Level 3's IP and high speed IP service is high quality and is offered in a variety of capacities. The Company's VPN service permits businesses of any size to replace multiple networks with a single, cost-effective solution that greatly simplifies the converged transmission of voice, video, and data. This convergence to a single platform can be obtained without sacrificing the quality of service or security levels of traditional ATM and frame relay offerings. VPN service also permits customers to prioritize network application traffic so that high priority applications, such as voice and video, are not compromised in performance by the flow of low priority applications such as email.

Voice services comprise a broad range of local and enterprise voice services using Voice over Internet Protocol ("VoIP") and traditional circuit-switch based technologies, including VoIP enhanced local service, SIP Trunking, local inbound service, Primary Rate Interface service, long distance service and toll-free service. The Company's voice services also include its comprehensive suite of audio, Web and video collaboration services.

The Company believes that a source of future incremental demand for the Company's Core Network Services will be from customers that are seeking to distribute their feature rich content or video over the Internet. Revenue growth in this area is dependent on the continued increase in demand from customers and the pricing environment. An increase in the reliability and security of information transmitted over the Internet and declines in the cost to transmit data have resulted in increased utilization of e-commerce or Web-based services by businesses. Although the pricing for data services is currently relatively stable, the IP market is generally characterized by price compression and high unit growth rates depending upon the type of service. The Company experienced price compression in the high-speed IP and voice services markets in 2012, which has continued in 2013.

The following provides a discussion of the Company's Core Network Services revenue in terms of the enterprise and wholesale channels.

- The enterprise channel includes large, multi-national enterprises requiring large amounts of bandwidth to support their business operations, such as financial services companies, healthcare companies, content providers, and portal and search engine companies. It also includes medium sized enterprises, as well as government markets, including the U.S. federal government, the systems integrators supporting the U.S. federal government, U.S. state and local governments, academic consortia, and certain academic institutions. Included in the enterprise channel, but broken out separately in the table above, is the U.K. government channel, which includes revenue primarily from the government sector in the U.K.
- The wholesale channel includes revenue from incumbent and alternative carriers in each of the regions, global carriers, wireless carriers, cable companies, satellite companies, regional service providers and voice service providers.

The Company believes that the alignment of Core Network Services around channels should allow it to drive growth while enabling it to better focus on the needs of its customers. Each of these channels is supported by dedicated employees in sales. Each of these channels is also supported by non-dedicated, centralized service delivery and management, product management and development, corporate marketing, global network services, engineering, information technology, and corporate functions, including legal, finance, strategy and human resources.

Wholesale Voice Services and Other

The Company offers wholesale voice services that target large and existing markets. The revenue potential for wholesale voice services is large; however, pricing is expected to continue to decline over time as a result of the new low-cost IP and optical-based technologies. In addition, the market for wholesale voice services is being targeted by many competitors, several of which are larger and have more financial resources than the Company.

The Company also has other revenue derived from mature services that are not critical areas of emphasis for the Company, including revenue from managed modem and its related intercarrier compensation services and SBC Contract Services, which includes revenue from the SBC Master Services Agreement, obtained in the December 2005 acquisition of WilTel Communications Group, LLC. The Company and its customers continue to see consumers migrate from narrow band dial-up services to higher speed broadband services as the narrow band market matures. The Company has discontinued its managed modem services. The Company expects ongoing declines in the other revenue component of Wholesale Voice Services and Other similar to what has been experienced over the past several years.

The Company receives compensation from other carriers when it terminates traffic originating on those carriers' networks. This intercarrier compensation is based on interconnection agreements with the respective carriers or rates mandated by the Federal Communications Commission ("FCC"). The Company has interconnection agreements in place for the majority of traffic subject to intercarrier compensation. Along with addressing other matters, on November 18, 2011, the FCC established a prospective intercarrier compensation framework for terminating switched access and VoIP traffic, with elements of it becoming effective beginning on December 29, 2011. Under the framework, most terminating switched access charges and all intercarrier compensation charges are capped at current levels, and will be reduced to zero over, as relevant to Level 3, a six year transition period which began July 1, 2012. Several states, industry groups, and other telecommunications carriers filed petitions in federal court for reconsideration of the framework with the FCC, although the outcome of those petitions is unpredictable. A majority of the Company's existing intercarrier compensation revenue is associated with agreements that have expired terms, but remain effective in evergreen status. As these and other interconnection agreements expire, the Company will continue to evaluate simply allowing them to

continue in evergreen status (so long as the counterparty allows the same) or negotiating new agreements. The Company earned intercarrier compensation revenue from providing managed modem services, which it has discontinued. The Company also receives intercarrier compensation from its voice services. In this case, intercarrier compensation is reported within Core Network Services revenue.

Seasonality and Fluctuations

The Company continues to expect business fluctuations to affect sequential quarterly trends in revenue, margins and cash flow. This includes the timing, as well as any seasonality of sales and service installations, usage, rate changes and repricing for contract renewals. Historically, the Company's revenue and expense in the first quarter has been affected by the slowing of our customers' purchasing activities during the holidays and the resetting of payroll taxes in the new year. The Company's historical experience with quarterly fluctuations may not necessarily be indicative of future results.

Because revenue subject to billing disputes where collection is uncertain is not recognized until the dispute is resolved, the timing of dispute resolutions and settlements may positively or negatively affect the Company's revenue in a particular quarter. The timing of disconnections may also affect our results in a particular quarter, with disconnections early in the quarter generally having a greater effect. The timing of capital and other expenditures may affect our margins or cash flow. The convergence of any of these or other factors such as fluctuations in usage, increases or decreases in certain taxes and fees or pricing declines upon contract renewals in a particular quarter may result in the Company's revenue growing more or less than previous trends, may affect the Company's margins and other financial results and may not be indicative of future financial performance.

2014 Revenue Reporting

In 2014, the Company is maintaining its current reporting of revenue by service offering as disclosed in the table above but will be making some adjustments between current geographical and channel reporting categories, primarily collapsing the U.K. government channel in EMEA into the EMEA enterprise channel, to more appropriately reflect the revenue attribution by region.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, equity, revenue, expenses and related disclosures. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company evaluates these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

While the Company has other accounting policies that involve estimates such as the allowance for doubtful accounts, valuation allowance for deferred tax assets, and unfavorable contracts recognized in purchase accounting, management has identified the policies below, which require the most significant judgments and estimates to be made in the preparation of the consolidated financial statements, as critical to its business operations and the understanding of its results of operations.

Revenue

Revenue for communications services, including colocation and data center services, transport and fiber, IP and data services, voice services and managed modem, is recognized monthly as the services

are provided based on contractual amounts expected to be collected. Communications services are provided either on a usage basis, which can vary period to period, or at a contractually committed amount.

Intercarrier compensation revenue is recognized when an interconnection agreement is in place with another carrier, or if an agreement has expired, when the parties have agreed to continue operating under the previous agreement until a new agreement is negotiated and executed, or at rates mandated by the FCC.

For certain sale and long-term indefeasible right of use ("IRU") contracts involving private line, wavelengths and dark fiber services, the Company may receive upfront payments for services to be delivered for a period of up to 25 years. In these situations, the Company defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract.

Termination revenue is recognized when a customer disconnects service prior to the end of the contract period and for which Level 3 had previously received consideration and for which revenue recognition was deferred. Termination revenue also is recognized when customers make termination penalty payments to Level 3 to settle contractually committed purchase amounts that the customer no longer expects to meet or when a customer and Level 3 renegotiate a contract under which Level 3 is no longer obligated to provide product or services for consideration previously received and for which revenue recognition has been deferred. Termination revenue is reported in the same manner as the original product or service provided.

Accounting practice and guidance with respect to the accounting treatment of revenue continues to evolve. Any changes in the accounting treatment could affect the manner in which the Company accounts for revenue within its business.

Revenue Reserves

The Company establishes appropriate revenue reserves at the time services are rendered based on an analysis of historical credit activity to address, where significant, situations in which collection is not reasonably assured as a result of credit risk, potential billing disputes or other reasons. The Company's significant estimates are based on assumptions and other considerations, including payment history, credit ratings, customer financial performance, history of billing disputes and industry financial performance.

Cost of Revenue for Communications Services

The Company disputes incorrect billings from its suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis and usage bills with incorrect or inadequate information. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. The Company establishes appropriate cost of revenue reserves for disputed supplier billings based on an analysis of its historical experience in resolving disputes with its suppliers. In determining the amount of the cost of network service expenses and related accrued liabilities to reflect in its financial statements, the Company considers the adequacy of documentation of disconnect notices, compliance with prevailing contractual requirements for submitting these disconnect notices and compliance with its interconnection agreements with these carriers. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Non-Cash Compensation

The Company recognizes stock-based compensation expense for all share-based payment awards in accordance with fair value recognition provisions. Under the fair value recognition provisions, the Company recognizes stock-based compensation expense net of an estimated forfeiture rate, recognizing compensation cost for only those awards expected to vest over the requisite service period of the awards. Determining the appropriate fair value model and estimating the fair value of share-based payment awards require subjective assumptions, including the assumption for stock price volatility for outperform stock options and the achievement of performance criteria for performance based awards. The Company estimates the stock price volatility using a combination of historical and implied volatility, as Level 3 believes it is consistent with the approach most marketplace participants would consider by using all available information to estimate expected volatility. The Company has determined that expected volatility is more reflective of market conditions and provides a more accurate indication of volatility than using solely historical volatility. In reaching this conclusion, the Company has considered many factors including the extent to which its future expectations of volatility over the respective term is likely to differ from historical measures, the absence of actively traded options for the Company's common stock and the Company's ability to review volatility of its publicly traded convertible debt with similar terms and prices to the options the Company is valuing. The Company issued outperform stock options in which the value received is based on a formula involving a multiplier related to the level by which the Company's common stock outperforms the S&P 500® Index. The Company utilized a modified Black-Scholes model due to the additional variables required to calculate the effect of the success multiplier for its outperform stock options, including estimating the expected volatility of the S&P 500® Index.

The assumptions used in estimating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If actual forfeiture rates are materially different from the Company's estimate, stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

Valuation of Long-Lived Assets

The Company performs an assessment of its long-lived assets, including finite-lived acquisition-related intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of assets or asset groupings may not be recoverable. This review requires the identification of the lowest level of identifiable cash flows for purposes of grouping assets subject to review. The estimate of undiscounted cash flows includes long-term forecasts of revenue growth, gross margins and operating expenses. All of these items require significant judgment and assumptions. An impairment loss may exist when the estimated undiscounted cash flows attributable to the assets are less than their carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the long-lived asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

The Company conducted a long-lived asset impairment analysis in the fourth quarter of 2013 and 2012 and in each case concluded that its long-lived assets, including its finite-lived acquisition-related intangible assets, were not impaired. To the extent that future changes in assumptions and estimates cause a change in estimates of future cash flows that indicate the carrying amount of the Company's long-lived assets, including finite-lived acquisition-related intangible assets, may not be recoverable, the Company may incur impairment charges in the future to write-down the carrying amount of the Company's long-lived assets to their estimated fair value.

Useful Lives of Long-Lived Assets

The Company performs internal reviews to evaluate the depreciable lives of its property, plant and equipment annually or more frequently if new facts and circumstances arise that may affect management's original estimates. Due to the rapid changes in technology and the competitive environment, selecting the estimated economic life of telecommunications property, plant, and equipment requires a significant amount of judgment. The Company's internal reviews take into account input from the Company's global engineering and network services personnel, actual usage, the physical condition of the Company's property, plant, and equipment, industry data, and other relevant factors.

In relation to its most recent annual review of estimated useful lives, the Company considered the expected use of assets in each of the categories as well as any legal, regulatory, or contractual provisions that may limit the remaining useful lives. The Company expects to extend the lives associated with IP equipment and certain of its facility equipment in connection with the analysis expected to be completed in the first quarter of 2014. This will be a change in estimate that will be accounted for prospectively.

Goodwill

The Company performs an annual impairment assessment of its goodwill during the fourth quarter, or more frequently if the Company determines that indicators of impairment exist. The Company's impairment review process considers the fair value of each reporting unit relative to its carrying value. The Company assesses the fair value of each of its reporting units using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes cash flow projections discounted using an appropriate Weighted Average Cost of Capital (WACC) rate for each reporting unit. The market multiple approach uses a multiple of a company's Earnings Before Interest, Taxes, and Depreciation and Amortization expenses (EBITDA).

If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. In accordance with recently issued accounting guidance, prior to performing the two step evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, the Company is not required to complete the two step goodwill impairment evaluation. The selection and assessment of qualitative factors used to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value involves significant judgments and estimates.

In the second quarter of 2013, the Company changed the date of its annual assessment of goodwill impairment from December 31 to October 1. This was a change in method of applying an accounting principle which management believes is a preferable alternative as the new date of the assessment provides additional time prior to the Company's year-end to complete the goodwill impairment testing and report the results in the Company's Annual Report on Form 10-K, and is more closely aligned with the Company's strategic planning process. The change in the assessment date does not delay, accelerate or avoid a potential impairment charge.

In 2013 and 2012, the Company's reporting units consist of its three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. Goodwill assigned to the North America, EMEA and Latin America reporting units at December 31, 2013 totaled \$2.577 billion and was \$1.835 billion, \$0.147 billion and \$0.595 billion, respectively. Goodwill assigned to the North America, EMEA and Latin America reporting units at December 31, 2012 totaled \$2.565 billion and was \$1.826 billion, \$0.144 billion and \$0.595 billion, respectively.

In 2013 and 2012, the Company conducted its goodwill impairment analysis and determined that it was more likely than not that the fair value of its reporting units exceeded the carrying value and concluded that goodwill was not impaired. As of December 31, 2013, the estimated fair value of the reporting units substantially exceeded their carrying value.

To the extent that future changes in the Company's assumptions and estimates cause a change in the related fair value estimates that indicate the carrying amount of the Company's goodwill may exceed its fair value, the Company may incur impairment charges in the future to write-down the carrying amount of the Company's goodwill to its estimated fair value.

Asset Retirement Obligations

The Company's asset retirement obligations consist of legal requirements to remove certain of its network infrastructure at the expiration of the underlying right-of-way ("ROW") term and restoration requirements for leased facilities. The initial and subsequent measurement of the Company's asset retirement obligations require the Company to make significant estimates regarding the eventual costs and probability or likelihood that the Company will be required to remove certain of its network infrastructure and restore certain of its leased properties. In addition, the Company must estimate the periods over which these costs will be incurred and the present value of such costs using the Company's estimate of its credit-adjusted risk-free interest rate upon initial recognition.

As a result of a strategic review of the Company's real estate portfolio in the fourth quarter of 2012, the Company completed an updated analysis and revised its estimated future cash flows of its asset retirement obligations. The analysis required estimating the probability or likelihood that the Company will be required to remove certain of its network infrastructure and restore leased properties, and the timing and amount of eventual costs. The analysis resulted in the downward revision of the Company's asset retirement obligation liability. This change in the estimated cash flows resulted in a non-cash gain of \$49 million recorded within selling, general and administrative expense, and depreciation expense during the year ended December 31, 2012.

In conjunction with its review of the ROW obligation, the Company identified an error in its assumptions used to estimate its ROW obligation related to the extension of the useful lives of its conduit assets effective October 1, 2011 (See Note 1 - Organization and Summary of Significant Accounting Policies in the notes to the consolidated financial statements). The Company recorded a non-cash benefit of approximately \$21 million recorded within selling, general and administrative expense during the fourth quarter of 2012 for the change in the ROW term used to estimate its ROW obligation. The reduction in the asset retirement obligations liability includes the change in estimate of the ROW term that arose in prior periods, which did not materially affect any of the Company's previously reported results of operations or financial condition, or the current period results of operations or financial condition.

At December 31, 2012, as a result of the total revisions in estimated amount and timing of cash flows for asset retirement obligations, the Company reduced its asset retirement obligations liability by \$73 million with an offsetting reduction to property, plant and equipment of \$24 million, selling, general and administrative expenses of \$47 million and depreciation and amortization of \$2 million. The Company first reduced property, plant and equipment to the extent of the carrying amount of the related asset initially recorded when the asset retirement obligations were established. The amount of the remaining reduction to the asset retirement obligations were recorded as a reduction to depreciation expense to the extent of historical depreciation of the related asset and then to selling, general and administrative expenses.

The Company periodically evaluates its asset retirement obligations to determine if the amount and timing of its cash flow estimates continue to be appropriate based on current facts and circumstances.

Assessment of Loss Contingencies

The Company has legal, tax and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. The Company has provided for losses in situations where its has concluded that it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. Further, with respect to loss contingencies, where it is probable that a liability has been incurred and there is a range in the expected loss and no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in predicting the likelihood of future events and estimating the financial impact of such events. Accordingly, it is possible that upon the further development or resolution of a contingent matter, a significant charge could be recorded in a future period related to an existing contingent matter. For additional information, see Note 17 - Commitments, Contingencies and Other Items in the notes to the consolidated financial statements.

Business Combinations

The accounting guidance for business combinations requires an acquiring entity to recognize all of the assets acquired and liabilities assumed at the acquisition date fair value. The allocation of the purchase price to the assets acquired and liabilities assumed from Global Crossing (and the related estimated lives of depreciable tangible and identifiable intangible assets) required a significant amount of judgment and is considered a critical estimate. Such allocation of certain aspects of the purchase price to items that are more complex to value was performed by management, taking into consideration information provided to management by an independent valuation firm.

Results of Operations 2013 vs. 2012

(dollars in millions)	Year Ended December 31,		
	2013	2012	Change %
Revenue	\$ 6,313	\$ 6,376	(1)%
Cost of Revenue	2,471	2,602	(5)%
Depreciation and Amortization	800	749	7 %
Selling, General and Administrative	2,376	2,450	(3)%
Total Costs and Expenses	5,647	5,801	(3)%
Operating Income	666	575	16 %
Other Income (Expense):			
Interest income	—	2	NM
Interest expense	(649)	(733)	(11)%
Loss on modification and extinguishment of debt, net	(84)	(160)	(48)%
Other, net	(4)	(58)	(93)%
Total Other Expense	(737)	(949)	(22)%
Loss Before Income Taxes	(71)	(374)	(81)%
Income Tax Expense	(38)	(48)	(21)%
Net Loss	\$ (109)	\$ (422)	(74)%

NM — Not meaningful

Discussion of all significant variances:

Revenue by Service Offering:

(dollars in millions)	Year Ended December 31,		
	2013	2012	Change %
Core Network Services Revenue:			
Colocation and Datacenter Services	\$ 585	\$ 561	4 %
Transport and Fiber	1,962	1,950	1 %
IP and Data Services	2,106	2,002	5 %
Voice Services (Local and Enterprise)	938	950	(1)%
Total Core Network Services Revenue	\$ 5,591	\$ 5,463	2 %
Wholesale Voice Services and Other Revenue	722	913	(21)%
Total Revenue	\$ 6,313	\$ 6,376	(1)%

Revenue decreased 1% to \$6.313 billion in 2013 compared to \$6.376 billion in 2012. The change was driven by declines in Wholesale Voice Services and Other revenue partially offset by growth in Core Network Services revenue from enterprise customers.

The Company experienced growth in its IP and data services and colocation and data center services during 2013 compared to 2012 driven primarily by end user customer demand for content delivery over the Internet and enterprise bandwidth. The Company also experienced modest growth in transport and fiber services in 2013. Core Network Services revenue for voice services declined in 2013, primarily due to the anticipated attrition of certain U.K. Government channel voice services.

Core Network Services revenue increased in the North America and Latin America regions in 2013 compared to 2012, as a result of growth in services provided to the existing enterprise customer base and the acquisition of new customers in the enterprise channel. These increases were partially offset by (i) a decrease in the EMEA region's Core Network Services revenue primarily as a result of lower U.K. Government and wholesale channel revenue and (ii) a decrease in wholesale channel revenue in North America.

Wholesale Voice Services and Other revenue decreased in 2013 compared to 2012 primarily as a result of declines in usage as customers transition to IP voice services. The Company continues to manage its combined wholesale voice services platform for margin contribution. In addition, the Company expects SBC Contract Services revenue to continue to decline as a result of the migration of the SBC traffic to the AT&T network. The Company has discontinued its managed modem services.

Wholesale Voice Services revenue decreased in the North America and EMEA regions in 2013 compared to 2012, due to competitive pressures and the Company's focus on maintaining or growing its margin percentage. Wholesale Voice Services revenue in Latin America was flat in 2013 compared to 2012.

Cost of Revenue includes leased capacity, right-of-way costs, access charges, satellite transponder lease costs, and other third-party costs directly attributable to the network, but excludes depreciation and amortization and related impairment expenses.

Cost of revenue as a percentage of total revenue was 39% in 2013 compared to 41% in 2012. The decrease is primarily due to an improving gross margin mix of higher margin on-net Core Network

Services and a decline in lower margin Wholesale Voice Services and Other Revenue. Additionally, the Company continues to implement initiatives to reduce both fixed and variable network expenses.

Depreciation and Amortization expense increased 7% to \$800 million in 2013 from \$749 million in 2012. The increase is primarily attributable to new capital expenditures in 2013 in support of the network with asset lives less than the average remaining life of all existing assets as of the beginning of the year.

Selling, General and Administrative ("SG&A") expenses include salaries, wages and related benefits (including non-cash, stock-based compensation expenses), property taxes, travel, insurance, rent, contract maintenance, advertising, accretion expense on asset retirement obligations, restructuring charges and other administrative expenses. SG&A expenses also include certain network related expenses such as network facility rent, utilities and maintenance costs.

SG&A expenses decreased 3% to \$2.376 billion in 2013 compared to \$2.450 billion in 2012. The decreases are primarily due to lower employee compensation and other employee related costs, professional fees and vendor services and other discretionary costs. Employee cash compensation and other employee related costs decreased as the Company continued to achieve cost synergies as a result of the integration of the Global Crossing business, workforce reductions primarily focused on labor cost savings and organizational effectiveness and higher capitalization of labor costs related to the implementation of information technology systems, network deployment and customer installation activities. Professional fees and vendor services and other discretionary costs decreased primarily due to the rationalization and renegotiation of vendor services and lower travel and entertainment costs. In addition, the Company incurred approximately \$47 million in 2012 of integration costs related to the Global Crossing acquisition. The integration was substantially complete by the end of 2012.

Also included in SG&A expenses in 2013 and 2012, respectively, were \$151 million and \$135 million of non-cash, stock-based compensation expenses related to grants of outperform stock options, restricted stock units, accruals for the Company's annual discretionary bonus, incentive and retention plans and shares issued for the Company's matching contribution to the 401(k) plan. The increase in non-cash, stock-based compensation expense is primarily due to accruing the annual discretionary bonus at a higher target rate in 2013 than in 2012 as well as the vesting of long-term incentive awards in connection with James Q. Crowe's departure from the Company, as described below.

On April 11, 2013, the Company announced that Jeff K. Storey had been appointed by the Board of Directors, effective immediately, to be the Company's President and Chief Executive Officer. As a result of the departure of James Q. Crowe, the Company incurred an SG&A charge of approximately \$23 million in the second quarter of 2013, consisting of \$6 million of additional cash compensation expenses and \$17 million in non-cash compensation expenses related to the vesting of certain of Mr. Crowe's long-term incentive awards payable under the terms of his employment agreement.

Additionally in 2013, the Company implemented certain workforce reductions. Restructuring charges in 2013 and 2012 were \$47 million and \$34 million, respectively, recorded in SG&A.

Adjusted EBITDA, as defined by the Company, is net income (loss) from the consolidated statements of operations before (1) income tax benefit (expense), (2) total other income (expense), (3) non-cash impairment charges included within selling, general and administrative expenses, (4) depreciation and amortization expense and (5) non-cash stock compensation expense included within selling, general and administrative expenses and (6) discontinued operations.

Adjusted EBITDA is not a measurement under generally accepted accounting principles ("GAAP") and may not be used in the same way by other companies. Management believes that Adjusted EBITDA is an important part of the Company's internal reporting and is a key measure used by management to evaluate profitability and operating performance of the Company and to make resource allocation decisions. Management believes such measurement is especially important in a capital-intensive industry

such as telecommunications. Management also uses Adjusted EBITDA to compare the Company's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period its ability to fund capital expenditures, fund growth, service debt and determine bonuses.

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income tax benefit (expense) because these items are associated with the Company's capitalization and tax structures. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses reflect the effect of capital investments which management believes are better evaluated through cash flow measures. Adjusted EBITDA excludes net other income (expense) because these items are not related to the primary operations of the Company.

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

The following information provides a reconciliation of Net Loss to Adjusted EBITDA as defined by the Company:

(dollars in millions)	Year Ended December 31,	
	2013	2012
Net Loss	\$ (109)	\$ (422)
Income Tax Expense	38	48
Total Other Expense	737	949
Depreciation and Amortization Expense	800	749
Non-Cash Compensation Expense	151	135
Non-Cash Impairment	7	—
Adjusted EBITDA	<u>\$ 1,624</u>	<u>\$ 1,459</u>

Consolidated Adjusted EBITDA was \$1.624 billion in 2013 compared with \$1.459 billion in 2012. The increase in Adjusted EBITDA is primarily attributable to growth in the Company's higher incremental margin Core Network Services revenue, continued improvements in cost of revenue and lower SG&A expenses.

Adjusted EBITDA increased in the North America, EMEA and Latin America regions in 2013 compared to 2012, as a result of growth in core network services revenue in North America and Latin America and initiatives resulting in reduced fixed and variable network expenses in all three regions. These increases were partially offset by (i) a decrease in the EMEA region's Core Network Services revenue primarily as a result of lower U.K. Government and wholesale channel revenue and (ii) a decrease in wholesale channel revenue in North America. See Note 16 - Segment Information in the notes to consolidated financial statements for additional information on Adjusted EBITDA by region.

Historically, the Company has paid a portion of employee annual bonuses with shares of its common stock. Beginning in 2014, the Company will accrue the entire bonus compensation within SG&A as cash compensation, which will be paid in 2015.

Interest Expense decreased 11% to \$649 million in 2013 from \$733 million in 2012. Interest expense decreased as a result of lower cost of borrowing on refinanced debt in 2013 compared to 2012 as well as the repayment of the Company's 15% Convertible Senior Notes in 2013.

The Company expects annual interest expense in 2014 to approximate \$600 million based on current interest rates on the Company's debt outstanding as of December 31, 2013. See Note 12 - Long-Term Debt in the notes to consolidated financial statements for additional information on Level 3's financing activities.

Loss on Modification and Extinguishment of Debt, net was \$84 million in 2013 compared to a loss of \$160 million in 2012. The loss recorded during 2013 was related to a charge of approximately \$1 million related to the refinancing of the Floating Rate Senior Notes due 2015 in December 2013, \$56 million related to the refinancing of 10% Senior Notes due 2018 in December 2013, \$10 million related to the refinancing \$1.2 billion Tranche B-II 2019 Term Loan in October 2013, \$8 million related to the refinancing \$595.5 million Tranche B 2016 Term Loan in August 2013 and \$9 million related to the refinancing the \$815 million Tranche B 2019 Term Loan in August 2013. The loss recorded during 2012 was related to a charge of \$50 million related to the refinancing of the \$650 million Tranche B II Term Loan and \$550 million Tranche B III Term Loan in October 2012, a charge of \$9 million related to the refinancing of the \$1.4 billion Tranche A Term Loan in August 2012 and the repayment of existing vendor financing obligations, a charge of \$40 million as a result of the redemption of the 8.75% Senior Notes due 2017 in August 2012, a charge of \$22 million related to the redemption of the 9.25% Senior Notes due 2014 in February 2012, and a charge of \$39 million as a result of the exchange of a portion of the 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of Level 3 common stock in March 2012. See Note 12 - Long-Term Debt in the notes to the consolidated financial statements for more details regarding the Company's financing activities.

Other, net was \$4 million of expense in 2013 compared to \$58 million of expense in 2012. Other, net is primarily comprised of gains and losses on the sale of non-operating assets, foreign currency gains and losses and other income and expense.

Other, net expense in 2013 is primarily due to foreign currency fluctuations of local currencies relative to the U.S. dollar, including foreign currency losses attributable to the devaluation of the Venezuelan bolivar as discussed below, partially offset by net foreign currency gains. The Other, net expense in 2012 was driven by a non-cash loss on the Company's interest rate swap agreements of approximately \$60 million that were deemed "ineffective" hedges under GAAP in connection with the refinancing of the \$1.4 billion Tranche A Term Loan.

Effective February 13, 2013, the Venezuelan government devalued the Venezuelan bolivar by increasing the official rate from 4.30 Venezuelan bolivares to the U.S. dollar to 6.30 Venezuelan bolivares to the U.S. dollar. This devaluation reduced the Company's net monetary assets by \$22 million based on the bolivar balances as of February 13, 2013, resulting in a charge of \$22 million that was recognized in Other, net in the consolidated statement of operations in 2013.

Income Tax Expense was \$38 million in 2013 compared to \$48 million in 2012. Income tax expense in all periods is primarily related to taxes in foreign jurisdictions.

The Company incurs tax expense attributable to income in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. The Company also recognizes accrued interest and penalties in income tax expense related to uncertain tax benefits. Our tax rate is volatile and may move up or down with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, changes in tax laws, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

Results of Operations 2012 vs. 2011

(dollars in millions)	Year Ended December 31,		
	2012	2011	Change %
Revenue	\$ 6,376	\$ 4,333	47 %
Cost of Revenue	2,602	1,706	53 %
Depreciation and Amortization	749	805	(7)%
Selling, General and Administrative	2,450	1,770	38 %
Total Costs and Expenses	5,801	4,281	36 %
Operating Income	575	52	NM
Other Income (Expense):			
Interest income	2	1	100 %
Interest expense	(733)	(716)	2 %
Loss on modification and extinguishment of debt, net	(160)	(100)	60 %
Other, net	(58)	(23)	152 %
Total Other Expense	(949)	(838)	13 %
Loss Before Income Taxes	(374)	(786)	(52)%
Income Tax Expense	(48)	(41)	17 %
Loss from Continuing Operations	(422)	(827)	(49)%
Income from Discontinued Operations, Net	—	71	NM
Net Loss	\$ (422)	\$ (756)	(44)%

NM — Not meaningful

Discussion of all significant variances:

Revenue by Service Offering:

(dollars in millions)	Year Ended December 31,		
	2012	2011	Change %
Core Network Services Revenue:			
Colocation and Datacenter Services	\$ 561	\$ 404	39%
Transport and Fiber	1,950	1,556	25%
IP and Data Services	2,002	1,075	86%
Voice Services (Local and Enterprise)	950	531	79%
Total Core Network Services Revenue	\$ 5,463	\$ 3,566	53%
Wholesale Voice Services and Other Revenue	913	767	19%
Total Revenue	\$ 6,376	\$ 4,333	47%

Revenue increased 47% to \$6.376 billion in 2012 compared to \$4.333 billion in 2011. The increase was primarily driven by the additional revenue associated with the Global Crossing acquisition completed in the fourth quarter of 2011. Excluding revenue from the Global Crossing acquisition, growth in Core Network Services revenue, particularly from enterprise customers, was partially offset by declines in Wholesale Voice Services and Other revenue.

The Company experienced growth in each of its service offerings during 2012 compared to 2011 as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, Core Network Services revenue growth in IP and data services and voice services during 2012 was driven primarily by end customer demand for content delivery over the Internet and enterprise bandwidth, as well as increased usage for voice services. Growth in transport and fiber services and colocation and data center services was more modest during 2012.

Core Network Services revenue increased in the North America, EMEA and Latin America regions during 2012 compared to 2011 primarily as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, revenue increased in the North America region and to a lesser extent the EMEA region during 2012 compared to 2011.

Wholesale Voice Services and Other revenue increased in 2012 compared to 2011 as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, Wholesale Voice Services and Other revenue decreased in 2012 due to declines in usage.

Wholesale Voice Services revenue increased in the North America, EMEA and Latin America regions during 2012 compared to 2011 primarily as a result of the Global Crossing acquisition.

Cost of Revenue as a percentage of total revenue was 41% in 2012 compared to 39% in 2011. The increase was due to the inclusion of costs associated with the Global Crossing business, which has lower gross margins, in 2012 compared to 2011. This increase was partially offset by an improving gross margin mix from higher margin on-net Core Network Services and a decrease in lower margin Wholesale Voice Services and Other.

Depreciation and Amortization expense decreased 7% to \$749 million in 2012 from \$805 million in 2011. The decrease was attributable to a change in the estimated useful lives of certain of the Company's property, plant and equipment that resulted in a reduction of depreciation expense of \$74 million in 2012 compared to 2011. The change in accounting estimate was applied on a prospective basis effective October 1, 2011 as required under the accounting standard related to changes in accounting estimates (See Note 1 - Organization and Summary of Significant Accounting Policies - Property, Plant and Equipment in the notes to the consolidated financial statements). Since this change was applied prospectively, it affected the full year 2012 and only the fourth quarter 2011. This decrease was partially offset by additional depreciation and amortization as a result of the Global Crossing acquisition and property, plant and equipment additions since January 1, 2012.

SG&A expenses increased 38% to \$2.450 billion in 2012 compared to \$1.770 billion in 2011. The increase was primarily due to SG&A expenses associated with the Global Crossing acquisition, although transaction and integration costs decreased to approximately \$47 million in 2012 from \$70 million in 2011. In addition, there was higher employee compensation and related costs, as the Company continued to increase its sales, support and customer service delivery headcount, and merit salary increases became effective in the first quarter of 2012. These increases were partially offset by cost synergies achieved as a result of the Global Crossing acquisition in 2012 and a \$47 million non-cash benefit as a result of a revision to the Company's estimated future asset retirement obligations (see Note 6 - Asset Retirement Obligations in the notes to the consolidated financial statements).

Also included in SG&A expenses in 2012 and 2011, respectively, were \$135 million and \$101 million of non-cash, stock-based compensation expenses related to grants of outperform stock options, restricted stock units, accruals for the Company's discretionary bonus, incentive and retention plans and shares issued for the Company's matching contribution to the 401(k) plan. The increase in non-cash, stock-based compensation expense is primarily due to an increase in the number of stock grants, including the Company's matching contribution for the 401(k) plan during 2012, primarily as a result of the Global Crossing acquisition.

Additionally, restructuring charges recorded in SG&A in 2012 and 2011 were \$34 million and \$11 million, respectively. The increase was primarily due to an increase of reductions in headcount associated with the integration of the Global Crossing acquisition.

Adjusted EBITDA. The following information provides a reconciliation of Net Loss to Adjusted EBITDA as defined by the Company:

(dollars in millions)	Year Ended December 31,	
	2012	2011
Net Loss	\$ (422)	\$ (756)
Income Tax Expense	48	41
Total Other Expense	949	838
Depreciation and Amortization Expense	749	805
Non-Cash Compensation Expense	135	101
Income from Discontinued Operations, Net	—	(71)
Adjusted EBITDA	<u>\$ 1,459</u>	<u>\$ 958</u>

Consolidated Adjusted EBITDA was \$1.459 billion in 2012 compared with \$958 million in 2011. The increase in Adjusted EBITDA is primarily attributable to Adjusted EBITDA associated with the Global Crossing acquisition and growth in the Company's higher incremental margin Core Network Services revenue and continued improvements in cost of revenue.

Adjusted EBITDA increased in the North America, EMEA and Latin America regions during 2012 compared to 2011 primarily as a result of the Global Crossing acquisition. Excluding Adjusted EBITDA from the Global Crossing acquisition, Adjusted EBITDA increased in the North America region and to a lesser extent the EMEA region during 2012 compared to 2011, primarily due to increased CNS revenues. See Note 16 - Segment Information in the notes to consolidated financial statements for additional information on Adjusted EBITDA by region.

Interest Expense increased 2% to \$733 million in 2012 from \$716 million in 2011. Interest expense increased as a result of a higher average debt balance for 2012 compared to 2011, including financings associated with the Global Crossing acquisition, partially offset by lower cost of borrowing on refinanced debt.

Loss on Modification and Extinguishment of Debt, net was \$160 million in 2012 compared to a loss of \$100 million in 2011. The loss recorded during 2012 was related to a charge of \$50 million for the refinancing of the \$650 million Tranche B II Term Loan and the \$550 million Tranche B III Term Loan in October 2012, a charge of \$9 million related to the refinancing of the \$1.4 billion Tranche A Term Loan in August 2012 and the repayment of existing vendor financing obligations, a charge of \$40 million as a result of the redemption of the 8.75% Senior Notes due 2017 in August 2012, a charge of \$22 million related to the redemption of the 9.25% Senior Notes due 2014 in February 2012, and a charge of \$39 million as a result of the exchange of a portion of the 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of Level 3 common stock in March 2012.

The loss recorded during 2011 was related to a charge of approximately \$27 million recognized in the fourth quarter of 2011 for the redemption of the 3.5% Convertible Senior Notes due 2012 and prepayment of the Tranche B Term Loan that was outstanding under the existing Senior Secured Term Loan, a charge of approximately \$29 million recognized for the July 2011 conversion of the 15% Convertible Senior Notes due 2013, a charge of less than \$1 million for the 3.5% Senior Notes due 2012 repurchased in August 2011, a \$23 million charge recognized for the portion of the 9.25% Senior Notes

due 2014 retired in April 2011 and a \$20 million charge recorded in the first quarter of 2011, which was the result of the redemption of the 5.25% Convertible Senior Notes due 2011 and the exchange of the 9% Convertible Senior Discount Notes due 2013. See Note 10 - Long-Term Debt in the notes to the consolidated financial statements for more details regarding the Company's financing activities.

Other, net was \$58 million of expense in 2012 compared to \$23 million of expense in 2011. Other, net is primarily comprised of gains and losses from the change in the fair value of certain derivative investments, as well as gains and losses on the sale of non-operating assets, foreign currency gains and losses and other income. Other, net in 2012 was driven by a non-cash loss on the Company's interest rate swap agreements of approximately \$60 million that were deemed "ineffective" hedges under GAAP in connection with the refinancing of the \$1.4 billion Tranche A Term Loan. See Note 12 - Long-Term Debt in the notes to the consolidated financial statements for more details regarding the Company's financing activities. The expense recognized in 2011 is primarily related to a charge of approximately \$20 million related to the impairment of certain wireless spectrum licenses (See Note 8 - Acquired Intangible Assets in the notes to consolidated financial statements).

Income Tax Expense was \$48 million in 2012 compared to \$41 million in 2011. The income tax expense in 2012 was primarily related to income taxes for Latin American entities acquired as part of the Global Crossing acquisition. The income tax expense during 2011 is primarily related to an out of period adjustment to recognize deferred tax liabilities for taxable temporary differences associated with certain indefinite-lived intangible assets that the Company is unable to offset with deductible temporary differences associated with its deferred tax assets as well as income tax expense associated with the post-acquisition results of Global Crossing. See Note 1 - Organization and Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

Income (Loss) from Discontinued Operations was net \$71 million of income in 2011. Level 3, through its two 50% owned joint-venture surface mines, one each in Montana and Wyoming, sold coal primarily through long-term contracts with public utilities. In November 2011, Level 3 completed the sale of its coal mining business to Ambre Energy Limited as part of its long-term strategy to focus on core business operations. As a result of the transaction, all of the assets and liabilities associated with the coal mining business have been removed from the Company's balance sheet and a gain on the transaction of approximately \$72 million was recognized in 2011.

Financial Condition—December 31, 2013

Cash flows provided by operating activities, investing activities and financing activities for the years ended December 31, 2013 and 2012, respectively, are summarized as follows:

(dollars in millions)	Year Ended December 31,		
	2013	2012	Change
Net Cash Provided by Operating Activities	\$ 713	\$ 578	\$ 135
Net Cash Used in Investing Activities	(745)	(725)	(20)
Net Cash (Used in) Provided by Financing Activities	(294)	207	(501)
Effect of Exchange Rates on Cash and Cash Equivalents	(22)	1	(23)
Net Change in Cash and Cash Equivalents	\$ (348)	\$ 61	\$ (409)

Operating Activities

Cash provided by operating activities increased to \$713 million in 2013 compared to \$578 million in 2012. The increase in cash provided by operating activities was primarily due to growth in earnings and lower interest payments.

Investing Activities

Cash used in investing activities increased to \$745 million in 2013 compared to \$725 million in 2012, primarily as a result of additional capital expenditures, which totaled \$760 million in 2013 and \$743 million in 2012. The increase is primarily due to additional investment in the network, which includes higher capitalized labor.

Financing Activities

Cash used in financing activities of \$294 million in 2013 compared to cash provided by financing activities of \$207 million in 2012 relates to greater net payments of debt and capital leases during 2013, primarily as a result of the repayment at maturity of the 15% Convertible Notes due January 15, 2013 as compared to greater net borrowings in 2012. See Note 12 - Long-Term Debt in the notes to the consolidated financial statements for more details regarding the Company's debt transactions during 2013.

Effect of Exchange Rates on Cash and Cash Equivalents

The effect of exchange rates on cash and cash equivalents in 2013 was primarily due to the devaluation of the Venezuelan bolivar. This devaluation reduced the Company's unrestricted cash and cash equivalents by \$21 million in the first quarter of 2013.

Liquidity and Capital Resources

The Company incurred a net loss of \$109 million in 2013 and \$422 million in 2012. In connection with its continuing operations, the Company utilized cash of \$760 million for capital expenditures and \$294 million for financing activities in 2013. This compares to \$743 million of cash used for capital expenditures and \$207 million of cash flows provided by financing activities in 2012.

Net cash interest payments are expected to decrease to approximately \$560 million in 2014 from \$674 million in 2013 based on forecasted interest rates on the Company's variable rate debt outstanding as of December 31, 2013.

Capital expenditures for 2014 are expected to be 12% to 13% of revenue from 12% of revenues in 2013, as the Company invests in base capital expenditures (estimated capital required to keep the network operating efficiently and support new service development) with the remaining capital expenditures expected to be partly success-based, which is tied to a specific customer revenue opportunity, and partly project-based where capital is used to expand the network based on the Company's expectation that the project will eventually lead to incremental revenue. As of December 31, 2013, the Company had contractual debt obligations, including capital lease obligations, and excluding interest, discounts on debt issuance and fair value adjustments, of \$31 million that mature in 2014, \$483 million in 2015, which includes the Company's \$475 million 7% Convertible Senior Notes due 2015 that are convertible at a price of approximately \$27 per share, and \$7 million in 2016.

The Company had \$631 million of cash and cash equivalents on hand at December 31, 2013. The Company also had \$30 million of current and non-current restricted cash and securities used to collateralize outstanding letters of credit and certain performance and operating obligations of the Company and other deposits at December 31, 2013. In addition, \$65 million of the Company's total cash and cash equivalents as of December 31, 2013 was held in Venezuelan bolivares by a Venezuelan subsidiary. In light of the Venezuelan exchange control regime, none of such \$65 million may be transferred to the Company in the form of loans, advances or cash dividends without the consent of the Venezuelan government. The \$65 million value of the Company's bolivar balance reflects the February 13, 2013 devaluation of the bolivar that resulted from the increase in the official exchange rate from 4.30

Venezuelan bolivares to the U.S. dollar to 6.30 Venezuelan bolivares to the U.S. dollar. That devaluation reduced the Company's unrestricted cash and cash equivalents by \$21 million, based on the bolivar balances as of February 13, 2013.

The Company currently has the ability to repatriate cash and cash equivalents into the United States without paying or accruing U.S. taxes. Level 3 does not currently intend to repatriate any of its foreign cash and cash equivalents from entities outside of Latin America. The Company has no restrictions on its ability to repatriate foreign cash and cash equivalents, other than conversion and repatriation restrictions in Venezuela, as needed to fund operations in the United States, including debt service.

Based on information available at this time, the Company believes that its current liquidity and anticipated future cash flows from operations will be sufficient to fund its business for at least the next twelve months.

The Company may need to refinance all or a portion of its indebtedness at or before maturity and cannot provide assurances that it will be able to refinance any such indebtedness on commercially reasonable terms or at all. In addition, the Company may elect to secure additional capital in the future, at acceptable terms, to improve its liquidity or fund acquisitions. In addition, in an effort to reduce future cash interest payments as well as future amounts due at maturity or to extend debt maturities, the Company may, from time to time, issue new debt, enter into debt for debt, debt for equity or cash transactions to purchase its outstanding debt securities in the open market or through privately negotiated transactions. The Company will evaluate any such transactions in light of the existing market conditions and the possible dilutive effect to stockholders. The amounts involved in any such transaction, individually or in the aggregate, may be material.

In addition to raising capital through the debt and equity markets, the Company may sell or dispose of existing businesses, investments or other non-core assets.

Consolidation of the communications industry may continue. The Company will continue to evaluate consolidation opportunities and could make additional acquisitions in the future.

Off-Balance Sheet Arrangements

Level 3 has not entered into off-balance sheet arrangements.

Contractual Obligations

The following table summarizes the contractual obligations and other commercial commitments of the Company at December 31, 2013, as further described in the Notes to Consolidated Financial Statements.

Payments Due by Period

(dollars in millions)	<u>Total</u>	<u>Less than 1 Year</u>	<u>2 - 3 Years</u>	<u>4 - 5 Years</u>	<u>After 5 Years</u>
Contractual Obligations					
Long-Term Debt, including current portion	\$ 8,392	\$ 31	\$ 490	\$ 12	\$ 7,859
Interest Obligations (1)	3,215	572	1,085	1,055	503
Asset Retirement Obligations	56	—	18	—	38
Operating Leases	1,567	268	421	325	553
Right of Way Agreements	700	119	117	99	365
Purchase and Other Obligations	1,406	800	454	55	97
Other Commercial Commitments					
Letters of Credit	29	7	2	7	13

(1) Includes the Company's future cash flows related to interest rate swap obligations of \$12 million in 2014 included in Other Current Liabilities presented in Note 10 - Fair Value of Financial Instruments in the notes to consolidated financial statements.

The Company's debt instruments contain certain covenants which, among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates. If the Company should fail to comply with these covenants, amounts due under the instruments may be accelerated at the note holder's discretion after the declaration of an event of default. The Company's debt instruments do not have covenants that require the Company or its subsidiaries to maintain certain levels of financial performance or other financial measures such as total leverage or minimum revenues. These types of covenants are commonly referred to as "maintenance covenants."

Long-term debt obligations exclude issue discounts.

Interest obligations assume interest rates on \$2.911 billion of variable rate debt do not change from December 31, 2013. In addition, interest is calculated based on debt outstanding as of December 31, 2013.

The Company's asset retirement obligations consist of legal requirements to remove certain of its network infrastructure at the expiration of the underlying right-of-way ("ROW") term and restoration requirements for leased facilities. The initial and subsequent measurement of the Company's asset retirement obligations require the Company to make significant estimates regarding the eventual costs and probability or likelihood that the Company will be required to remove certain of its network infrastructure and restore certain of its leased properties.

Due to uncertainty regarding the completion of tax audits and possible outcomes, the remaining estimate of the timing of payments related to uncertain tax positions and interest cannot be made. See Note 15 - Income Taxes in the notes to consolidated financial statements for additional information regarding the Company's uncertain tax positions.

Certain right of way agreements include provisions for increases in payments in future periods based on the rate of inflation as measured by various price indexes. The Company has not included estimates for these increases in future periods in the amounts included above.

Certain non-cancelable right of way agreements provide for automatic renewal on a periodic basis. The Company includes payments due during these automatic renewal periods given the significant cost to relocate the Company's network and other facilities.

Certain other right of way agreements are cancelable or can be terminated under certain conditions by the Company. The Company includes the payments under such cancelable right of way agreements in the table above for a period of 1 year from January 1, 2014, if the Company does not consider it likely that it will cancel the right of way agreement within the next year.

Purchase and other obligations represent all outstanding purchase order amounts of the Company as of December 31, 2013 (\$430 million), contractual commitments with third parties to purchase network access services (\$744 million) and maintenance payments for portions of the Company's network (\$232 million).

The table above does not include other long-term liabilities, such as liabilities recorded for legal matters that are not contractual obligations by nature. The Company cannot determine with any degree of certainty the years in which these liabilities might ultimately be paid.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is subject to market risks arising from changes in interest rates. As of December 31, 2013, the Company had borrowed a total of approximately \$2.9 billion primarily under a Senior Secured Term Loan (excluding discounts) and Floating Rate Senior Notes due 2018 that bear interest at LIBOR rates plus an applicable margin. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the debt instruments, unless LIBOR rates are below the minimum LIBOR rate for a particular Senior Secured Term Loan. The weighted average interest rate on these variable rate instruments at December 31, 2013, was approximately 4.0%.

The Company's senior secured credit facility's variable interest rate is based on a fixed rate of 3.0% plus LIBOR, with a fixed minimum LIBOR rate of 1.0% for both the \$815 million Tranche B-III 2019 and the \$1,795.5 million Tranche B 2020 Term Loans. The market LIBOR rate for the Company's senior secured credit facility was approximately 0.24% at December 31, 2013, which was below the fixed minimum rate. Declines in LIBOR below the fixed minimum rate or increases up to the fixed minimum rate do not affect the Company's annual interest expense. A hypothetical increase in the weighted average rate by 1.0% would increase the Company's annual interest rate expense on all of its variable rate instruments by approximately \$9 million as of December 31, 2013.

At December 31, 2013, the Company had \$5.5 billion (excluding discounts) of fixed rate debt bearing a weighted average interest rate of 8.3%. A decline in interest rates in the future will not generally benefit the Company with respect to the fixed rate debt due to the terms and conditions of the indentures relating to that debt that would require the Company to repurchase the debt at specified premiums if redeemed early. Indicated changes in interest rates are based on hypothetical movements and are not necessarily indicative of the actual results that may occur.

Foreign Currency Exchange Rate Risk

The Company conducts a portion of its business in currencies other than the U.S. dollar, the currency in which the Company's consolidated financial statements are reported. Accordingly, the Company's operating results could be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar. The Company's European subsidiaries and certain Latin American subsidiaries use the local currency as their functional currency, as the majority of their revenue and purchases are transacted in their local currencies. Although the Company continues to evaluate strategies to mitigate risks related to the effect of fluctuations in currency exchange rates, the Company will likely recognize gains or losses from international transactions. Changes in foreign currency rates could adversely affect the Company's operating results.

Effective February 13, 2013, the Venezuelan government devalued the Venezuelan bolivar by increasing the official rate from 4.30 Venezuelan bolivares to the U.S. dollar to 6.30 Venezuelan bolivares to the U.S. dollar. This devaluation reduced the Company's net monetary assets by \$22 million, including unrestricted cash and cash equivalents of \$21 million, based on the bolivar balances as of February 13, 2013. The devaluation of the Company's net monetary assets resulted in a charge of \$22 million which was recognized in Other, net in the consolidated statement of operations for the year ended December 31, 2013. The effects on revenue and operating income are not expected to be material in light of certain pricing adjustment mechanisms in many of the Company's contracts with Venezuelan customers and since most of the Company's costs in Venezuela are incurred in bolivares.

Future earnings and losses will be affected by actual fluctuations in interest rates and foreign currency rates.

CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2013. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of its management, including the Company's principal executive officer and principal financial officer, management assessed the effectiveness of internal controls over financial reporting as of December 31, 2013 based on the guidelines established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. That report appears on page F-3.

SEC FILINGS

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the Internet at the SEC's website at www.sec.gov. You may also read and copy any document the Company files with the SEC at the SEC's public reference room, located at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. Level 3's annual report on Form 10-K and all other reports and amendments filed with or furnished to the SEC are publicly available free of charge on the investor relations section of its website as soon as reasonably practicable after the Company files such materials with, or furnish them to, the SEC. The Company's website is www.level3.com. The Company cautions you that the information on its website is not part of this or any other report the Company files with, or furnishes to, the SEC.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information.

Our common stock is traded on the New York Stock Exchange under the symbol "LVLT." As of February 24, 2014, there were approximately 6,974 holders of record of our common stock, par value \$.01 per share. The table below sets forth, for the calendar quarters indicated, the high and low per share sales prices of our common stock as reported by the NYSE Composite Tape for the quarters and the years indicated.

<u>Year Ended December 31, 2013</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 24.83	\$ 19.67
Second Quarter	23.99	19.34
Third Quarter	27.36	20.34
Fourth Quarter	33.19	26.36

<u>Year Ended December 31, 2012</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 27.53	\$ 16.87
Second Quarter	26.72	19.72
Third Quarter	24.75	18.12
Fourth Quarter	23.22	18.19

Equity Compensation Plan Information.

We have two equity compensation plans under which we may issue shares of our common stock to employees, officers, directors and consultants. They are The Level 3 Communications, Inc. Stock Plan and the 2003 Global Crossing Limited Stock Incentive Plan. We assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan in connection with the acquisition of Global Crossing. Options outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at the closing of the acquisition were automatically exchanged for options to purchase shares of our common stock and the plan was amended to provide for the issuance of shares of our common stock. The following table provides information about the shares of our common stock that may be issued upon exercise of awards under The Level 3 Communications, Inc. Stock Plan (in the "Equity compensation plans approved by stockholders" category) and the 2003 Global Crossing Limited Stock Incentive Plan (in the "Equity compensation plans not approved by stockholders" category) as of December 31, 2013.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by stockholders	5,268,215 *	\$ 23.99 **	11,925,668
Equity compensation plans not approved by stockholders	26,665 ***	\$ 14.43 ***	3,352,982

* Includes, among other awards, awards of outperform stock appreciation units ("OSOs"). For purposes of this table, each OSO was considered to use a single share of our common stock from the total number of shares reserved for issuance under The Level 3 Communications, Inc. Stock Plan even though the actual payout multiplier may range from zero to four, as described below.

** At December 31, 2013, the only type of award outstanding under The Level 3 Communications, Inc. Stock Plan that included an "exercise price" was the OSOs. The weighted-average exercise price indicated was for the outstanding OSOs at the date of grant. The exercise price of an OSO is subject to change based upon the performance of our common stock relative to the performance of the S&P 500® Index from the time of the grant of the award until the award has been exercised.

*** Includes awards of options only. The 2003 Global Crossing Limited Stock Incentive Plan provides for the granting of (i) stock options, (ii) stock appreciation rights and (iii) other stock-based awards, including, without limitation, restricted share units, to eligible participants. The vesting of outstanding awards may be accelerated and the securities issuable pursuant to outstanding awards may be adjusted upon the occurrence of certain corporate events. No awards may be granted under the plan after December 8, 2013. For additional information about the plan, see Note 14, "Employee Benefits and Stock-Based Compensation" to our consolidated financial statements included in this annual report on Form 10-K.

OSOs were awarded through the end of 2013, and will continue to be outstanding through 2016. OSOs were designed to provide recipients of the awards with the incentive to maximize stockholder value and to reward recipient employees only when the price of our common stock outperforms the S&P 500® Index between the date of grant and the date that the OSO is settled. OSOs have a three-year life and vest 100% on the third anniversary of the date of the award and fully settle on that date. In other words, recipients of OSOs are not able to voluntarily exercise the OSOs as they will settle automatically with value on the third anniversary of the date of the award or expire without value on that date. This type of instrument is sometimes referred to as a "European style option."

The OSOs initial strike price is equal to the closing market price of our common stock on the trading day immediately prior to the date of grant. This initial strike price is referred to as the "Initial Price." On the settlement date, the Initial Price is adjusted as of that date by a percentage that is equal to the aggregate percentage increase or decrease in the S&P 500® Index over the period beginning on the date of grant and ending on the trading day immediately preceding the settlement date. The Initial Price, however, cannot be adjusted below the closing price of our common stock on the day that the OSO was granted.

The value of all OSOs increase as the price of our common stock increases relative to the performance of the S&P® 500 Index over time. This increase in value is attributable in part to the use of a "success multiplier."

The mechanism for determining the value of an individual OSO award is described as follows. The Initial Price is adjusted over time (the "Adjusted Strike Price") until the settlement date. The adjustment represents an amount equal to the percentage appreciation or depreciation in the value of the S&P 500® Index from the date of grant to the settlement date. The value of the OSO would increase for increasing levels of outperformance.

OSOs include a multiplier range from zero to four depending upon the performance of our common stock relative to the S&P 500® Index as shown in the following table.

If Level 3 Stock Outperforms the S&P 500® Index by:	Then the Pre-multiplier Gain Is Multiplied by a Success Multiplier of:
0% or Less	—
More than 0% but Less than 11%	Outperformance percentage multiplied by 4/11
11% or More	4

The pre-multiplier gain is our common stock price minus the Adjusted Strike Price on the settlement or exercise date.

Beginning in 2014, outperform stock appreciation rights, or OSOs, will no longer be awarded. Instead, we will award performance-based restricted stock unit awards, which will use a two-year performance measurement period, with the specific performance criteria to be determined by the Compensation Committee of the Board of Directors for each annual award cycle, and will vest 50% on the second anniversary of the grant date (after the relevant performance has been measured) and the second 50% vesting on the third anniversary of grant date to serve as a retention tool.

Dividend Policy.

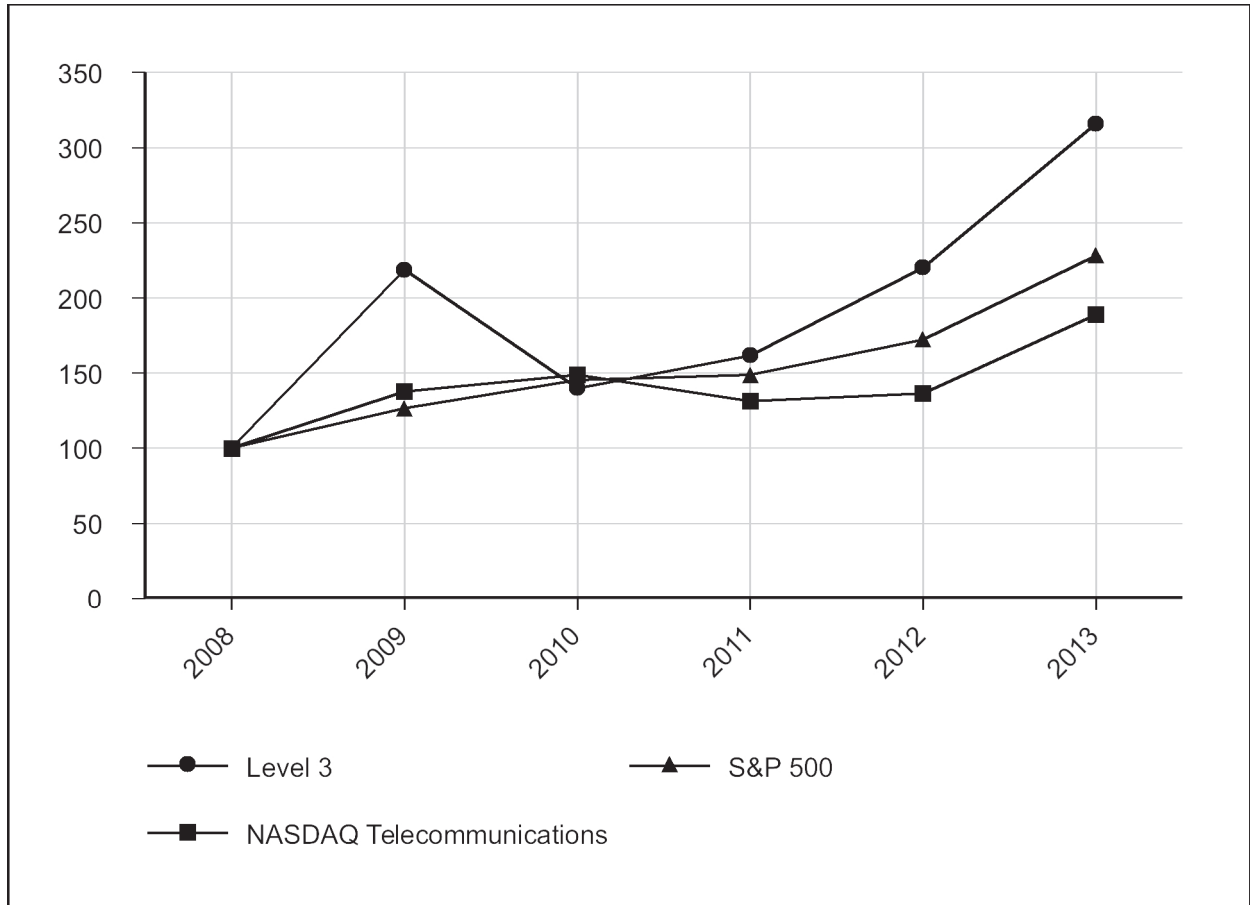
Our current dividend policy, in effect since April 1, 1998, is to retain future earnings for use in our business. As a result, our directors and management do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. In addition, under certain of our debt covenants we may be restricted from paying cash dividends on shares of our common stock.

Performance Graph.

The following performance graph shall not be deemed to be incorporated by reference by means of any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates such information by reference, and shall not otherwise be deemed filed under such acts.

The graph compares the cumulative total return of our common stock for the five year period from 2009 through 2013 with the S&P® 500 Index and the Nasdaq Telecommunications Index. The graph assumes that the value of the investment was \$100 on December 31, 2008, and that all dividends and other distributions were reinvested.

**Comparison of Five Year Cumulative Total Return
Among Our Common Stock, the S&P® 500 Index
and the Nasdaq Telecommunications Index**



	12/08	12/09	12/10	12/11	12/12	12/13
Level 3 common stock	\$ 100.00	\$ 218.57	\$ 140.00	\$ 161.81	\$ 220.10	\$ 315.90
S&P 500® Index	100.00	126.46	145.51	148.59	172.37	228.19
NASDAQ Telecommunications	100.00	137.81	148.84	131.52	136.58	189.00

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LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
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Schedules not indicated above have been omitted because of the absence of the condition under which they are required or because the information called for is shown in the consolidated financial statements or in the notes hereto.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, cash flows, and changes in stockholders' equity (deficit) for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of Level 3 Communications, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Level 3 Communications, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2014 expressed an unqualified opinion on the effectiveness of the Level 3 Communications, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado
February 27, 2014

Report of Independent Registered Public Accounting Firm

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

We have audited Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Level 3 Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on Level 3 Communications, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Level 3 Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established

in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, cash flows, and changes in stockholders' equity (deficit) for each of the years in the three-year period ended December 31, 2013, and our report dated February 27, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado
February 27, 2014

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For each of the three years ended December 31,

(dollars in millions, except per share data)	2013	2012	2011
Revenue	\$ 6,313	\$ 6,376	\$ 4,333
Costs and Expenses Exclusive of Depreciation and Amortization shown separately below:			
Cost of Revenue	2,471	2,602	1,706
Depreciation and Amortization	800	749	805
Selling, General and Administrative	2,376	2,450	1,770
Total Costs and Expenses	<u>5,647</u>	<u>5,801</u>	<u>4,281</u>
Operating Income	666	575	52
Other Income (Expense):			
Interest income	—	2	1
Interest expense	(649)	(733)	(716)
Loss on modification and extinguishment of debt, net	(84)	(160)	(100)
Other, net	(4)	(58)	(23)
Total Other Expense	<u>(737)</u>	<u>(949)</u>	<u>(838)</u>
Loss Before Income Taxes	(71)	(374)	(786)
Income Tax Expense	(38)	(48)	(41)
Loss from Continuing Operations	(109)	(422)	(827)
Income from Discontinued Operations, net	—	—	71
Net Loss	<u>\$ (109)</u>	<u>\$ (422)</u>	<u>\$ (756)</u>
Basic and Diluted Loss per Share			
Loss per Share from Continuing Operations	\$ (0.49)	\$ (1.96)	\$ (6.03)
Income per Share from Discontinued Operations	—	—	0.52
Net Loss per Share	<u>\$ (0.49)</u>	<u>\$ (1.96)</u>	<u>\$ (5.51)</u>
Shares Used to Compute Basic and Diluted Loss per Share (in thousands)	222,368	215,356	137,176

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
For each of the three years ended December 31,

<u>(dollars in millions)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Loss	\$ (109)	\$ (422)	\$ (756)
Other Comprehensive Income (Loss) Before Income Taxes:			
Foreign Currency Translation Adjustments	11	17	(16)
Unrealized Gain on Interest Rate Swaps	—	25	(28)
Reclassification of Derivative Gain to Income	—	65	46
Defined Benefit Pension Plan Adjustments	<u>(1)</u>	<u>(1)</u>	<u>16</u>
Other Comprehensive Income (Loss), Before Income Taxes	10	106	18
Income Tax Related to Items of Other Comprehensive Income (Loss)	<u>—</u>	<u>—</u>	<u>—</u>
Other Comprehensive Income (Loss), Net of Income Taxes	10	106	18
Comprehensive Loss	<u>\$ (99)</u>	<u>\$ (316)</u>	<u>\$ (738)</u>

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,

(dollars in millions, except share data)	2013	2012
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 631	\$ 979
Restricted cash and securities	7	8
Receivables, less allowances for doubtful accounts of \$32 and \$31, respectively	673	714
Other	143	141
Total Current Assets	1,454	1,842
Property, plant and equipment, net of accumulated depreciation of \$9,089 and \$8,359, respectively	8,240	8,199
Restricted cash and securities	23	35
Goodwill	2,577	2,565
Other intangibles, net	205	268
Other assets, net	375	398
Total Assets	\$ 12,874	\$ 13,307
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 625	\$ 779
Current portion of long-term debt	31	216
Accrued payroll and employee benefits	209	211
Accrued interest	160	209
Current portion of deferred revenue	253	251
Other	168	136
Total Current Liabilities	1,446	1,802
Long-term debt, less current portion	8,331	8,516
Deferred revenue, less current portion	906	887
Other liabilities	780	931
Total Liabilities	11,463	12,136
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, \$.01 par value, authorized 10,000,000 shares: no shares issued or outstanding	—	—
Common stock, \$.01 par value, authorized 343,333,333 shares in both periods; 234,688,063 shares issued and outstanding at December 31, 2013 and 218,380,070 shares issued and outstanding at December 31, 2012	2	2
Additional paid-in capital	14,339	14,000
Accumulated other comprehensive income	36	26
Accumulated deficit	(12,966)	(12,857)
Total Stockholders' Equity	1,411	1,171
Total Liabilities and Stockholders' Equity	\$ 12,874	\$ 13,307

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For each of the three years ended December 31,

(dollars in millions)	2013	2012	2011
Cash Flows from Operating Activities:			
Net loss	\$ (109)	\$ (422)	\$ (756)
Income from discontinued operations	—	—	(71)
Loss from continuing operations	(109)	(422)	(827)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	800	749	805
Asset retirement obligation adjustment	—	(47)	—
Loss on impairment	7	—	—
Non-cash compensation expense attributable to stock awards	151	135	101
Loss on modification and extinguishment of debt, net	84	160	100
Loss on interest rate swaps	—	60	—
Accretion of debt discount and amortization of debt issuance costs	36	46	56
Accrued interest on long-term debt, net	(49)	(5)	82
Loss on impairment of wireless spectrum licenses	—	—	20
Non-cash tax adjustments	(42)	(14)	—
Deferred income taxes	(29)	21	33
Gain on sale of property, plant, and equipment and other assets	(2)	(1)	(2)
Other, net	(41)	(23)	5
Changes in working capital items:			
Receivables	30	(86)	(12)
Other current assets	3	(5)	(1)
Payables	(162)	18	30
Deferred revenue	28	(10)	(3)
Other current liabilities	8	2	1
Net Cash Provided by Operating Activities of Continuing Operations	713	578	388
Cash Flows from Investing Activities:			
Capital expenditures	(760)	(743)	(494)
Decrease (increase) in restricted cash and securities, net	13	20	(54)
Investment in Global Crossing, net of cash acquired	—	—	146
Other	2	(2)	4
Net Cash Used in Investing Activities of Continuing Operations	(745)	(725)	(398)
Cash Flows from Financing Activities:			
Long-term debt borrowings, net of issuance costs	1,502	4,504	1,878
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(1,796)	(4,302)	(1,617)
Proceeds from stock options exercised	—	5	—
Net Cash Provided by (Used in) Financing Activities of Continuing Operations	(294)	207	261
Discontinued Operations:			
Net cash used in operating activities	—	—	(4)
Net cash provided by investing activities	—	—	55
Net Cash Provided by Discontinued Operations	—	—	51
Effect of Exchange Rates on Cash and Cash Equivalents	(22)	1	—
Net Change in Cash and Cash Equivalents	(348)	61	302
Cash and Cash Equivalents at Beginning of Year	979	918	616
Cash and Cash Equivalents at End of Year	\$ 631	\$ 979	\$ 918
Supplemental Disclosure of Cash Flow Information:			
Cash interest paid	\$ 674	\$ 695	\$ 576
Income taxes paid, net of refunds	\$ 33	\$ 32	\$ 7
Non-cash Investing and Financing Activities:			
Capital lease obligations incurred	\$ 13	\$ —	\$ —
Note issued for property	\$ 12	\$ —	\$ —
Long-term debt issued in exchange transaction	\$ —	\$ —	\$ 300
Long-term debt retired in exchange transaction	\$ —	\$ —	\$ 295
Long-term debt conversion into equity	\$ 200	\$ 100	\$ 128
Premium on long-term debt conversion into equity	\$ —	\$ 39	\$ —
Accrued interest conversion into equity	\$ 3	\$ 2	\$ —
Long-term debt issued and proceeds placed in escrow	\$ —	\$ —	\$ 1,200
Settlement of Global Crossing debt with escrowed securities	\$ —	\$ —	\$ 1,254

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For each of the three years ended December 31,

(dollars in millions, except share data)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	\$				
Balance at January 1, 2011	111,365,226	\$ 17	\$ 11,603	\$ (98)	\$ (11,679)	\$ (157)
Common stock:						
Common stock issued under employee stock benefit plans and other	3,273,038	—	52	—	—	52
Stock-based compensation	—	—	32	—	—	32
Global Crossing acquisition equity consideration	88,535,830	13	1,868	—	—	1,881
Reverse stock split	—	(29)	29	—	—	—
Conversion of debt to equity	4,739,334	1	122	—	—	123
Net Loss	—	—	—	—	(756)	(756)
Other Comprehensive Income	—	—	—	18	—	18
Balance at December 31, 2011	207,913,428	2	13,706	(80)	(12,435)	1,193
Common stock:						
Common stock issued under employee stock benefit plans and other	5,019,513	—	88	—	—	88
Stock-based compensation	—	—	67	—	—	67
Conversion of debt to equity	5,447,129	—	139	—	—	139
Net Loss	—	—	—	—	(422)	(422)
Other Comprehensive Income	—	—	—	106	—	106
Balance at December 31, 2012	218,380,070	2	14,000	26	(12,857)	1,171
Common stock:						
Common stock issued under employee stock benefit plans and other	5,493,729	—	70	—	—	70
Stock-based compensation	—	—	69	—	—	69
Conversion of debt to equity	10,814,264	—	200	—	—	200
Net Loss	—	—	—	—	(109)	(109)
Other Comprehensive Income	—	—	—	10	—	10
Balance at December 31, 2013	234,688,063	\$ 2	\$ 14,339	\$ 36	\$ (12,966)	\$ 1,411

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

Description of Business

Level 3 Communications, Inc. and subsidiaries (the "Company" or "Level 3") is a facilities-based provider (that is, a provider that owns or leases a substantial portion of the plant, property and equipment necessary to provide its services) of a broad range of integrated communications services. The Company created its communications network by constructing its own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. Level 3's network is an international, facilities-based communications network. The Company designed its network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

Until November 2011, the Company also was engaged in coal mining through two 50% owned joint-venture surface mines, one each in Montana and Wyoming. The Company completed the sale of its coal mining business on November 14, 2011.

On October 4, 2011, a subsidiary of Level 3 completed its amalgamation with Global Crossing Limited ("Global Crossing"), which thereby became a wholly owned, indirect subsidiary of the Company through a tax free, stock for stock transaction (the "Amalgamation").

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Level 3 Communications, Inc. and subsidiaries in which it has a controlling interest. All significant intercompany accounts and transactions have been eliminated. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

As part of its consolidation policy, the Company considers its controlled subsidiaries, investments in businesses in which the Company is not the primary beneficiary or does not have effective control but has the ability to significantly influence operating and financial policies, and variable interests resulting from economic arrangements that give the Company rights to economic risks or rewards of a legal entity. The Company does not have variable interests in a variable interest entity where it is required to consolidate the entity as the primary beneficiary or where it has concluded it is not the primary beneficiary.

Foreign Currency Translation

Local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes except for certain foreign subsidiaries in Latin America. For operations outside the U.S. that have functional currencies other than the U.S. dollar, assets and liabilities are translated to U.S. dollars at period-end exchange rates, and revenue, expenses and cash flows are translated using average exchange rates prevailing during the year. A significant portion of the Company's foreign subsidiaries have either the British pound, the euro or the Brazilian real as the functional currency, each of which experienced significant fluctuations against the U.S. dollar during 2013, 2012 and 2011. Foreign currency translation gains and losses are recognized as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit) and in the consolidated statement of comprehensive loss in accordance with accounting guidance for foreign currency translation. The Company considers the majority of its investments in its foreign subsidiaries to be long-term in nature. The Company's foreign exchange transaction gains (losses), including where its investments in its foreign subsidiaries are not considered to be long-term in nature, are included within other income (expense) in Other, net on the consolidated statement of operations.

Reclassifications

Certain amounts in the prior year consolidated financial statements and accompanying footnotes have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 revenue and expenses during the reported period. The accounting estimates that require management's judgments include revenue recognition, revenue reserves, cost of revenue for communications services, cost of revenue dispute reserves, determination of the useful lives of long-lived assets, measurement and recognition of stock-based compensation expense, valuation of long-lived assets, goodwill and acquired indefinite-lived intangible assets for purposes of impairment testing, valuation of asset retirement obligations, allowance for doubtful accounts, measurement of the fair value of assets acquired and liabilities assumed in business combinations, accruals for estimated tax and legal liabilities, valuation allowance for deferred tax assets, and valuation of other assets and liabilities measured at fair value. Actual results could differ from these estimates under different assumptions or conditions and such differences could be material.

Revenue and Cost of Revenue for Communications Services

Revenue for communications services is recognized monthly as the services are provided based on contractual amounts expected to be collected. Management establishes appropriate revenue reserves at the time services are rendered based on an analysis of historical credit activity to address, where significant, situations in which collection is not reasonably assured as a result of credit risk, potential billing disputes or other reasons. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Intercarrier compensation revenue is recognized when an interconnection agreement is in place with another carrier, or if an agreement has expired, when the parties have agreed to continue operating under the previous agreement until a new agreement is negotiated and executed, or at rates mandated by the Federal Communications Commission (the "FCC").

For certain sale and long-term indefeasible right of use, or IRU, contracts involving private line, wavelengths and dark fiber services, the Company may receive upfront payments for services to be delivered for a period of up to 25 years. In these situations, the Company defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract.

Termination revenue is recognized when a customer discontinues service prior to the end of the contract period for which Level 3 had previously received consideration and for which revenue recognition was deferred. Termination revenue also is recognized when customers are required to make termination penalty payments to Level 3 to settle contractually committed purchase amounts that the customer no longer expects to meet or when a customer and Level 3 renegotiate a contract under which Level 3 is no longer obligated to provide services for consideration previously received and for which revenue recognition has been deferred.

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

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

Cost of revenue for the communications business includes leased capacity, right-of-way costs, access charges, satellite transponder lease costs and other third-party costs directly attributable to the network, but excludes depreciation and amortization and related impairment expenses.

The Company recognizes the cost of network services as they are incurred in accordance with contractual requirements. The Company disputes incorrect billings from its suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis and usage bills with incorrect or inadequate information. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. The Company establishes appropriate cost of revenue reserves for disputed supplier billings based on an analysis of historical experience in resolving disputes with its suppliers.

In determining the amount of the cost of network service expenses and related accrued liabilities to reflect in its consolidated financial statements, the Company considers the adequacy of documentation of disconnect notices, compliance with prevailing contractual requirements for submitting these disconnect notices and disputes to the provider of the network services, and compliance with its interconnection agreements with these carriers. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Coal Mining

Prior to the sale of its coal mining business in November 2011, the Company sold coal primarily through long-term contracts with public utilities. The long-term contracts for the delivery of coal established the price, volume, and quality requirements of the coal to be delivered. Revenue under these and other contracts was generally recognized when coal was shipped to the customer.

USF and Gross Receipts Taxes

The revenue recognition standards include guidance relating to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, gross receipts taxes and certain state regulatory fees. The Company records Universal Service Fund ("USF") contributions where the Company is the primary obligor for the taxes assessed in each jurisdiction where it does business on a gross basis in its consolidated statements of operations, but generally records gross receipts taxes and certain state regulatory fees billed to its customers on a net basis in its consolidated statements of operations. Communications revenue and cost of revenue on the consolidated statements of operations includes USF contributions totaling \$194 million, \$191 million and \$107 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Advertising Costs

The Company expenses the cost of advertising as incurred. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. Advertising expense was \$16 million, \$20 million and \$15 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Stock-Based Compensation

The Company recognizes the estimated fair value of stock-based compensation costs, net of an estimated forfeiture rate, over the requisite service period of the award, which is generally the vesting term or term for restrictions on transfer that lapse, as the case may be. The Company funded a portion of its 2013, 2012 and 2011 discretionary bonus in restricted stock awards that vested upon issuance. The Company estimates forfeiture rates based on its historical experience for the type of award, adjusted for expected activities as necessary.

Income Taxes

The Company recognizes deferred tax assets and liabilities for its domestic and foreign operations, for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. The Company recognizes interest and penalty expense associated with uncertain tax positions as a component of income tax expense in the consolidated statements of operations.

Cash and Cash Equivalents

The Company classifies investments as cash equivalents if they are readily convertible to cash and have original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist primarily of highly liquid investments in government and government agency securities and money market funds issued or managed by financial institutions in the U.S., Europe and Latin America and commercial paper depending on liquidity requirements. As of December 31, 2013 and 2012, the carrying value of cash and cash equivalents approximates fair value due to the short period of time to maturity.

Restricted Cash and Securities

Restricted cash and securities consists primarily of cash and investments that serve to collateralize outstanding letters of credit and certain performance and operating obligations of the Company. Restricted cash and securities are recorded as current or non-current assets in the consolidated balance sheets depending on the duration of the restriction and the purpose for which the restriction exists. Restricted cash and securities are stated at cost which approximates fair value as of December 31, 2013 and 2012.

Derivative Financial Instruments

All derivative instruments are measured at fair value and recognized as either assets or liabilities on the Company's consolidated balance sheets. The Company's derivative instruments are valued primarily using models based on readily observable market parameters for all substantial terms of the Company's derivative contracts and thus are classified as Level 2 in the GAAP fair value hierarchy (see Note 10 - Fair Value of Financial Instruments). The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as cash flow hedges, the effective portion of the derivative's gain (loss) is initially reported as a component of Accumulated Other Comprehensive Income (Loss) ("AOCI") and is subsequently recognized in earnings in the period the hedged transaction affects earnings or when they are no longer effective. Gains (losses) resulting from hedge ineffectiveness and those resulting from changes in fair values on derivatives not designated as hedging instruments are recognized in other income (expense) in Other, net in the consolidated statements of operations (see Note 11 - Derivative Financial Instruments).

Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and can bear interest. The Company establishes an allowance for doubtful accounts for accounts receivable amounts that may not be collectible. The Company determines the allowance for doubtful accounts based on the aging of its accounts receivable balances, the credit quality of its customers and an analysis of its historical experience of bad debt write-offs. Accounts receivable balances are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The Company recognized bad debt expense, net of recoveries, of approximately \$17 million in 2013, \$15 million in 2012 and \$6 million in 2011.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization for the Company's property, plant and equipment are computed using the straight-line method based on the following estimated useful lives:

Facility and Leasehold Improvements	10	-	40	years
Network Infrastructure (including fiber and conduit)	25	-	50	years
Operating Equipment	4	-	15	years
Furniture, Fixtures, Office Equipment and Other	2	-	7	years

The Company performs internal reviews to evaluate the depreciable lives of its property, plant and equipment annually, or more frequently if new facts and circumstances arise, that may affect management's original estimates. Due to the rapid changes in technology and the competitive environment, selecting the estimated economic life of telecommunications property, plant, and equipment requires a significant amount of judgment. The Company's internal reviews take into account input from the Company's global engineering and network services personnel, actual usage, the physical condition of the Company's property, plant, and equipment, industry data, and other relevant factors. In connection with its annual review of useful lives in the fourth quarter of 2011, the Company determined that the period it expected to use conduit, fiber, and certain transmission equipment was longer than the remaining useful lives originally estimated. In determining the change in estimated useful lives, the Company, with input from its engineering and network services personnel, considered its historical usage and retirements, estimates of technological obsolescence, and expected usage and maintenance. The change in the estimated useful lives of conduit, fiber, and certain transmission equipment resulted in the following decrease in the net loss for the year ended December 31, 2011 (in millions, except per share amounts):

Net Loss	\$	74
Basic and Diluted Net Loss per Share	\$	0.54

Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured.

The Company capitalizes costs directly associated with expansions and improvements of the Company's communications network and customer installations, including employee-related costs, and generally capitalizes costs associated with network construction and provisioning of services. The Company amortizes such costs over an estimated useful life of 3 to 7 years.

In addition, the Company continues to develop business support systems required for its business. The external direct costs of software, materials and services, and payroll and payroll-related expenses for employees directly associated with business support systems projects are capitalized. The total cost of the business support system is amortized over an estimated useful life of 3 years.

Capitalized labor and related costs associated with employees and contract labor working on capital projects were approximately \$164 million, \$146 million and \$87 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Asset Retirement Obligations

The Company recognizes a liability for the estimated fair value of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset in the period incurred. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Increases to the asset retirement obligation liability due to the passage of time are recognized as accretion expense and included within selling, general and administrative expenses and within income (loss) from discontinued operations for reclamation associated with the coal mining business on the Company's consolidated statements of operations prior to the sale of the coal mining business in November 2011. Changes in the liability due to revisions to the amount or timing of future cash flows are recognized by increasing or decreasing the liability with the offset adjusting the carrying amount of the related long-lived asset. To the extent that the downward revisions exceed the carrying amount of the related long-lived asset initially recorded when the asset retirement obligation liability was established, the Company records the remaining adjustment as a reduction to depreciation expense, to the extent of historical depreciation of the related long-lived asset, and then to selling, general and administrative expense.

Goodwill and Acquired Indefinite-Lived Intangible Assets

Accounting guidance prohibits the amortization of goodwill and purchased intangible assets with indefinite useful lives. The Company reviews goodwill and purchased intangible assets with indefinite lives for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

The Company's goodwill impairment review process considers the fair value of each reporting unit relative to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. Beginning with the 2011 assessment, in accordance with updated accounting guidance, prior to performing the two step evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, the Company is not required to complete the two step goodwill impairment evaluation.

In the second quarter of 2013, the Company changed the date of its annual assessment of goodwill impairment from December 31 to October 1. This was a change in method of applying an accounting principle which management believes is a preferable alternative as the new date of the assessment provides additional time prior to the Company's year-end to complete the goodwill impairment testing and report the results in the Company's Annual Report on Form 10-K, and is more closely aligned with the Company's strategic planning process. The change in the assessment date does not delay, accelerate or avoid a potential impairment charge.

In 2013 and 2012, the Company's reporting units consist of its three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. In 2011, the Company's reporting units were consistent with its reportable segments of Level 3 and Global Crossing, representing the stand-alone operations of each legacy business.

The Company's indefinite-lived intangible assets impairment review process compares the estimated fair value of the indefinite-lived intangible assets to their respective carrying values. If the fair value of the indefinite-lived intangible assets exceeds their carrying values, then the indefinite-lived intangible assets are not impaired. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, then an impairment loss equal to the difference will be recorded. In accordance with recently issued accounting guidance, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value exceeds the carrying value prior to performing the two step evaluation. If it is determined that it is unlikely the carrying value exceeds the fair value, then the entity is no longer required to complete the two step indefinite-lived intangible assets impairment evaluation.

The Company conducted its goodwill and acquired indefinite-lived intangible assets impairment analysis during 2013, 2012 and 2011 and in each case concluded that its goodwill was not impaired in any of those periods. The Company conducted its indefinite-lived intangible asset impairment analysis at the end of 2013 and 2012 and concluded that there was no impairment. During 2011, the Company determined that the carrying value of certain wireless spectrum licenses that it acquired in a prior acquisition was impaired and the Company recognized a \$20 million charge in the fourth quarter that was recognized in Other Expense. The Company concluded that its remaining indefinite-lived intangible assets were not impaired as of December 31, 2011.

Long-Lived Assets Including Finite-Lived Purchased Intangible Assets

The Company amortizes acquired intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 4 to 12 years.

The Company evaluates long-lived assets, such as property, plant and equipment and acquired intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the assets based on the undiscounted future cash flows the asset groups are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the assets plus net proceeds expected from disposition of the assets, if any, are less than the carrying value of the assets. If an asset is deemed to be impaired, the amount of the impairment loss is the excess of the asset's carrying value over its estimated fair value.

The Company conducted a long-lived asset impairment analysis in 2013, 2012 and 2011 and in each case concluded that its long-lived assets, including finite-lived acquired intangible assets, were not impaired.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable, restricted cash and securities and derivatives. The Company maintains its cash equivalents, restricted cash and securities and derivatives with various financial institutions. These financial institutions are primarily located in the United States, Europe and Latin America and the Company's policy is to limit exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company also has established guidelines relative to financial instrument credit ratings, diversification and maturities that seek to maintain safety and liquidity. The Company's investment strategy generally results in lower yields on investments but reduces the risk to

principal in the short term prior to these funds being used in the Company's business. Notwithstanding the devaluation of the Venezuelan bolivar, the Company has not experienced any material losses on financial instruments held at financial institutions. The Company has used interest rate swap contracts to protect against the effects of interest rate fluctuations. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

The Company provides communications services to a wide range of wholesale and enterprise customers, ranging from well capitalized national carriers to small early stage companies primarily in the United States, Europe, and Latin America. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising Level 3's customer base and their dispersion across many different industries and geographical regions. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers, although letters of credit and deposits are required in certain limited circumstances. The Company has from time to time entered into agreements with value-added resellers and other channel partners to reach consumer and enterprise markets for voice services. The Company has policies and procedures in place to evaluate the financial condition of these resellers prior to initiating service to the final customer. The Company maintains an allowance for doubtful accounts based upon the expected collectability of accounts receivable. Due to the Company's credit evaluation and collection process, bad debt expenses have not been significant; however, the Company is not able to predict changes in the financial stability of its customers. Any material change in the financial status of any one or a particular group of customers may cause the Company to adjust its estimate of the recoverability of receivables and could have a material adverse effect on the Company's results of operations. Fair values of accounts receivable approximate carrying amount due to the short period of time to collection.

A relatively small number of customers account for a significant percentage of the Company's revenue. The Company's top ten customers accounted for approximately 17%, 17% and 24% of Level 3's communications revenue for the years ended December 31, 2013, 2012 and 2011, respectively.

Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The guidance in this ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. Public companies are required to comply with the requirements of this ASU prospectively for all reporting periods (interim and annual) beginning after December 15, 2012. The Company adopted this amendment in the first quarter of 2013. The impact of its adoption was limited to disclosure requirements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under current GAAP, there is no explicit guidance on the presentation of unrecognized tax benefits when such carryforwards exist, which has led to diversity in practice. ASU 2013-11 requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The ASU is effective for fiscal years beginning after December 15, 2013, and interim periods within those years. The adoption of this guidance is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

(2) Events Associated with the Amalgamation of Global Crossing

On October 4, 2011, a subsidiary of Level 3 completed the Amalgamation with Global Crossing, which became a wholly owned indirect subsidiary of the Company through a tax free, stock for stock transaction. As a result of the Amalgamation, (i) each issued and outstanding common share of Global Crossing was exchanged for 16 shares of Level 3 common stock (unadjusted for the 1 for 15 reverse stock split completed on October 19, 2011), including the associated rights under the Company's Rights Agreement with Wells Fargo Bank, N.A., as rights agent (the "Amalgamation Consideration") and (ii) each issued and outstanding share of Global Crossing's 2% cumulative senior convertible preferred stock was exchanged for the Amalgamation Consideration, plus an amount equal to the aggregate accrued and unpaid dividends thereon. In addition, (i) the outstanding vested options to purchase Global Crossing common shares were modified into vested options to purchase a number of shares of Level 3 common stock equal to 16 times (unadjusted for the 1 for 15 reverse stock split completed on October 19, 2011) the number of Global Crossing common shares covered by such Global Crossing options, and (ii) the issued and outstanding restricted stock units covering Global Crossing common shares, to the extent applicable in accordance with their terms, vested and settled for a number of shares of Level 3 common stock equal to 16 times (unadjusted for the 1 for 15 reverse stock split completed on October 19, 2011) the number of Global Crossing common shares covered by such restricted stock units.

In connection with the closing of the Amalgamation, Level 3 Financing, Inc. amended its existing credit agreement to incur an additional \$650 million of borrowings through an additional tranche (the "Tranche B II Term Loan."). In addition, the \$1.2 billion of proceeds from the initial and additional issuance of 8.125% Senior Notes due 2019 in June and July 2011 (see Note 12 - Long-Term Debt) by an indirect wholly owned subsidiary were deposited into an escrow account. On October 4, 2011, following the consummation of the Amalgamation and the satisfaction of certain escrow release conditions, the 8.125% Senior Notes were assumed by Level 3 Financing, Inc. (the "Notes Assumption"), and the funds were released from the escrow account. The net aggregate proceeds from the Tranche B II Term Loan and 8.125% Senior Notes were used to refinance certain existing indebtedness of Global Crossing in connection with the closing of the Amalgamation and for general corporate purposes.

As a result of the Amalgamation, the Company issued approximately 88.53 million shares of common stock, adjusted for the October 19, 2011, 1 for 15 reverse stock split, to former holders of Global Crossing common shares and Global Crossing's 2% cumulative senior convertible preferred stock, and Level 3 caused the refinancing of approximately \$1.36 billion of Global Crossing's outstanding consolidated debt.

Based on (i) the number of Level 3 shares issued (88.53 million as adjusted for the 1 for 15 reverse stock split completed on October 19, 2011), (ii) the closing stock price of Level 3 common stock as of October 3, 2011 (\$21.15 as adjusted for the 1 for 15 reverse stock split completed on October 19, 2011), and (iii) the debt of Global Crossing refinanced (\$1.36 billion), the Company determined that the aggregate consideration for acquisition accounting, including assumed debt, approximated \$3.4 billion. The restricted stock units covering Global Crossing common shares settled for Level 3 shares of common stock were reduced in settlement of employee income and payroll tax withholding obligations and the corresponding amounts of approximately \$81 million were paid in cash. The premium paid by Level 3 in this transaction is attributable to strategic benefits, including a significantly expanded IP/optical network with global reach including Latin America, Asia and the Pacific region, an improved credit profile and reduced financial leverage attributed to enhanced financial and operational scale, and the opportunity for investment and network expansion. The Company has a comprehensive portfolio of voice, video, and data services, which operates on a unique global services platform anchored by subsea and terrestrial fiber optic networks in North America, Europe, and Latin America. The goodwill associated with this transaction is not expected to be deductible for income tax purposes.

The combined results of operations of Level 3 and Global Crossing are included in the Company's consolidated results of operations beginning in October 2011. The assets acquired and liabilities assumed of Global Crossing were recognized at their acquisition date fair value. The purchase price allocation of acquired assets and assumed liabilities, including the assignment of goodwill to reporting units, was completed in October 2012. The following is the final allocation of the purchase price.

	Purchase Price Allocation
	(dollars in millions)
Assets:	
Cash, Cash Equivalents, and Restricted Cash	\$ 226
Property, Plant, and Equipment	3,098
Goodwill	1,123
Identifiable Intangibles	106
Other Assets	651
Total Assets	5,204
Liabilities:	
Long-term Debt	(1,554)
Other Liabilities	(1,688)
Total Liabilities	(3,242)
Total Estimated Consideration	\$ 1,962

Level 3 entered into certain transactions with Global Crossing prior to completing the Amalgamation, whereby Level 3 received cash for communications services to be provided in the future, which it accounted for as deferred revenue. As a result of the Amalgamation, Level 3 could no longer amortize this deferred revenue into earnings and accordingly, reduced the purchase price applied to the net assets acquired in the Amalgamation by \$77 million, the amount of the unamortized deferred revenue as of the acquisition date.

As a result of refinements to the preliminary purchase price allocation that were made during the nine months ended September 30, 2012, there were changes to the initial amount of goodwill determined in the fourth quarter of 2011, which have been reflected in the above table. The refinements were primarily a result of changes in the purchase price allocation for estimated tax valuation allowances and reserves. These changes are the result of additional information obtained since the filing of the Company's Form 10-K for the year ended December 31, 2011. The effect of the adjustments did not result in a material change to previously reported amounts.

The following unaudited pro forma financial information presents the combined results of Level 3 and Global Crossing as if the completion of the Amalgamation had occurred as of the beginning of the period (dollars in millions, except per share data).

	Year Ended December 31, 2011	
Total Revenue	\$	6,335
Net Loss		(727)
Net Loss per share	\$	(3.56)

These results include certain adjustments, primarily due to a net decrease in depreciation and amortization expense due to the Company, in connection with the Amalgamation, increasing the estimated useful lives of the acquired conduit, fiber and certain transmission equipment while increasing the fair value of tangible and intangible assets, decreasing interest expense due to Level 3's issuance of incremental debt in order to redeem and refinance Global Crossing debt that had higher interest rates than the incremental financing, and to eliminate historical transactions between Level 3 and Global Crossing. The unaudited pro forma financial information is not intended to represent or be indicative of the actual results of operations of Level 3 that would have been reported had the Amalgamation been completed as of the beginning of the period, nor is it representative of future operating results of the Company. The unaudited pro forma information does not include any operating efficiencies or cost savings that Level 3 may achieve with respect to combining the companies.

Acquisition related costs include transaction costs such as legal, accounting, valuation, and other professional services as well as integration costs such as severance and retention. Acquisition related costs have been recorded in selling, general and administrative expense in the Company's consolidated statements of operations during the period that such costs were incurred. Since the acquisition date, Level 3 incurred total acquisition related transaction costs of approximately \$49 million through December 31, 2013 which is unchanged from December 31, 2011. In 2012 and 2011, Level 3 incurred total acquisition related integration costs of approximately \$81 million and \$32 million, respectively.

In April 2011, Level 3 adopted a Stockholder Rights Plan to protect its U.S. federal net operating loss carry forwards from certain Internal Revenue Code Section 382 limitations. On May 24, 2012, the stockholders of the Company ratified such adoption. This plan was designed to deter trading that would result in a change of control (as defined in that Code Section), and therefore protect the Company's ability to use its historical U.S. federal net operating loss carry forwards in the future.

(3) Loss Per Share

The Company computes basic net loss per share by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period and including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding convertible notes and stock-based compensation awards. No such items were included in the computation of diluted loss per share in the years ended 2013, 2012 and 2011 because the Company incurred a loss from continuing operations in each of these periods and the effect of inclusion would have been anti-dilutive.

The effect of approximately 18 million, 35 million and 39 million shares issuable pursuant to the various series of convertible notes outstanding at December 31, 2013, 2012 and 2011, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation. In addition, the effect of the approximately 6 million, 7 million and 4 million

stock options, outperform stock appreciation rights ("OSO"), restricted stock units and shares ("RSU") and warrants outstanding at December 31, 2013, 2012 and 2011, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

(4) Dispositions

Level 3, through two 50% owned joint-venture surface mines, one each in Montana and Wyoming, sold coal primarily through long-term contracts with public utilities. In November 2011, Level 3 completed the sale of its coal mining business to Ambre Energy Limited as part of its long-term strategy to focus on core business operations. As a result of the transaction, all of the assets and liabilities associated with the coal mining business have been removed from Level 3's balance sheet and the Company recognized a gain on the transaction of approximately \$72 million which was included in the consolidated statements of operations within "Income from Discontinued Operations" in the fourth quarter of 2011. Results for 2011, exclusive of the gain on the transaction in 2011, were not significant. The financial results of the coal mining business were included in the Company's consolidated results of operations through the date of sale, and the year ended December 31, 2011 has been revised to reflect the presentation within discontinued operations.

(5) Property, Plant and Equipment

The components of the Company's property, plant and equipment as of December 31, 2013 and 2012 are as follows (dollars in millions):

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
December 31, 2013			
Land	\$ 193	\$ —	\$ 193
Land Improvements	72	(47)	25
Facility and Leasehold Improvements	2,207	(1,193)	1,014
Network Infrastructure	8,505	(3,279)	5,226
Operating Equipment	6,057	(4,381)	1,676
Furniture, Fixtures and Office Equipment	196	(168)	28
Other	22	(21)	1
Construction-in-Progress	77	—	77
	<u>\$ 17,329</u>	<u>\$ (9,089)</u>	<u>\$ 8,240</u>
December 31, 2012			
Land	\$ 195	\$ —	\$ 195
Land Improvements	73	(43)	30
Facility and Leasehold Improvements	2,093	(1,085)	1,008
Network Infrastructure	8,342	(3,058)	5,284
Operating Equipment	5,506	(3,997)	1,509
Furniture, Fixtures and Office Equipment	206	(155)	51
Other	21	(21)	—
Construction-in-Progress	122	—	122
	<u>\$ 16,558</u>	<u>\$ (8,359)</u>	<u>\$ 8,199</u>

Depreciation expense was \$727 million in 2013, \$659 million in 2012 and \$706 million in 2011.

(6) Asset Retirement Obligations

The Company's asset retirement obligations consist of legal requirements to remove certain of its network infrastructure at the expiration of the underlying right-of-way ("ROW") term and restoration requirements for leased facilities. The Company recognizes its estimate of the fair value of its asset retirement obligations in the period incurred in other long-term liabilities. The fair value of the asset retirement obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset.

As a result of a strategic review of the Company's real estate portfolio in the fourth quarter of 2012, the Company completed an updated analysis and revised its estimated future cash flows of its asset retirement obligations. The analysis required estimating the probability or likelihood that the Company will be required to remove certain of its network infrastructure and restore leased properties, and the timing and amount of eventual costs. The analysis resulted in the downward revision of the Company's asset retirement obligation liability. This change in the estimated cash flows resulted in a non-cash gain of \$49 million recorded within selling, general and administrative expense, and depreciation expense, or \$0.23 basic and diluted net loss per share.

In conjunction with its review of the ROW asset retirement obligation, the Company identified an error in its assumptions used to estimate its ROW asset retirement obligation related to the extension of

the useful lives of its conduit assets effective October 1, 2011 (See Note 1 - Organization and Summary of Significant Accounting Policies). The Company recorded a non-cash benefit of approximately \$21 million within selling, general and administrative expense, or \$0.10 basic and diluted net loss per share during the fourth quarter of 2012 for the change in the ROW term used to estimate its ROW asset retirement obligation. The reduction in the asset retirement obligations liability includes the change in estimate of the ROW term that arose in prior periods, which did not materially affect any of the Company's previously reported results of operations or financial condition, or the current period results of operations or financial condition.

In 2012, as a result of the revisions in estimated amount and timing of cash flows for asset retirement obligations, the Company reduced its asset retirement obligations liability by \$73 million with an offsetting reduction to property, plant and equipment of \$24 million, selling, general and administrative expenses of \$47 million and depreciation and amortization of \$2 million. The Company first reduced property, plant and equipment to the extent of the carrying amount of the related asset initially recorded when the asset retirement obligations were established. The amount of the remaining reduction to the asset retirement obligations were recorded as a reduction to depreciation expense to the extent of historical depreciation of the related asset and then to selling, general and administrative expenses.

The following table provides asset retirement obligation activity for the years ended December 31, 2013 and 2012 (dollars in millions):

	<u>2013</u>	<u>2012</u>
Asset retirement obligation at January 1	\$ 55	\$ 121
Accretion expense	7	11
Liabilities settled	(6)	(4)
Revision in estimated cash flows	—	(73)
Effect of foreign currency rate change	—	—
Asset retirement obligation at December 31	<u>\$ 56</u>	<u>\$ 55</u>

(7) Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2013 and 2012 are as follows (dollars in millions):

	<u>Total</u>
Balance as of January 1, 2012	\$ 2,541
Goodwill adjustments	24
Balance as of December 31, 2012	<u>2,565</u>
Goodwill adjustments	12
Balance as of December 31, 2013	<u>\$ 2,577</u>

The Company conducted its annual goodwill impairment analysis in the fourth quarter of 2013 and 2012. As a result of the Company's annual assessment, Level 3 concluded that its goodwill was not impaired in 2013 or 2012.

(8) Acquired Intangible Assets

Identifiable acquisition-related intangible assets as of December 31, 2013 and December 31, 2012 were as follows (dollars in millions):

	Gross Carrying Amount	Accumulated Amortization	Net
December 31, 2013			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 786	\$ (678)	\$ 108
Trademarks	55	(31)	24
Patents and Developed Technology	158	(117)	41
	<u>999</u>	<u>(826)</u>	<u>173</u>
<i>Indefinite-Lived Intangible Assets:</i>			
Vyvx Trade Name	32	—	32
	<u>\$ 1,031</u>	<u>\$ (826)</u>	<u>\$ 205</u>
December 31, 2012			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 776	\$ (633)	\$ 143
Trademarks	55	(17)	38
Patents and Developed Technology	158	(103)	55
	<u>989</u>	<u>(753)</u>	<u>236</u>
<i>Indefinite-Lived Intangible Assets:</i>			
Vyvx Trade Name	32	—	32
	<u>\$ 1,021</u>	<u>\$ (753)</u>	<u>\$ 268</u>

During the fourth quarter of 2013 and 2012, the Company conducted its long-lived assets and indefinite-lived intangible assets impairment analysis and concluded that there was no impairment in both periods.

During the fourth quarter of 2011, the Company conducted its long-lived assets impairment analysis and determined that the carrying value of certain wireless spectrum licenses acquired in a prior acquisition was impaired and recognized a \$20 million charge in Other, net.

Acquired finite-lived intangible assets amortization expense was \$73 million in 2013, \$90 million in 2012 and \$99 million in 2011.

At December 31, 2013, the weighted average remaining useful lives of the Company's acquired finite-lived intangible assets was 2.3 years for customer contracts and relationships, 1.7 years for trademarks and 3 years for patents and developed technology.

As of December 31, 2013, estimated amortization expense for the Company's finite-lived acquisition-related intangible assets over the next five years and thereafter is as follows (dollars in millions):

2014	\$	64
2015		48
2016		30
2017		15
2018		13
Thereafter		3
	\$	<u>173</u>

(9) Restructuring Charges

Employee Separations

Changing economic and business conditions as well as organizational structure optimization efforts have caused the Company to initiate from time to time various workforce reductions resulting in involuntary employee terminations. The Company also has initiated workforce reductions resulting from the integration of previously acquired companies. During 2013, 2012 and 2011, the Company initiated workforce reductions primarily focused on labor cost savings and organizational effectiveness. Restructuring charges totaled \$47 million, \$34 million and \$11 million in 2013, 2012 and 2011, respectively, recorded in selling, general and administrative. As of December 31, 2013 and 2012, the Company had \$8 million and \$16 million, respectively, of employee termination liabilities.

Facility Closings

The Company also has accrued contract termination costs of \$31 million and \$35 million as of December 31, 2013 and December 31, 2012, respectively, for facility lease costs that the Company continues to incur without economic benefit. Accrued contract termination costs are recorded in other liabilities (current and non-current) in the consolidated balance sheets. The Company expects to pay the majority of these costs through 2025. The Company recognized a charge of approximately \$7 million, a benefit of \$2 million and a charge of \$3 million in 2013, 2012 and 2011, respectively, as a result of facility lease costs. The Company records charges for contract termination costs within selling, general and administrative expenses in the consolidated statements of operations.

(10) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, capital leases, other liabilities, interest rate swaps and long-term debt (including the current portion). The carrying values of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, capital leases and other liabilities approximated their fair values at December 31, 2013 and 2012. The interest rate swaps are recorded in the consolidated balance sheets at fair value (see Note 11 - Derivative Financial Instruments).

GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements and disclosures for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as interest and foreign exchange rates, transfer restrictions, and risk of nonperformance.

Fair Value Hierarchy

GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value measurement of each class of assets and liabilities is dependent upon its categorization within the fair value hierarchy, based upon the lowest level of input that is significant to the fair value measurement of each class of asset and liability. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2— Unadjusted quoted prices for similar assets or liabilities in active markets, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3— Unobservable inputs for the asset or liability.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during each of the years ended December 31, 2013 and 2012.

The table below presents the fair values for the Company's interest rate swaps and long-term debt as well as the input levels used to determine these fair values as of December 31, 2013 and 2012:

(dollars in millions)	Fair Value Measurement Using							
	Total Carrying Value in Consolidated Balance Sheets		Unadjusted Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)				Significant Other Observable Inputs (Level 2)	
			December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>Liabilities Recorded at Fair Value in the Financial Statements:</i>								
Derivatives:								
Interest Rate Swap Liabilities (included in other current and non-current liabilities)	\$ 12	\$ 56	\$ —	\$ —	\$ 12	\$ 56		
Total Derivative Liabilities Recorded at Fair Value in the Financial Statements	\$ 12	\$ 56	\$ —	\$ —	\$ 12	\$ 56		
<i>Liabilities Not Recorded at Fair Value in the Financial Statements:</i>								
Long-term Debt, including the current portion:								
Term Loans	\$ 2,604	\$ 2,603	\$ 2,633	\$ 2,631	\$ —	\$ —		
Senior Notes	5,198	5,185	5,673	5,712	—	—		
Convertible Notes	474	846	—	286	647	748		
Capital Leases and Other	86	98	—	—	86	98		
Total Long-term Debt, including the current portion:	\$ 8,362	\$ 8,732	\$ 8,306	\$ 8,629	\$ 733	\$ 846		

The Company does not have any assets or liabilities where the fair value is measured using significant unobservable inputs (Level 3).

Derivatives

The fair value of interest rate swaps is estimated using discounted cash flow techniques that use observable market inputs, such as LIBOR-based forward yield curves, forward rates, non-performance risk adjustment and the specific swap rate stated in each of the swap agreements.

Term Loans

The fair value of the Term Loans referenced above was approximately \$2.6 billion at both December 31, 2013 and 2012. The fair value of each loan is based on quoted prices for identical terms and maturities. Each loan tranche is actively traded.

Senior Notes

The fair value of the Senior Notes referenced above was approximately \$5.7 billion at both December 31, 2013 and 2012, based on quoted prices for identical terms and maturities. Each series of notes is actively traded.

Convertible Notes

The Company completed the redemption of its 6.5% Convertible Senior Notes due 2016 during the fourth quarter 2013. The fair value of the Company's actively traded 6.5% Convertible Senior Notes due 2016 was approximately \$286 million at December 31, 2012. The fair value of the Company's actively traded Convertible Notes referenced above is based on the trading quotes for identical notes. The fair value of the Company's Convertible Notes that are not actively traded, which includes the 7% Convertible Senior Notes due 2015, the 7% Convertible Senior Notes due 2015, Series B, and the 15% Convertible Senior Notes due 2013 that were repaid in full at maturity in the first quarter of 2013, was approximately \$647 million and \$748 million at December 31, 2013 and 2012, respectively. The estimated fair value of the Convertible Notes that are not actively traded is based on a Black-Scholes valuation model and an income approach using discounted cash flows. The most significant inputs affecting the valuation are the pricing quotes provided by market participants that incorporate spreads to the Treasury curve, security coupon (ranging from 7% to 15%), convertible optionality, corporate and security credit ratings, maturity date (ranging from 2013 to 2015), liquidity, and other equity option inputs, such as the risk-free rate, underlying stock price, strike price of the embedded derivative, estimated volatility and maturity inputs for the option component and for the bond component, among other security characteristics and relative value at both the borrower entity level and across other securities with similar terms. The fair value of each instrument is obtained by adding together the value derived by discounting the security's coupon or interest payment using a risk-adjusted discount rate and the value calculated from the embedded equity option based on the estimated volatility of the Company's stock price, conversion rate of the particular Convertible Note, remaining time to maturity, and risk-free rate. The Convertible Notes are unsecured obligations of Level 3 Communications, Inc. No subsidiary of Level 3 Communications, Inc. has provided a guarantee of the Convertible Notes.

Capital Leases

The fair value of the Company's capital leases are determined by discounting anticipated future cash flows derived from the contractual terms of the obligations and observable market interest and foreign exchange rates.

(11) Derivative Financial Instruments

The Company has floating rate long-term debt (see Note 12 - Long-Term Debt). Such debt exposes the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also generally decreases. The Company uses interest rate swaps, in an attempt to manage its exposure to fluctuations in interest rate movements. The Company's primary objective in managing interest rate risk is to decrease the volatility of its earnings and cash flows affected by changes in the underlying rates. The Company does not use derivative financial instruments for speculative purposes.

In March 2007, Level 3 Financing, Inc. entered into two interest rate swap agreements to hedge the interest payments on \$1 billion principal amount of floating rate debt. The Company had designated these interest rate swap agreements as cash flow hedges. The two interest rate swap agreements are with different counterparties and are for \$500 million each. The arrangements began in April 2007 and mature in January 2014. Under the terms of these arrangements, the Company receives interest payments based on rolling three month LIBOR and pays interest at the fixed rate of 4.93% under one arrangement and approximately 4.92% under the other.

Interest Rate Derivative	Number of Instruments	Notional (dollars in millions)
Interest rate swaps	Two	\$ 1,000

On a quarterly basis through August 6, 2012, the Company evaluated the effectiveness of the hedges by measuring the extent to which the change in the variable portion of the interest rate swaps offset the changes in interest expense paid due to fluctuations in the LIBOR-based interest rate. Prior to August 6, 2012, these derivatives were deemed effective cash flow hedges and hedge ineffectiveness was not material in any periods presented. As a result, the change in the fair value of the interest rate swap agreements was reflected in Accumulated Other Comprehensive Income (Loss) ("AOCI") and was subsequently reclassified into earnings through an interest expense yield adjustment, as interest expense on the hedged debt obligation was incurred.

As a result of the refinancing of the Tranche A Term Loan on August 6, 2012, the two interest rate swap agreements maturing in early 2014 that had effectively hedged changes in the interest rate on a portion of the Tranche A Term Loan were deemed "ineffective" under GAAP and cash flow hedge accounting was discontinued. The Company recognized a non-cash loss on these agreements of approximately \$60 million (excluding accrued interest) in the third quarter of 2012, which represented the cumulative loss recorded in AOCI at the date the instruments ceased to qualify as hedges (see Note 12 - Long-Term Debt). After August 6, 2012, the Company has recorded the change in the fair value of the swaps in Other, net in its Consolidated Statement of Operations until maturity of the swaps in early 2014. The Company recognized a loss of \$2 million and \$4 million for the years ended December 31, 2013 and 2012, respectively.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets (dollars in millions):

Derivatives not designated as hedging instruments	Liability Derivatives			
	December 31, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap agreements	Other current liabilities	\$ 12	Other non-current liabilities	\$ 56

The amount of net gains recognized in AOCI, including reclassifications, consists of the following (dollars in millions):

Derivatives designated as hedging instruments	Year Ended December 31,		
	2013	2012	2011
Cash flow hedging contracts	\$ —	\$ 90	\$ 18

The amount of losses reclassified from AOCI to earnings (effective portions) consists of the following (dollars in millions):

Derivatives designated as hedging instruments	Statement of Operations Location	Year Ended December 31,	
		2013	2012
Cash flow hedging contracts	Interest Expense	\$ —	\$ (26)

The effect of the Company's derivatives not designated as hedging instruments on net loss is as follows (dollars in millions):

<u>Derivatives not designated as hedging instruments</u>	<u>Statement of Operations Location</u>	<u>Year Ended December 31,</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest rate swaps	Other Expense - Other, net	\$ (2)	\$ (64)	\$ —

The Company is exposed to credit related losses in the event of non-performance by counterparties. The counterparties to the financial derivatives the Company has entered into are major institutions with investment grade credit ratings. The Company evaluates counterparty credit risk before entering into any hedge transaction and continues to closely monitor the financial market and the risk that its counterparties will default on their obligations. This credit risk is generally limited to the unrealized gains in such contracts, should any of these counterparties fail to perform as contracted.

(12) Long-Term Debt

As of December 31, 2013 and December 31, 2012, long-term debt was as follows:

(dollars in millions)	December 31, 2013	December 31, 2012
Senior Secured Term Loan*	\$ 2,611	\$ 2,614
Floating Rate Senior Notes due 2015 (4.469% as of December 31, 2012)	—	300
10% Senior Notes due 2018	—	640
Floating Rate Senior Notes due 2018 (3.846% as of December 31, 2013)	300	—
11.875% Senior Notes due 2019	605	605
9.375% Senior Notes due 2019	500	500
8.125% Senior Notes due 2019	1,200	1,200
8.875% Senior Notes due 2019	300	300
8.625% Senior Notes due 2020	900	900
7% Senior Notes due 2020	775	775
6.125% Senior Notes due 2021	640	—
15% Convertible Senior Notes due 2013	—	172
7% Convertible Senior Notes due 2015	200	200
7% Convertible Senior Notes due 2015 Series B	275	275
6.5% Convertible Senior Notes due 2016	—	201
Capital Leases	73	86
Other	13	12
Total Debt Obligations	<u>8,392</u>	<u>8,780</u>
Unamortized Discount:		
Discount on Senior Secured Term Loan	(7)	(11)
Discount on 10% Senior Notes due 2018	—	(10)
Discount on 11.875% Senior Notes due 2019	(8)	(9)
Discount on 9.375% Senior Notes due 2019	(7)	(8)
Discount on 8.125% Senior Notes due 2019	(7)	(8)
Discount on 7% Convertible Senior Notes due 2015	(1)	(2)
Total Unamortized Discount	<u>(30)</u>	<u>(48)</u>
Carrying Value of Debt	8,362	8,732
Less current portion	(31)	(216)
Long-term Debt, less current portion	<u>\$ 8,331</u>	<u>\$ 8,516</u>

* The \$815 million Tranche B-III 2019 Term Loan due 2019 and the \$1.796 billion Tranche B 2020 Term Loan due 2020 each had an interest rate of 4.00% as of December 31, 2013. The \$599 million Tranche B 2016 Term Loan due 2016, the \$815 million Tranche B 2019 Term Loan due 2019 and the \$1.2 billion Tranche B-II 2019 Term Loan due 2019, that were prepaid in 2013, had interest rates of 4.75%, 5.25% and 4.75%, respectively, as of December 31, 2012.

Senior Secured Term Loans

On March 13, 2007, Level 3 Communications, as guarantor, Level 3 Financing, as borrower, Merrill Lynch Capital Corporation, as administrative agent and collateral agent, and certain other agents and certain lenders entered into a Credit Agreement, pursuant to which the lenders extended a \$1.4 billion senior secured term loan to Level 3 Financing. The \$1.4 billion senior secured term loan (the "Tranche A Term Loan") had an interest rate of LIBOR plus an applicable margin of 2.25% per annum. In addition, during the second quarter of 2009, Level 3 Financing amended and restated its existing senior secured Credit Agreement to increase the borrowings through the creation of a \$280 million Tranche B Term Loan (the "Tranche B Term Loan") and had an interest rate of LIBOR plus 8.50% per annum, with LIBOR set at a minimum of 3.00%. The Tranche A Term Loan and Tranche B Term Loan, which were to mature on March 13, 2014, were prepaid in August 2012 and November 2011, respectively. The \$1.4 billion Tranche A Term Loan had an effective interest rate of 2.65% as of December 31, 2011, excluding the effect of the \$1 billion notional amount interest rate swaps.

The Company used a portion of the original net proceeds after transaction costs to repay Level 3 Financing's \$730 million Senior Secured Term Loan due 2011 under that certain Credit Agreement dated June 27, 2006. In addition, the Company used a portion of the net proceeds to fund the purchase of certain of its existing debt securities.

On October 4, 2011, in connection with the closing of the Amalgamation, Level 3 Financing amended its existing Credit Agreement to incur an additional \$650 million of borrowings through an additional tranche. The Company borrowed the Tranche B-II Term Loan from investors at a price of 99% of its principal amount. Debt issuance discount of approximately \$7 million was reflected as a reduction in long-term debt. The Tranche B-II Term Loan accrued interest at 4.25% plus LIBOR, with a minimum LIBOR of 1.5%, with interest payments due quarterly. The Tranche B-II Term Loan, which was to mature on September 1, 2018, was prepaid in October 2012. The net proceeds from the Tranche B-II Term Loan were used to refinance certain existing indebtedness of Global Crossing in connection with the consummation of the Amalgamation and for general corporate purposes.

Additionally, on November 10, 2011, Level 3 Financing amended its existing Credit Agreement to incur an additional \$550 million of borrowings through an additional tranche. The Company borrowed the Tranche B-III Term Loan from investors at a price of 95% of its principal amount. Debt issuance discount of approximately \$28 million was reflected as a reduction in long-term debt. The Tranche B-III Term Loan accrued interest at 4.25% plus LIBOR, with a minimum LIBOR of 1.5%, with interest payments due quarterly. The Tranche B-III Term Loan which was to mature on September 1, 2018, was prepaid in October 2012. The net proceeds from the Tranche B-III Term Loan were used along with cash on hand to prepay the \$280 million Tranche B Term Loan that was outstanding under the existing senior secured credit facility and the \$274 million aggregate principal amount of Level 3 Communications' 3.5% Convertible Senior Notes due 2012.

On August 6, 2012, Level 3 Financing refinanced its existing \$1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$1.415 billion and cash on hand. The New Term Loans were borrowed pursuant to an amended and restated Credit Agreement. The New Term Loans consist of: (a) \$600 million senior secured term loan (the "Tranche B 2016 Term Loan") due February 1, 2016, and (b) \$815 million senior secured term loan (the "Tranche B 2019 Term Loan") due August 1, 2019. Both tranches were prepaid in August 2013. The Tranche B 2016 Term Loan required repayment of 0.25% of the aggregate principal amount on the last day of each March, June, September and December, beginning with December 31, 2012 and ending with such last day to occur prior to maturity. The interest rates on the loans were LIBOR plus 3.25% for the Tranche B 2016 Term Loan and LIBOR plus 3.75% for the Tranche B 2019 Term Loan, with LIBOR set at a minimum of 1.5% on both loans. The Tranche B 2016 Term Loan and the Tranche B 2019 Term Loan were priced at 99.5% and 99.0% of par, respectively. Debt issuance discounts of approximately \$3 million and \$8 million were reflected as a reduction in long-term debt. The Company

used the net proceeds from the New Term Loans, along with cash on hand, to prepay Level 3 Financing's \$1.4 billion Tranche A Term Loan under the existing Credit Agreement that was to mature in March 2014 and used remaining net proceeds to repay \$15 million in principal amount plus premium for existing vendor financing obligations. Debt issuance costs for the Tranche B 2016 Term Loan and the Tranche B 2019 Term Loan of approximately \$9 million and \$12 million, respectively, were capitalized and amortized over the respective terms of those term loans as interest expense using the effective interest method until prepayment. The Company recognized a loss on extinguishment of debt of \$9 million as a result of refinancing the Tranche A Term Loan. In connection with the refinancing of the Tranche A Term Loan, the Company recognized a \$60 million non-cash loss on two interest rate swap agreements that had previously hedged changes in the interest rate on \$1 billion notional amount of floating rate debt.

On October 4, 2012, Level 3 Financing refinanced its existing \$650 million Tranche B-II Term Loan and \$550 million Tranche B-III Term Loan under its existing senior secured credit facility through the creation of a new term loan in the aggregate principal amount of \$1.2 billion. The Tranche B-II 2019 Term Loan was borrowed pursuant to an amended and restated Credit Agreement. The Tranche B-II 2019 Term Loan consisted of a \$1.2 billion senior secured term loan that was to mature on August 1, 2019 and was prepaid in October 2013. The interest rate on the loan was LIBOR plus 3.25%, with LIBOR set at a minimum of 1.5%. The Tranche B-II 2019 Term Loan was priced at par. The Company used the net proceeds from the Tranche B-II 2019 Term Loan, along with cash on hand, to prepay Level 3 Financing's \$650 million Tranche B-II Term Loan and \$550 million Tranche B-III Term Loan under the existing Credit Agreement which were to mature in September 2018. Debt issuance costs of approximately \$13 million were capitalized and amortized over the term of the Tranche B-II 2019 Term Loan as interest expense using the effective interest method until prepayment. The Company recognized a loss on extinguishment of debt of \$50 million as a result of refinancing the Tranche B-II and Tranche B-III Term Loans.

On August 12, 2013, Level 3 Financing refinanced its existing \$815 million Tranche B 2019 Term Loan under its existing senior credit facility through the creation of a new term loan in the aggregate principal amount of \$815 million (the "Tranche B-III 2019 Term Loan"). The Tranche B-III 2019 Term Loan was borrowed pursuant to an amended and restated Credit Agreement. The Tranche B-III 2019 Term Loan has an interest rate of LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on August 1, 2019. The Tranche B-III 2019 Term Loan was priced to lenders at par. Debt issuance costs related to the Tranche B 2019 Term Loan of approximately \$10 million were allocated to the Tranche B-III 2019 Term Loan and continue to be amortized as interest expense using the new effective interest rate over its new term. The Company expensed debt issuance costs of approximately \$9 million as of result of this transaction.

Additionally on August 16, 2013, Level 3 Financing refinanced its existing \$595.5 million Tranche B 2016 Term Loan under its existing senior credit facility through the creation of a new term loan in the aggregate principal amount of \$595.5 million (the "Tranche B 2020 Term Loan"). The Tranche B 2020 Term Loan was borrowed pursuant to an amended and restated Credit Agreement. The Tranche B 2020 Term Loan has an interest rate of LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on January 15, 2020. The Tranche B 2020 Term Loan was priced to lenders at par. Debt issuance costs for the Tranche B 2020 Term Loan of approximately \$7 million were capitalized and are being amortized as interest expense using the effective interest method over its term. The Company recognized a loss on extinguishment of debt of \$8 million as of result of this transaction.

On October 4, 2013, Level 3 Financing refinanced its existing \$1.2 billion Tranche B-II 2019 Term Loan under its existing senior credit facility by increasing the borrowings under the Tranche B 2020 Term Loan by an aggregate principal amount of \$1.2 billion. The Tranche B 2020 Term Loan new aggregate principal amount is \$1.796 billion. The \$1.796 billion Tranche B 2020 Term Loan will continue to bear interest at LIBOR plus 3.00%, with a minimum LIBOR of 1.00%, and will mature on January 15, 2020. The additional portion of the Tranche B 2020 Term Loan was priced to lenders at par, with the payment to the lenders of an upfront 0.25% fee at closing. As a result of this transaction, the Company recognized a loss on the refinancing of approximately \$10 million, additional debt discount costs of \$3 million that are

being amortized as interest expense using the effective interest method over its term and debt issuance costs related to the Tranche B-II 2019 Term Loan of approximately \$11 million were assigned to the Tranche B 2020 Term Loan and continue to be amortized as interest expense using the new effective interest rate over its new term.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$9 million and \$20 million for the Tranche B-III 2019 and Tranche B 2020 Term Loans, respectively, at December 31, 2013.

Level 3 Financing has the option of electing one, two, three or six month LIBOR at the end of each interest period and may elect different options with respect to different portions of the Senior Secured Term Loan. Interest is payable in cash at the end of each LIBOR period elected in arrears, provided that in the case of a six month interest period, interim interest payments are required at the end of the first three months.

The Senior Secured Term Loan is secured by a pledge of the equity interests in certain U.S.-based subsidiaries of Level 3 Financing, Inc.; 65% of the equity interests in each of Level 3 Financing, Inc.'s Canadian subsidiary and its Bermudan subsidiary that indirectly owns Global Crossing's non-U.S. subsidiaries; and liens on the assets of Level 3 Communications, Inc. and certain U.S.-based subsidiaries of Level 3 Financing, Inc. In addition, Level 3 Communications, Inc. and certain U.S.-based subsidiaries of Level 3 Financing, Inc. have provided full and unconditional guarantees of the obligations under the Senior Secured Term Loan.

The Senior Secured Term Loan includes certain negative covenants which restrict the ability of the Company, Level 3 Financing and any restricted subsidiary to engage in certain activities. The Senior Secured Term Loan also contains certain events of default. It does not require the Company or Level 3 Financing to maintain specific financial ratios or other financial metrics.

Floating Rate Senior Notes due 2018

On November 26, 2013, Level 3 Financing completed the offering of \$300 million aggregate principal amount of its Floating Rate Senior Notes due 2018 (the "2018 Floating Rate Notes"). Debt issuance costs of approximately \$5 million were capitalized and are being amortized over the term of the 2018 Floating Rate Notes as interest expense using the effective interest method. The net proceeds from the offering, together with cash on hand, were used to redeem all of Level 3 Financing's outstanding Floating Rate Senior Notes due 2015, including accrued interest and expenses. The Company recognized a loss on extinguishment of debt of \$1 million as a result of this transaction. The 2018 Floating Rate Notes were priced at 100% of their principal amount and will mature on January 15, 2018. Interest on the notes will be payable on May 15 and November 15 of each year, beginning on May 15, 2014. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company. In addition, each of Level 3 Communications, Inc. and Level 3 Financing has agreed to endeavor in good faith using commercially reasonable efforts to cause Level 3 Communications, LLC to obtain all material governmental authorizations and consents required in order for it to guarantee the Floating Rate Senior Notes at the earliest practicable date and to enter into a guarantee of the Floating Rate Senior Notes promptly thereafter.

The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$4 million at December 31, 2013.

Prior to May 15, 2015, at the option of Level 3 Financing, the 2018 Floating Rate Notes will be subject to redemption, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days prior notice, at 100% of the principal amount of 2018 Floating Rate Notes so redeemed plus (i) the applicable make-whole premium set forth in the Indenture, as of the redemption date and (ii) accrued and unpaid interest thereon (if any) up to, but not including, the redemption date. The 2018 Floating Rate Notes will be redeemable at the option of Level 3 Financing, in whole or in part, on or after May 15, 2015, upon not less than 30 nor more than 60 days prior notice, at the redemption prices set forth below (expressed as percentages of the principal amount), plus accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, if redeemed during the periods set forth below:

Period	Redemption Price
May 15, 2015 - May 14, 2016	102.00%
May 15, 2016 - November 14, 2016	101.00%
November 15, 2016 and thereafter	100.00%

In addition, at any time or from time to time on or prior to May 15, 2015, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 2018 Floating Rate Notes at a redemption price equal to 100% of the principal amount of the 2018 Floating Rate Notes so redeemed, plus a premium equal to the interest rate per annum on the 2018 Floating Rate Notes in effect on the date that notice of redemption is given, plus accrued and unpaid interest thereon (if any) up to, but not including the redemption date, with the net cash proceeds contributed to the capital of Level 3 Financing from one or more private placements of common stock of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in the aggregate. However, at least 65% of the original aggregate principal amount of the 2018 Floating Rate Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption is required to be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The offering of the 2018 Floating Rate Notes has not been registered under the Securities Act of 1933, as amended, and the 2018 Floating Rate Notes may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 2018 Floating Rate Notes were sold to persons reasonably believed to be "qualified institutional buyers" as defined in Rule 144A under the Securities Act of 1933, as amended, and non-U.S. persons outside the United States under Regulation S under the Securities Act of 1933, as amended. Level 3 Financing and the initial purchasers of the 2018 Floating Rate Notes entered into a registration rights agreement regarding the 2018 Floating Rate Notes pursuant to which Level 3 and Level 3 Financing agreed, among other things, to file an exchange offer registration statement with the Securities and Exchange Commission.

11.875% Senior Notes due 2019

In January 2011, in two separate transactions, Level 3 Communications issued a total of \$605 million aggregate principal amount of its 11.875% Senior Notes due 2019. The Company issued its 11.875% Senior Notes due 2019 to investors at a price of 98.173% of their principal amount. Debt issuance costs of approximately \$8 million were capitalized and are being amortized over the term of the 11.875% Senior Notes as interest expense using the effective interest method. The net proceeds from the issuance of the 11.875% Senior Notes were used to redeem the Company's 5.25% Convertible Senior Notes due 2011 and exchange the 9% Convertible Senior Discount Notes due 2013 during the first quarter of 2011. Debt issuance discount of approximately \$11 million was reflected as a reduction in long-term debt and is being amortized as interest expense over the term of the 11.875% Senior Notes using the effective interest method. The 11.875% Senior Notes will mature on February 1, 2019 and are not guaranteed by the

Company's subsidiaries. Interest on the notes accrues at 11.875% per year and is payable on April 1 and October 1 of each year, beginning April 1, 2011.

As of December 31, 2013, debt issuance discount remaining was \$8 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$6 million at December 31, 2013.

The 11.875% Senior Notes are subject to redemption at the option of Level 3 Communications in whole or in part, at any time or from time to time, prior to February 1, 2015, at 100% of the principal amount of 11.875% Senior Notes so redeemed plus (A) the applicable make-whole premium set forth in the Indenture, as of the redemption date and (B) accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, and on or after February 1, 2015 at the redemption prices (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve months beginning February 1, of the years indicated below:

<u>Year</u>	<u>Redemption Price</u>
2015	105.938%
2016	102.969%
2017	100.000%

At any time or from time to time on or prior to February 1, 2014, the Company may redeem up to 35% of the original aggregate principal amount of the 11.875% Senior Notes at a redemption price equal to 111.875% of the principal amount of the 11.875% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, with the net cash proceeds contributed to the capital of Level 3 from one or more private placements of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in the aggregate. However, at least 65% of the original aggregate principal amount of the 11.875% Senior Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The offering of the 11.875% Senior Notes was not originally registered under the Securities Act of 1933, as amended, and included a registration rights agreement. In July 2011, all of the originally placed notes were exchanged for a new issue of 11.875% Senior Notes due 2019 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

9.375% Senior Notes due 2019

On March 4, 2011, Level 3 Financing issued \$500 million aggregate principal amount of its 9.375% Senior Notes due 2019 at a price of 98.001% of their principal amount. Debt issuance discount of approximately \$10 million was reflected as a reduction in long-term debt and is being amortized as interest expense over the term of the 9.375% Senior Notes using the effective interest method. Debt issuance costs of approximately \$11 million were capitalized and are being amortized over the term of the 9.375% Senior Notes as interest expense using the effective interest method. The net proceeds from the offering, were used to redeem a portion of Level 3 Financing's outstanding 9.25% Senior Notes due 2014 on April 4, 2011. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes. The 9.375% Senior Notes will mature on April 1, 2019. Interest on the Notes will be payable on April 1 and October 1 of each year, beginning on October 1, 2011.

As of December 31, 2013, debt issuance discount remaining was \$7 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$8 million at December 31, 2013.

The 9.375% Senior Notes Due 2019 are subject to redemption at the option of Level 3 Financing in whole or in part, at any time or from time to time, prior to April 1, 2015, at 100% of the principal amount of 9.375% Senior Notes so redeemed plus (A) the applicable make-whole premium set forth in the Indenture, as of the redemption date and (B) accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, and on or after April 1, 2015 at the redemption prices (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve months beginning April 1, of the years indicated below:

<u>Year</u>	<u>Redemption Price</u>
2015	104.688%
2016	102.344%
2017	100.000%

At any time or from time to time on or prior to April 1, 2014, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 9.375% Senior Notes at a redemption price equal to 109.375% of the principal amount of the 9.375% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, with the net cash proceeds contributed to the capital of Level 3 Financing from one or more private placements or underwritten public offerings of common stock of the Company resulting, in each case, in gross proceeds of at least \$100 million in the aggregate. However, at least 65% of the original aggregate principal amount of the 9.375% Senior Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The offering of the 9.375% Senior Notes was not originally registered under the Securities Act of 1933, as amended, and included a registration rights agreement. In July 2011, all of the originally placed notes were exchanged for a new issue of 9.375% Senior Notes due 2019 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

8.125% Senior Notes due 2019

On June 9, 2011, Level 3 Escrow, Inc., an indirect, wholly owned subsidiary of Level 3 Communications, issued \$600 million in aggregate principal amount of its 8.125% Senior Notes due 2019. Level 3 Escrow, Inc. issued the 8.125% Senior Notes to investors at a price of 99.264% of their principal amount. Debt issuance discount of approximately \$4 million was reflected as a reduction in long-term debt and was amortized as interest expense over the beginning initial term of the 8.125% Senior Notes using the effective interest method. As a result of certain conditions that could have required Level 3 Escrow, Inc. to redeem the notes on or before April 10, 2012, discussed further below, the initial term of the 8.125% Senior Notes was deemed to be through April 2012. When the contingency was resolved, the Company reclassified these notes into long-term debt and the remaining related debt issuance discount is being amortized as interest expense over the remaining term of the 8.125% Senior Notes using the effective interest method. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes. The 8.125% Senior Notes will mature on July 1, 2019. Interest on the notes accrues at 8.125% per year and is payable on January 1 and July 1, beginning on January 1, 2012.

On July 28, 2011, Level 3 Escrow, Inc. issued an additional \$600 million in aggregate principal amount of its 8.125% Senior Notes due 2019 ("Series B") under the same indenture as the 8.125% Senior Notes issued in June 9, 2011, which are treated under that indenture as a single series of notes. The new 8.125% Senior Notes due 2019 were priced to investors at 98.545% of their principal amount, plus accrued interest from June 9, 2011 when the original notes were issued, and will mature on July 1, 2019. Debt issuance discount of approximately \$9 million was reflected as a reduction in long-term debt and is being amortized as interest expense over the beginning initial term of the 8.125% Senior Notes using the effective interest method. As a result of certain conditions that could have required Level 3 Escrow, Inc. to redeem the \$1.2 billion of 8.125% Senior Notes on or before April 10, 2012, the initial term of these notes was deemed to be through April 2012. When the contingency was resolved in connection with the Amalgamation, the Company reclassified these notes into long-term debt and the remaining related debt issuance discount is being amortized as interest expense over the remaining term of the 8.125% Senior Notes using the effective interest method.

The gross proceeds from the offering of the 8.125% Senior Notes were deposited into a segregated escrow account and were to remain in escrow until the date of the satisfaction of certain escrow conditions including, but not limited to, the substantially concurrent consummation of the Amalgamation and the assumption of the 8.125% Senior Notes by Level 3 Financing. In conjunction with the completion of the Amalgamation on October 4, 2011, the escrow conditions were satisfied. Debt issuance costs of approximately \$32 million were capitalized and are being amortized over the term of the 8.125% Senior Notes using the effective interest method. Level 3 Financing assumed the obligations under the 8.125% Senior Notes and the notes were reclassified to long-term debt in the third quarter of 2011. Following the release of the escrowed funds in connection with the Notes Assumption, the escrowed funds were used to refinance certain existing indebtedness of Global Crossing in connection with the closing of the Amalgamation.

As of December 31, 2013, debt issuance discount remaining was \$7 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$25 million at December 31, 2013.

The 8.125% Senior Notes will be subject to redemption at the option of Level 3 Financing, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days prior notice, (i) prior to July 1, 2015, at 100% of the principal amount of 8.125% Senior Notes so redeemed plus (A) the applicable make-whole premium set forth in the Indenture, as of the redemption date and (B) accrued and unpaid interest thereon (if any) up to, but not including, the redemption date, and on and after July 1, 2015, at the redemption prices set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest thereon (if any) up to, but not including the redemption date, if redeemed during the twelve months beginning July 1, of the years indicated below:

Year	Redemption Price
2015	104.063%
2016	102.031%
2017	100.000%

At any time or from time to time after the Notes Assumption and on or prior to July 1, 2014, up to 35% of the original aggregate principal amount of the 8.125% Senior Notes may be redeemed at a redemption price equal to 108.125% of the principal amount of the 8.125% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) up to, but not including the redemption date, with the net cash proceeds contributed from one or more private placements of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in the aggregate. However, at least 65% of the original aggregate principal amount of the 8.125% Senior

Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The offering of the 8.125% Senior Notes was not originally registered under the Securities Act of 1933, as amended, and included a registration rights agreement. In April 2012, all of the originally placed notes were exchanged for a new issue of 8.125% Senior Notes due 2019 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

8.875% Senior Notes due 2019

On August 1, 2012, Level 3 Communications completed the offering of \$300 million aggregate principal amount of its 8.875% Senior Notes due 2019. Debt issuance costs of approximately \$7 million were capitalized and are being amortized over the term of the 8.875% Senior Notes as interest expense using the effective interest method. The net proceeds from the offering of the notes was used for general corporate purposes, including the potential repurchase, redemption, repayment or refinancing of the Company's and its subsidiaries' existing indebtedness from time to time. The 8.875% Senior Notes were priced at 100% of their principal amount and will mature on June 1, 2019. Interest on the notes accrues from August 1, 2012 and will be payable on June 1 and December 1 of each year, beginning on December 1, 2012. The notes are senior unsecured obligations of Level 3 Communications, ranking equal in right of payment with all other senior unsecured obligations of Level 3. The notes will not be guaranteed by any of the Company's subsidiaries.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$6 million at December 31, 2013.

The 8.875% Senior Notes are subject to redemption at the option of Level 3 in whole or in part, at any time before June 1, 2015 at the redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest. On and after June 1, 2015, Level 3 may redeem all or part of the 8.875% Senior Notes, upon not less than 30 nor more than 60 days prior notice, at the redemption prices set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest thereon (if any) to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning June 1, of the years indicated below:

Year	Redemption Price
2015	104.438%
2016	102.219%
2017	100.000%

In addition, at any time or from time to time on or prior to June 1, 2015, Level 3 may redeem up to 35% of the original aggregate principal amount of the 8.875% Senior Notes (including any additional 8.875% Senior Notes) at a redemption price equal to 108.875% of the principal amount of the 8.875% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), with the net cash proceeds contributed to the capital of Level 3 of one or more private placements to persons other than affiliates of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in aggregate; provided, however, that at least 65% of the original aggregate principal amount of the 8.875% Senior Notes (including any additional 8.875% Senior Notes) would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The 8.875% Senior Notes were not originally registered under the Securities Act of 1933, as amended, and included a registration rights agreement. During the second quarter of 2013, all of the originally placed 8.875% Senior Notes due 2019 issued by Level 3 Communications, were exchanged for a new issue of 8.875% Senior Notes due 2019 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

8.625% Senior Notes due 2020

On January 13, 2012, Level 3 Financing completed the offering of \$900 million aggregate principal amount of its 8.625% Senior Notes due 2020. Debt issuance costs of approximately \$20 million were capitalized and are being amortized over the term of the 8.625% Senior Notes as interest expense using the effective interest method. In February 2012, a portion of the net proceeds from the offering of the 8.625% Senior Notes were used to redeem all of Level 3 Financing's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million. Level 3 Financing redeemed its 9.25% Senior Notes due 2014 at a price of 102.313% of the principal amount and recognized a loss on extinguishment of debt of \$22 million during the first quarter of 2012.

The remaining net proceeds constituted purchase money indebtedness under the existing senior secured credit agreement and indentures of the Company and Level 3 Financing and were used solely to fund the cost of construction, installation, acquisition, lease, development or improvement of any Telecommunications/IS assets (as defined in the existing senior secured credit agreement and indentures of Level 3).

The 8.625% Senior Notes will mature on July 15, 2020. Interest on the notes accrues from January 13, 2012 and will be payable on January 15 and July 15 of each year, beginning on July 15, 2012. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$16 million at December 31, 2013.

The 8.625% Senior Notes are subject to redemption at the option of Level 3 Financing in whole or in part, at any time before January 15, 2016 at the redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest. On and after January 15, 2016, Level 3 Financing may redeem all or part of the 8.625% Senior Notes, upon not less than 30 nor more than 60 days prior notice, at the redemption prices set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest thereon (if any) to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning January 15, of the years indicated below:

Year	Redemption Price
2016	104.313%
2017	102.156%
2018	100.000%

In addition, at any time or from time to time on or prior to January 15, 2015, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 8.625% Senior Notes (including any additional 8.625% Senior Notes) at a redemption price equal to 108.625% of the principal amount of the

8.625% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), with the net cash proceeds contributed to the capital of Level 3 Financing of one or more private placements to persons other than affiliates of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in aggregate; provided, however, that at least 65% of the original aggregate principal amount of the 8.625% Senior Notes (including any additional 8.625% Senior Notes) would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days prior notice. The 8.625% Senior Notes due 2020 issued by Level 3 Financing were not originally registered under the Securities Act of 1933, as amended.

During the second quarter of 2012, all of the originally placed notes were exchanged for a new issue of 8.625% Senior Notes due 2020 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable. The 8.625% Senior Notes became fully and unconditionally guaranteed by Level 3 Communications, LLC during the second quarter of 2012.

7% Senior Notes due 2020

On August 6, 2012, Level 3 Financing completed the offering of \$775 million aggregate principal amount of its 7% Senior Notes due 2020. Debt issuance costs of approximately \$15 million were capitalized and are being amortized over the term of the 7% Senior Notes as interest using the effective interest method. The net proceeds from the offering of the notes, along with cash on hand were used to redeem all of the outstanding 8.75% Senior Notes due 2017 issued by Level 3 Financing, including the payment of accrued interest and applicable premiums, and in connection with that redemption, the indenture relating to the 8.75% Senior Notes due 2017 was discharged. Level 3 Financing redeemed its 8.75% Senior Notes due 2017 at a price of 104.375% of the principal amount and recognized a loss on extinguishment of debt of \$40 million. The 7% Senior Notes were priced at 100% of their principal amount and will mature on June 1, 2020. Interest on the notes accrues from August 6, 2012 and will be payable on June 1 and December 1 of each year, beginning on December 1, 2012. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$13 million at December 31, 2013.

The 7% Senior Notes are subject to redemption at the option of Level 3 Financing in whole or in part, at any time before June 1, 2016 at the redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest. On or after June 1, 2016, Level 3 Financing may redeem all or part of the 7% Senior Notes, upon not less than 30 nor more than 60 days prior notice, at the redemption prices set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest thereon (if any) to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning June 1, of the years indicated below:

Year	Redemption Price
2016	103.500%
2017	101.750%
2018	100.000%

In addition, at any time or from time to time on or prior to June 1, 2015, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 7% Senior Notes (including any additional 7% Senior Notes) at a redemption price equal to 107% of the principal amount of the 7% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), with the net cash proceeds contributed to the capital of Level 3 Financing of one or more private placements to persons other than affiliates of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in aggregate; provided, however, that at least 65% of the original aggregate principal amount of the 7% Senior Notes (including any additional 7% Senior Notes) would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The 7% Senior Notes were not originally registered under the Securities Act of 1933, as amended, and included a registration rights agreement. During the second quarter of 2013, all of the originally placed 7% Senior Notes due 2020 issued by Level 3 Financing, were exchanged for a new issue of 7% Senior Notes due 2020 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

6.125% Senior Notes due 2021

On November 14, 2013, Level 3 Financing completed the offering of \$640 million aggregate principal amount of its 6.125% Senior Notes due 2021 (the "6.125% Senior Notes"). Debt issuance costs of approximately \$12 million were capitalized and are being amortized over the term of the 6.125% Senior Notes as interest using the effective interest method. The net proceeds from the offering, together with cash on hand, were used to redeem all of Level 3 Financing's outstanding 10% Senior Notes due 2018, including accrued interest, applicable premiums and expenses. The Company recognized a loss on extinguishment of debt of \$56 million as a result of this transaction. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company. In addition, each of Level 3 Communications, Inc. and Level 3 Financing has agreed to endeavor in good faith using commercially reasonable efforts to cause Level 3 Communications, LLC to obtain all material governmental authorizations and consents required in order for it to guarantee the 6.125% Senior Notes at the earliest practicable date and to enter into a guarantee of the 6.125% Senior Notes promptly thereafter.

The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes. The 6.125% Senior Notes were priced at 100% of their principal amount and will mature on January 15, 2021. Interest on the Notes will be payable on April 15 and October 15 of each year, beginning on April 15, 2014.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$12 million at December 31, 2013.

Prior to November 15, 2016, at the option of Level 3 Financing, the 6.125% Senior Notes will be subject to redemption, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days prior notice, at 100% of the principal amount of 6.125% Senior Notes so redeemed plus (i) the applicable make-whole premium set forth in the Indenture, as of the redemption date and (ii) accrued and unpaid interest thereon (if any) up to, but not including, the redemption date. On and after November 15, 2016, at the option of Level 3 Financing, the 6.125% Senior Notes will be subject to redemption, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days prior notice at the redemption prices set forth below (expressed as a percentage of principal

amount), plus accrued and unpaid interest thereon (if any) up to, but not including the redemption date. The redemption price for the 6.125% Senior Notes if redeemed during the twelve months beginning November 15, of the years indicated below:

Year	Redemption Price
2016	103.063%
2017	101.531%
2018	100.000%

In addition, at any time or from time to time on or prior to November 15, 2016, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 6.125% Senior Notes at a redemption price equal to 106.125% of the principal amount of the 6.125% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) up to, but not including the redemption date, with the net cash proceeds contributed to the capital of Level 3 Financing from one or more private placements of common stock of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in the aggregate. However, at least 65% of the original aggregate principal amount of the 6.125% Senior Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption is required to be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days prior notice.

The offering of the 6.125% Senior Notes has not been registered under the Securities Act of 1933, as amended, and the 6.125% Senior Notes may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 6.125% Senior Notes were sold to "qualified institutional buyers" as defined in Rule 144A under the Securities Act of 1933, as amended, and non-U.S. persons outside the United States under Regulation S under the Securities Act of 1933, as amended. Level 3 Financing and the initial purchasers of the 6.125% Senior Notes entered into a registration rights agreement regarding the 6.125% Senior Notes pursuant to which Level 3 and Level 3 Financing agreed, among other things, to file an exchange offer registration statement with the Securities and Exchange Commission.

15% Convertible Senior Notes due 2013

On December 24, 2008, Level 3 Communications, Inc. received gross proceeds of \$374 million and on December 31, 2008, the Company received gross proceeds of \$26 million from the issuance of its \$400 million 15% Convertible Senior Notes due 2013 (the "15% Convertible Senior Notes"). The proceeds from this issuance were primarily used to repurchase, through tender offers, a portion of the Company's 6% Convertible Subordinated Notes due 2009, 6% Convertible Subordinated Notes due 2010 and 2.875% Convertible Senior Notes due 2010. The 15% Convertible Senior Notes were priced at 100% of the principal amount of these notes. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

The 15% Convertible Senior Notes matured on January 15, 2013. Interest on the notes accrued from the date of original issuance at a rate of 15% per year and were payable on January 15 and July 15 of each year, beginning on January 15, 2009. The 15% Convertible Senior Notes contain limited covenants which restrict additional liens on assets of the Company.

The 15% Convertible Senior Notes are convertible by holders into shares of the Company's common stock at a conversion price of \$27 per share (which is equivalent to a conversion rate of approximately 37 shares of common stock per \$1,000 principal amount of the 15% Convertible Senior Notes), subject to adjustment upon certain events, at any time before the close of business on January 15, 2013. If at any time following the date of original issuance of the 15% Convertible Senior Notes and prior to the close of business on January 15, 2013 the closing per share sale price of the Company's common stock exceeds 222.2% of the conversion price then in effect for at least 20 trading days within any 30 consecutive trading day period, the 15% Convertible Senior Notes will automatically convert into shares of Level 3 common stock, plus accrued and unpaid interest (if any) to, but excluding the automatic conversion date, which date will be designated by the Company following such automatic conversion event.

Holders of the 15% Convertible Senior Notes may require the Company to repurchase all or any part of their notes upon the occurrence of a designated event at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the repurchase date, if any.

In addition, if a holder elects to convert its 15% Convertible Senior Notes in connection with certain changes in control, the Company could be required to pay a make-whole premium by increasing the number of shares deliverable upon conversion of such notes. Any make-whole premium will have the effect of increasing the number of shares due to holders of the 15% Convertible Senior Notes upon conversion.

On July 6, 2011, certain holders converted approximately \$128 million of the 15% Convertible Senior Notes to common equity. Upon conversion, the Company issued an aggregate of approximately 5 million shares of Level 3 common stock, representing the approximately 37 shares per \$1,000 note into which the notes were then convertible. The Company also paid an aggregate of approximately \$29 million in cash, equivalent to \$225 per \$1,000 note, representing interest that would have been due from conversion through the maturity date, which was recognized as a loss on inducement and included in the loss on extinguishment of debt.

On March 13, 2012, the Company entered into an exchange agreement for a portion of its 15% Convertible Senior Notes due 2013. Pursuant to the agreement, approximately \$100 million aggregate principal amount of Level 3's outstanding 15% Convertible Senior Notes due 2013 was exchanged for approximately 3.7 million shares of Level 3 common stock into which the notes were convertible plus an additional 1.7 million shares for a total of approximately 5.4 million shares. The consideration was based on the market price for these notes which included an inducement premium and included a payment for accrued and unpaid interest from January 15, 2012 through March 15, 2012 of approximately \$2 million. This transaction did not include the payment by the Company of any cash. The Company recognized a loss on inducement included in loss on extinguishment of debt of \$39 million.

On January 15, 2013, Level 3 Communications repaid at maturity approximately \$172 million of its remaining 15% Convertible Senior Notes due 2013.

7% Convertible Senior Notes due 2015

On June 26, 2009, Level 3 Communications issued \$200 million aggregate principal amount of 7% Convertible Senior Notes due 2015 under an indenture between Level 3 and The Bank of New York, as trustee. The 7% Convertible Senior Notes due 2015 were issued in conjunction with the exchange of approximately \$142 million aggregate principal amount of the Company's 6% Convertible Subordinated Notes due 2010 and approximately \$140 million aggregate principal amount of its 2.875% Convertible Senior Notes due 2010. As part of this exchange, Level 3 also paid \$78 million in cash, including accrued and unpaid interest for the notes exchanged.

On October 15, 2009, Level 3 issued \$275 million aggregate principal amount of 7% Convertible Senior due 2015, Series B under a second supplemental indenture between Level 3 and The Bank of

New York, as trustee. The 7% Convertible Senior Notes due 2015, Series B are substantially similar in all respects to the 7% Convertible Senior Notes due 2015. The 7% Convertible Senior Notes due 2015, together with the 7% Convertible Senior Notes due 2015, Series B are referred to as the "7% Convertible Senior Notes due 2015".

The 7% Convertible Senior Notes due 2015 mature on March 15, 2015 and bear interest at a rate of 7% per annum, payable semiannually in arrears on March 15 and September 15. Interest payments commence for the 7% Convertible Senior Notes due 2015 on September 15, 2009 and on March 15, 2010 for the 7% Convertible Senior Notes due 2015, Series B. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

The 7% Convertible Senior Notes due 2015 are convertible into shares of Level 3 common stock, at the option of the holder, at any time prior to maturity, unless previously repurchased or redeemed, or unless Level 3 has caused the conversion rights to expire. The 7% Convertible Senior Notes due 2015 may be converted at the rate of approximately 37 shares of common stock per each \$1,000 principal amount of notes, subject to adjustment in certain circumstances. This is equivalent to a conversion price of approximately \$27 per share.

Upon the occurrence of a designated event (a change of control or a termination of trading), holders of the 7% Convertible Senior Notes due 2015 will have the right, subject to certain exceptions and conditions, to require Level 3 to repurchase all or any part of the 7% Convertible Senior Notes due 2015 at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest thereon (if any) to, but excluding, the designated event purchase date. In addition, if an event treated as a change in control of Level 3 occurs, Level 3 will be obligated, subject to certain conditions, to offer to purchase all of the outstanding 7% Convertible Senior Notes due 2015 at a purchase price of 100% of the principal amount, plus a "make-whole" premium, by increasing the conversion rate applicable to such 7% Convertible Senior Notes due 2015.

As of December 31, 2013 the debt issuance discount remaining was \$1 million. Debt issuance costs of \$4 million were originally capitalized and are being amortized over the term of the 7% Convertible Senior Notes due 2015 as interest expense using the effective interest method. The capitalized unamortized debt issuance costs were \$1 million at December 31, 2013.

6.5% Convertible Senior Notes due 2016

On September 20, 2010, Level 3 Communications received \$170 million of net proceeds after transaction costs, from a public offering of \$175 million aggregate principal amount of its 6.5% Convertible Senior Notes due 2016 (the "6.5% Convertible Senior Notes"). On October 5, 2010, in connection with the underwriters' exercise of the \$26 million over-allotment option associated with the 6.5% Convertible Senior Notes, the Company received an additional \$25.5 million net proceeds after transaction costs of less than \$1 million. Debt issuance costs of \$6 million were originally capitalized and are being amortized over the term of the 6.5% Convertible Senior Notes as interest expense using the effective interest method. The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC. The notes are unsecured, unsubordinated obligations of Level 3 Financing ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes. The 6.5% Convertible Senior Notes will mature on October 1, 2016. Interest on the notes accrues at 6.5% per year and is payable semiannually on April 1 and October 1, beginning April 1, 2011.

The 6.5% Convertible Senior Notes were convertible by holders into shares of the Company's common stock at any time prior to maturity, unless previously redeemed, repurchased or unless the Company has caused the conversion rights to expire. The conversion rate is approximately 54 shares per each \$1,000 principal amount of 6.5% Convertible Senior Notes, subject to adjustment in certain circumstances. This is equivalent to a conversion price of approximately \$18.525 per share. In addition, if a designated event (a change in control or a termination of trading) occurs, Level 3 will be obligated, subject to certain conditions, to offer to purchase all of the outstanding 6.5% Convertible Senior Notes due 2016 at a purchase price of 100% of the principal amount, plus accrued and unpaid interest thereon. If an event treated as a change in control occurs, the Company will be obligated, subject to certain conditions, to offer to purchase all of the outstanding 6.5% Convertible Senior Notes at a purchase price of 100% of the principal amount plus a "make-whole" premium, by increasing the conversion rate applicable to such 6.5% Convertible Senior Notes due 2016.

On November 25, 2013, the Company notified the holders of its 6.5% Convertible Senior Notes that the Company would be redeeming these notes on December 26, 2013 for a redemption price equal to 100% of their principal amount, plus accrued but unpaid interest up to, but not including, the redemption date. The holders of the 6.5% Convertible Senior Notes converted approximately \$200 million aggregate principal amount of the notes into 10,814,264 shares of Level 3 common stock, par value \$0.01 per share. On December 26, 2013, approximately \$1 million aggregate principal amount of the remaining 6.5% Convertible Senior Notes was redeemed at a price equal to 100% of the principal amount plus accrued but unpaid interest.

Capital Leases

As of December 31, 2013, the Company had \$73 million of capital leases. The Company leases property, equipment, certain dark fiber facilities and metro fiber under non-cancelable IRU agreements that are accounted for as capital leases. Interest rates on these capital leases approximated 8.4% on average as of December 31, 2013.

Other Debt

As of December 31, 2013, the Company had \$13 million of other debt with an average interest rate of 0.4%.

Covenant Compliance

At December 31, 2013 and 2012, the Company was in compliance with the covenants on all outstanding debt issuances.

Long-Term Debt Maturities

Aggregate future contractual maturities of long-term debt and capital leases (excluding discounts and fair value adjustments) were as follows as of December 31, 2013 (dollars in millions):

2014	\$	31
2015		483
2016		7
2017		6
2018		6
Thereafter		7,859
	\$	<u>8,392</u>

(13) Accumulated Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income are as follows:

(dollars in millions)	Net Foreign Currency Translation Adjustment	Holding Gain (Loss) on Interest Rate Swaps	Defined Benefit Pension Plans	Total
Balance at January 1, 2011	\$ 55	\$ (108)	\$ (45)	\$ (98)
Other comprehensive income (loss) before reclassifications	(16)	(28)	14	64
Amounts reclassified from accumulated other comprehensive loss	—	46	2	(46)
Balance at December 31, 2011	39	(90)	(29)	(80)
Other comprehensive income (loss) before reclassifications	17	25	(4)	132
Amounts reclassified from accumulated other comprehensive loss	—	65	3	(26)
Balance at December 31, 2012	56	—	(30)	26
Other comprehensive income (loss) before reclassifications	11	—	(3)	8
Amounts reclassified from accumulated other comprehensive loss	—	—	2	2
Balance at December 31, 2013	\$ 67	\$ —	\$ (31)	\$ 36

(14) Employee Benefits and Stock-Based Compensation

The Company records non-cash compensation expense for its outperform stock appreciation rights, restricted stock units and shares, 401(k) matching contributions, and other stock-based compensation associated with the Company's discretionary bonus grants. Total non-cash compensation expense related to these equity awards was \$151 million in 2013, \$135 million in 2012 and \$101 million in 2011.

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for each of the three years ended December 31, 2013, 2012 and 2011 (dollars in millions):

	2013	2012	2011
OSO	\$ 21	\$ 14	\$ 10
Restricted Stock Units and Shares	38	40	22
401(k) Match Expense	24	23	13
Restricted Stock Unit Bonus Grant	59	46	57
Management Incentive and Retention Plan	10	13	—
	<u>152</u>	<u>136</u>	<u>102</u>
Capitalized Non-Cash Compensation	(1)	(1)	(1)
	<u>\$ 151</u>	<u>\$ 135</u>	<u>\$ 101</u>

The Company capitalizes non-cash compensation for those employees directly involved in the construction of the network, installation of services for customers or the development of business support systems.

OSOs and restricted stock units and shares are granted under the Level 3 Communications, Inc. Stock Plan, as amended (the "Stock Plan"), which term extends through May 20, 2020. The Stock Plan provides for accelerated vesting of stock awards upon retirement if an employee meets certain age and years of service requirements and certain other requirements. Under the Stock Compensation guidance, if an employee meets the age and years of service requirements under the accelerated vesting provision, the award would be expensed at grant or expensed over the period from the grant date to the date the employee meets the requirements, even if the employee has not actually retired. The Company recognized non-cash compensation expense for employees that met the age and years of service requirements for accelerated vesting at retirement of \$5 million, \$9 million and \$12 million in 2013, 2012 and 2011, respectively.

Outperform Stock Options

OSOs were awarded through the end of 2013, and will continue to be outstanding through 2016. The Company's OSO program was designed so that the Company's stockholders would receive a market return on their investment before OSO holders receive any return on their OSOs. The Company believes that the OSO program directly aligned 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 awards unless the Company's common stock price outperforms the S&P 500® Index during the life of the grant. When the stock price gain is greater than the corresponding gain on the S&P 500® Index, the value received for awards under the OSO plan is based on a formula involving a multiplier related to the level by which the Company's common stock outperforms the S&P 500® Index. To the extent that Level 3's common stock outperforms the S&P 500® Index, the value of OSO units to a holder may exceed the value of non-qualified stock options.

The initial strike price, as determined on the day prior to the OSO grant date, is adjusted over time (the "Adjusted Strike Price"), until the settlement date. The adjustment is an amount equal to the percentage appreciation or depreciation in the value of the S&P 500® Index from the date of grant to the date of exercise. The value of the OSO increased for increasing levels of outperformance. OSO units had

a multiplier range from zero to four depending upon the performance of Level 3 common stock relative to the S&P 500® Index as shown in the following table.

If Level 3 Stock Outperforms the S&P 500® Index by:	Then the Pre-multiplier Gain Multiplied by a Success Multiplier of:
0% or Less	—
More than 0% but Less than 11%	Outperformance percentage multiplied by 4/11
11% or More	4.00

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

Upon settlement of an OSO, the Company shall deliver or pay to the grantee the difference between the fair market value of a share of Level 3 common stock as of the day prior to the settlement date, less the Adjusted Strike Price (the "Exercise Consideration"). The Exercise Consideration may be paid in cash, Level 3 common stock or any combination of cash or Level 3 common stock at the Company's discretion. The number of shares of Level 3 common stock to be delivered by the Company to the grantee is determined by dividing the Exercise Consideration to be paid in Level 3 common stock by the fair market value of a share of Level 3 common stock as of the date prior to the settlement date. Fair market value was defined in the OSO agreement as the closing price per share of Level 3 common stock on the national securities exchange on which the common stock is traded. Settlement of the OSO units does not require any cash outlay by the employee.

Beginning with awards made on or after April 1, 2007, OSO units were awarded monthly to employees in mid-management level and higher positions, had a three year life, vested 100% and fully settled on the third anniversary of the date of the award and were valued as of the first day of each month. Recipients have no discretion on the timing to exercise OSO units granted on or after April 1, 2007, thus the expected life of all such OSO units was three years. During the first quarter of 2010, the Company revised the eligibility criteria and grant schedule for its non-cash compensation. Effective April 1, 2010, the Company's OSOs were granted quarterly to certain levels of management. There were no changes to the vesting schedule, or any other aspects of the non-cash compensation plans.

As of December 31, 2013, there was \$15 million of unamortized compensation expense related to granted OSO units. The weighted average period over which this cost will be recognized is 1.99 years.

The fair value of the OSO units granted was calculated by applying a modified Black-Scholes model with the assumptions identified below. The Company utilized a modified Black-Scholes model due to the additional variables required to calculate the effect of the market conditions and success multiplier of the OSO program. The Company believes that given the relative short life of the OSOs and the other variables used in the model, the modified Black-Scholes model provides a reasonable estimate of the fair value of the OSO units at the time of grant.

	Year Ended December 31,		
	2013	2012	2011
S&P 500 Expected Dividend Yield Rate	2.24%	2.05%	1.83%
Expected Life	3 years	3 years	3 years
S&P 500 Expected Volatility Rate	19%	23%	30%
Level 3 Common Stock Expected Volatility Rate	39%	39%	44%
Expected S&P 500 Correlation Factor	0.44	0.32	0.39
Calculated Theoretical Value	101%	110%	120%
Estimated Forfeiture Rate	15%	20%	20%

The fair value of each OSO unit equaled the calculated theoretical value multiplied by the Level 3 common stock price on the grant date.

As described above, recipients have no discretion on the timing to exercise OSO units. Thus the expected life of all such OSO units was three years. The Company estimates the stock price volatility using a combination of historical and implied volatility as Level 3 believes it is consistent with the approach most marketplace participants would consider using all available information to estimate expected volatility. The Company has determined that expected volatility is more reflective of market conditions and provides a more accurate indication of volatility than using solely historical volatility. In reaching this conclusion, the Company has considered many factors including the extent to which its future expectations of volatility over the respective term is likely to differ from historical measures.

The fair value for OSO units awarded to participants during the years ended December 31, 2013, 2012 and 2011 was approximately \$17 million, \$29 million and \$12 million, respectively.

Transactions involving OSO units awarded are summarized in the table below. The Option Price Per Unit identified in the table below represents the initial strike price, as determined on the day prior to the OSO grant date for those grants.

Range of Exercise Prices	OSO Units Outstanding at December 31, 2013			OSO units Exercisable at December 31, 2013	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Initial Strike Price	Number Exercisable	Weighted Average Initial Strike Price
\$ 14.10 - \$ 16.99	227,733	0.53	\$ 15.90	—	\$ —
\$ 20.29 - \$ 24.30	1,030,279	1.69	\$ 21.92	—	\$ —
\$ 26.69 - \$ 36.60	890,853	1.43	\$ 28.46	—	\$ —
	<u>2,148,865</u>	1.46	\$ 23.99	<u>—</u>	\$ —

In the table above, the weighted average initial strike price represents the values used to calculate the theoretical value of OSO units on the grant date and the intrinsic value represents the value of OSO units that have outperformed the S&P 500® Index as of December 31, 2013, 2012 and 2011, respectively. As noted above, all of the outstanding OSO units granted have an expected life of three years. The total intrinsic value of OSOs outstanding based on the Company's performance against the S&P 500® Index was \$31.6 million, \$6.6 million, and \$1.8 million as of December 31, 2013, 2012 and 2011, respectively.

	Units	Initial Strike Price Per Unit		Weighted Average Initial Strike Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (years)
					(in millions)	
Balance January 1, 2011	1,056,392	\$ 10.50	-\$ 51.60	\$ 22.05	\$ —	1.73
Options granted	498,618	14.70	- 36.60	23.96		
Options forfeited	(96,174)	10.50	- 51.60	22.36		
Options expired	(140,655)	31.80	- 51.60	44.64		
Options exercised	(29,469)	14.10	- 15.75	14.93		
Balance December 31, 2011	1,288,712	\$ 10.50	-\$ 36.60	\$ 20.51	\$ 1.8	1.53
Options granted	1,195,452	16.99	- 27.53	24.65		
Options forfeited	(72,335)	12.00	- 36.60	21.80		
Options expired	(278,111)	15.00	- 22.65	18.45		
Options exercised	(67,299)	10.50	- 13.80	12.48		
Balance December 31, 2012	2,066,419	\$ 14.10	-\$ 36.60	\$ 23.40	\$ 6.6	1.73
Options granted	748,481	20.29	- 26.69	22.64		
Options forfeited	(271,883)	14.10	- 36.60	22.33		
Options expired	(286,924)	16.35	- 24.30	21.48		
Options exercised	(107,228)	14.10	- 14.10	14.10		
Balance December 31, 2013	2,148,865	\$ 14.10	-\$ 36.60	\$ 23.99	\$ 31.6	1.46

Range of Exercise Prices	OSO Units Outstanding at December 31, 2013			OSO units Exercisable at December 31, 2013	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Initial Strike Price	Number Exercisable	Weighted Average Initial Strike Price
\$ 14.10 - \$ 16.99	227,733	0.53	\$ 15.90	—	\$ —
\$ 20.29 - \$ 24.30	1,030,279	1.69	\$ 21.92	—	\$ —
\$ 26.69 - \$ 36.60	890,853	1.43	\$ 28.46	—	\$ —
	2,148,865	1.46	\$ 23.99	—	\$ —

In the table above, the weighted average initial strike price represents the values used to calculate the theoretical value of OSO units on the grant date and the intrinsic value represents the value of OSO units that have outperformed the S&P 500® Index as of December 31, 2013, 2012 and 2011, respectively. As noted above, all of the outstanding OSO units granted have an expected life of three years. The total intrinsic value of OSOs outstanding based on the Company's performance against the S&P 500® Index was \$31.6 million, \$6.6 million, and \$1.8 million as of December 31, 2013, 2012 and 2011, respectively.

The total realized value of OSO units settled was \$1.5 million, \$0.8 million and \$0.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company issued 90,879, zero and 13,742 shares of Level 3 common stock upon the exercise of OSO units for the years ended

December 31, 2013, 2012 and 2011, respectively. The Company paid cash in lieu of shares of Level 3 common stock for the realized value of OSO units settled for the year ended December 31, 2012. The number of shares of Level 3 common stock issued upon settlement of an OSO unit varies based upon the relative performance of Level 3 stock price and the S&P 500® Index between the initial grant date and settlement date of the OSO unit.

Restricted Stock and Units

Restricted stock units and shares are annually granted on July 1 to certain eligible recipients, including the Board of Directors, at no cost. Restrictions on transfer lapse over one to four year periods. The fair value of restricted stock units and shares awarded totaled \$34 million, \$69 million and \$35 million for the years ended December 31, 2013, 2012 and 2011, respectively. The fair value of these awards was calculated using the value of the Level 3 common stock on the grant date and are being amortized over the periods in which the restrictions lapse. As of December 31, 2013, unamortized compensation cost related to nonvested restricted stock and restricted stock units was \$30 million and the weighted average period over which this cost will be recognized is 2.9 years.

The changes in nonvested restricted stock and restricted stock units are shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2011	2,021,707	\$ 22.95
Stock and units granted	1,030,676	33.99
Lapse of restrictions	(845,717)	27.79
Stock and units forfeited	(175,883)	\$ 27.06
Nonvested at December 31, 2011	2,030,783	\$ 26.25
Stock and units granted	2,869,584	24.13
Lapse of restrictions	(1,048,757)	26.06
Stock and units forfeited	(214,634)	\$ 24.92
Nonvested at December 31, 2012	3,636,976	\$ 24.71
Stock and units granted	1,617,592	21.26
Lapse of restrictions	(1,841,757)	25.19
Stock and units forfeited	(488,461)	\$ 23.10
Nonvested at December 31, 2013	2,924,350	\$ 22.77

The total fair value of restricted stock and restricted stock units whose restrictions lapsed in the years ended December 31, 2013, 2012 and 2011 was \$46 million, \$27 million and \$24 million, respectively.

Management Incentive and Retention Plan

Effective March 2012, the Company adopted a Management Incentive and Retention Plan ("MIRP") as a means of encouraging key management personnel to remain employed with the Company or one of its subsidiaries and to reward the achievement of established performance criteria. The MIRP provides an opportunity to receive two types of awards: a retention award and an incentive award. Participants'

retention and incentive awards can have a cash component only or a cash component and an equity component. The equity component is granted in the form of restricted stock units under the Stock Plan.

A summary of the retention restricted stock units granted under the MIRP is shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	—	\$ —
Stock and units granted	465,000	\$ 25.92
Lapse of restrictions	—	\$ —
Stock and units forfeited	—	\$ —
Nonvested at December 31, 2012	465,000	\$ 25.92
Stock and units granted	—	\$ —
Lapse of restrictions	(270,000)	\$ 25.92
Stock and units forfeited	—	\$ —
Nonvested at December 31, 2013	<u>195,000</u>	<u>\$ 25.92</u>

In addition, the number of restricted stock units that would be granted under the incentive portion of the MIRP based on expected performance would be 429,000 as of December 31, 2013.

The total fair value of retention restricted stock units awarded during the period ended December 31, 2013 under the MIRP was \$12 million.

As of December 31, 2013, unamortized compensation cost related to the MIRP was zero. As of December 31, 2013, \$15 million had been accrued in other current liabilities for the cash component of the MIRP.

Warrants

As of December 31, 2012, there were warrants to purchase 45,593 shares of Level 3 common stock outstanding with an exercise price of \$73.50, which expired in January 2013. All of the warrants were fully vested and compensation expense had been fully recognized in the consolidated statements of operations.

Defined Contribution Plans

The Company sponsors a number of defined contribution plans. The principal defined contribution plans are discussed individually below. Other defined contribution plans are not individually significant and therefore have been summarized in aggregate below.

The Company and its subsidiaries offer their qualified employees the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of Section 401(k) of the Internal Revenue Code ("401(k) Plan"). Each employee is eligible to contribute, on a tax deferred basis, a portion of annual earnings generally not to exceed \$17,500 in 2013 and \$17,500 in 2014. Effective January 1, 2012, the Company matches 100% of employee contributions up to 4% of eligible earnings or applicable

regulatory limits. Between March 6, 2009 and December 31, 2011, the Company matched 100% of employee contributions up to 3% of eligible earnings or applicable regulatory limits.

The Company's matching contributions are made with Level 3 common stock based on the closing stock price on each pay date. The Company's matching contributions are made through units in the Level 3 Stock Fund, which represent shares of Level 3 common stock. The Level 3 Stock Fund is the mechanism that is used for Level 3 to make employer matching and other contributions to employees through the Level 3 401(k) plan. Employees are not able to purchase units in the Level 3 Stock Fund. Employees are able to diversify the Company's matching contribution as soon as it is made, even if they are not fully vested, subject to insider trading rules and regulations. The Company's matching contributions will vest ratably over the first three years of service or over such shorter period until the employee has completed three years of service at such time the employee is then 100% vested in all Company matching contributions, including future contributions. The Company made 401(k) Plan matching contributions of \$24 million, \$23 million and \$13 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company's matching contributions are recorded as non-cash compensation and included in selling, general and administrative expenses. Former U.S.-based Global Crossing employees became eligible to participate in the Level 3 401(k) plan starting January 1, 2012.

Other defined contribution plans sponsored by the Company are individually not significant. On an aggregate basis the expenses recorded by the Company relating to these plans was approximately \$5 million, \$7 million and \$2 million for the years ended December 31, 2013, 2012 and 2011.

Non-Qualified Stock Options ("NQ Options")

On October 4, 2011, as part of the Amalgamation, the issued and outstanding options to purchase Global Crossing common shares were modified into options to purchase Level 3 common stock. There was no unrecognized compensation expense for NQ Options at the time of the Amalgamation and no additional NQ Options have been granted since the Amalgamation date.

Information regarding NQ Options outstanding is summarized below:

	Number Outstanding	Weighted Average Exercise Price
Balance at October 4, 2011	765,585	\$ 10.82
Exercised	<u>(167,395)</u>	<u>\$ 10.93</u>
Balance at December 31, 2011	598,190	\$ 10.79
Exercised	(533,717)	\$ 10.61
Forfeited	<u>(2,149)</u>	<u>\$ 14.39</u>
Balance at December 31, 2012	62,324	\$ 12.18
Exercised	<u>(35,659)</u>	<u>\$ 10.50</u>
Balance at December 31, 2013	<u>26,665</u>	<u>\$ 14.43</u>

The following table summarizes information concerning outstanding and exercisable NQ Options at December 31, 2013:

Exercise Price	Number Outstanding	Options Outstanding and Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share
\$ 14.43	26,665	0.96 years	\$ 14.43
Total	26,665	0.96 years	\$ 14.43

The weighted average remaining contractual term was 0.96 years for NQ Options exercisable as of December 31, 2013. The total intrinsic value of NQ Options outstanding and exercisable was approximately \$0.5 million as of December 31, 2013. The total intrinsic value of NQ Options exercised between January 1, 2013 and December 31, 2013 was \$1 million and the Company received less than \$1 million proceeds for the exercise of these options. The total intrinsic value of NQ Options exercised between January 1, 2012 and December 31, 2012 was \$6 million and the Company received \$5 million for the exercise of these options. The total intrinsic value of NQ Options exercised between October 4, 2011 and December 31, 2011 was \$1 million and Level 3 received \$2 million for the exercise of these options.

Defined Benefit Plans

The Company has certain contributory and non-contributory employee pension plans, which are not significant to the financial position or operating results of the Company. The Company recognizes in its balance sheet the funded status of its defined benefit post-retirement plans, which is measured as the difference between the fair value of the plan assets and the benefit obligation. The Company is also required to recognize changes in the funded status within accumulated other comprehensive income, net of tax to the extent such changes are not recognized in earnings as components of periodic net benefit cost. The fair value of the plan assets was \$148 million and \$146 million as of December 31, 2013 and 2012, respectively. The total benefit obligation was \$165 million and \$166 million as of December 31, 2013 and 2012, respectively. Therefore, the total funded status was an obligation of \$17 million as of December 31, 2013. The total funded status was an obligation of \$20 million as of December 31, 2012.

Annual Discretionary Bonus Grant

The Company's annual discretionary bonus program is intended to retain and motivate employees to achieve the Company's financial and business goals. Each participant is provided a target award expressed as a percentage of base salary. Actual awards under the program are based on corporate results as well as achievement of specific individual performance criteria during the bonus plan period, and may be paid in cash, restricted stock units, or a combination of the two, at the sole discretion of the Compensation Committee of the Board of Directors.

As of December 31, 2013, \$124 million had been accrued in other current liabilities for this bonus plan, including employer liability for payroll taxes and charges. The Company generally expects to pay out 40% in cash and 60% in immediately-vested restricted stock units and shares of Level 3 common stock in the first quarter of 2014.

As of December 31, 2012, \$103 million was accrued in other current liabilities for this bonus plan, including employer liability for payroll taxes and charges. The Company paid out \$50 million cash and 2.1 million immediately-vested restricted stock units in 2013 for this plan.

As of December 31, 2011, \$136 million was accrued in other current liabilities for this bonus plan, including employer liability for payroll taxes and charges. The Company paid out \$72 million cash and 2.4 million immediately-vested restricted stock units in 2012 for this plan.

(15) Income Taxes

The following table summarizes the income tax provision attributable to loss from continuing operations before income taxes for each of the three years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
(dollars in millions)			
Current:			
United States federal	\$ 9	\$ —	\$ —
State	(1)	(2)	—
Foreign	<u>(37)</u>	<u>(36)</u>	<u>(8)</u>
	(29)	(38)	(8)
Deferred, net of changes in valuation allowances:			
United States federal	(3)	(3)	(30)
State	—	—	(1)
Foreign	<u>(6)</u>	<u>(7)</u>	<u>(2)</u>
Income tax provision	<u>\$ (38)</u>	<u>\$ (48)</u>	<u>\$ (41)</u>

The United States and Foreign components of loss from continuing operations before income taxes for each of the three years ended December 31, 2013, 2012 and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
(dollars in millions)			
United States	\$ (122)	\$ (434)	\$ (692)
Foreign	<u>51</u>	<u>60</u>	<u>(94)</u>
	<u>\$ (71)</u>	<u>\$ (374)</u>	<u>\$ (786)</u>

A reconciliation of the actual income tax provision and the tax computed by applying the U.S. federal rate (35%) to the loss before income taxes for each of the three years ended December 31, 2013, 2012 and 2011 is shown in the following table:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(dollars in millions)		
Computed tax benefit at statutory rate	\$ 25	\$ 131	\$ 275
Effect of earnings in jurisdictions outside of US	12	25	(13)
Change in valuation allowance	(27)	(145)	(213)
Permanent items	(44)	(48)	(44)
Indefinite-lived assets	(3)	(3)	(26)
Uncertain tax positions	9	(3)	(1)
Changes in tax rates	(7)	(4)	(3)
Other, net	(3)	(1)	(16)
Income tax provision	<u>\$ (38)</u>	<u>\$ (48)</u>	<u>\$ (41)</u>

The components of the net deferred tax assets (liabilities) as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
	(dollars in millions)	
Deferred Tax Assets:		
Accrued payroll and related benefits	\$ 132	\$ 119
Deferred revenue	336	271
Unutilized tax net operating loss carry forwards	4,791	4,611
Fixed assets and intangible assets	102	134
Intercompany loss	139	148
Other	144	162
Total Deferred Tax Assets	<u>5,644</u>	<u>5,445</u>
Deferred Tax Liabilities:		
Fixed assets and intangible assets	(790)	(702)
Deferred revenue	(76)	(87)
Other	(33)	(45)
Foreign branch income	(163)	(37)
Total Deferred Tax Liabilities	<u>(1,062)</u>	<u>(871)</u>
Net Deferred Tax Assets before valuation allowance	4,582	4,574
Valuation Allowance	(4,698)	(4,697)
Net Deferred Tax Liability after Valuation Allowance	<u>\$ (116)</u>	<u>\$ (123)</u>
Balance sheet classification of deferred taxes:		
Net current deferred income tax asset	\$ 9	\$ 9
Net current deferred income tax liability	(2)	(3)
Net non-current deferred income tax asset	211	219
Net non-current deferred income tax liability	(334)	(348)
Net Deferred Tax Liability after Valuation Allowance	<u>\$ (116)</u>	<u>\$ (123)</u>

Under the rules prescribed by Internal Revenue Code ("IRC") Section 382 and applicable regulations, if certain transactions occur with respect to an entity's capital stock that result in a cumulative ownership shift of more than 50 percentage points by 5% stockholders over a testing period, annual limitations are imposed with respect to the entity's ability to utilize its net operating loss carry forwards and certain current deductions against any taxable income the entity achieves in future periods. During the twelve months ended December 31, 2013, the Company completed an extensive analysis of the IRC Section 382 limitation related to the Global Crossing acquisition that resulted in an increase to the Company's net operating loss carry forwards in the amount of approximately \$0.3 billion on a pre-tax basis. During the twelve months ended December 31, 2012, a similar analysis of the Company's IRC Section 382 limitation resulted in an increase to the Company's net operating loss carry forwards in the amount of approximately \$1.0 billion on a pre-tax basis. There was no financial effect in the consolidated statement of operations associated with these increases as a full valuation allowance has been recorded against the additional deferred tax asset.

As of December 31, 2013, the Company had net operating loss carry forwards of approximately \$9.1 billion (net of IRC Section 382 limitation) for U.S. federal income tax purposes. These loss carry forwards expire in future years through 2033 and are subject to examination by the tax authorities until three years after the carry forwards are utilized. The U.S. federal tax loss carry forwards expire as follows (dollars in millions):

Expiring December 31,	Amount
2023	\$ 220
2024	1,302
2025	1,186
2026	1,064
2027	1,644
2028	482
2029	694
2030	687
2031	832
2032	726
2033	221
	<u>\$ 9,058</u>

As of December 31, 2013 the Company had state net operating loss carry forwards of approximately \$7.2 billion that are subject to limitations on their utilization and have various expiration periods through 2033. The Company had approximately \$6.5 billion of foreign jurisdiction net operating loss carry forwards that are subject to limitations on their utilization. The majority of these foreign jurisdiction tax loss carry forwards have no expiration period.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A valuation allowance has been recorded against U.S. and certain foreign jurisdiction deferred tax assets for which the Company has concluded under relevant accounting standards that it is not more likely than not that the deferred tax assets are realizable. The valuation allowance for deferred tax assets was approximately \$4.7 billion as of both December 31, 2013 and December 31, 2012.

The Company provides for U.S. income taxes on the undistributed earnings and the other outside basis temporary differences of foreign corporations unless they are considered indefinitely reinvested outside the United States. The amount of temporary differences related to undistributed earnings and other outside basis temporary differences of investments in foreign subsidiaries upon which U.S. income taxes have not been provided was immaterial.

The Company's liability for uncertain tax positions totaled \$13 million at December 31, 2013 and \$18 million at December 31, 2012. If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of \$13 million (\$18 million as of December 31, 2012) and a reduction in the effective tax rate. The Company expects that the liability for uncertain tax positions will decrease by approximately \$2 million (plus \$4 million of associated interest and penalty) during the twelve months ended December 31, 2014. A reconciliation of the beginning and ending balance of unrecognized tax benefits follows (dollars in millions):

	<u>Amount</u>
Balance as of January 1, 2011	\$ 6
Gross increases - Global Crossing tax positions of prior years	11
Gross decreases - tax positions of prior years	(1)
Gross decreases - settlement with taxing authorities	(1)
Balance as of December 31, 2011	<u>15</u>
Gross increases - tax positions of prior years	4
Gross increases - tax positions during 2012	1
Gross decreases - lapse of statute of limitations	(1)
Gross decreases - settlement with taxing authorities	(1)
Balance as of December 31, 2012	<u>18</u>
Gross increases - tax positions of prior years	—
Gross increases - tax positions during 2013	1
Gross decreases - lapse of statute of limitations	(6)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2013	<u>\$ 13</u>

The unrecognized tax benefits in the table above do not include accrued interest and penalties of \$18 million, \$22 million and \$20 million as of December 31, 2013, 2012 and 2011, respectively. The Company's policy is to record interest and penalties related to uncertain tax positions in income tax expense. The Company recognized accrued interest and penalties related to uncertain tax positions in income tax expense in its consolidated statements of operations of a benefit of approximately \$4 million and charges of approximately \$3 million and zero for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company, or at least one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carry forwards are available.

(16) Segment Information

Operating segments are defined under GAAP as components of an enterprise for which separate financial information is available and evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. Through the end of the third quarter of 2013, the Company was comprised of one reportable segment representing its communications services business, which was consistent with how the Company's previous CODM, James Q. Crowe, evaluated results and allocated resources. Effective April 11, 2013, the Company announced that Jeff K. Storey had been appointed by the Board of Directors to be the Company's president and Chief Executive Officer. As a result, the Company has realigned its segment reporting structure to reflect how its new CODM, Mr. Storey, monitors performance and allocates resources based on the three separate geographic regions in which the Company operates. Accordingly, the Company's reportable segments consist of 1) North America, 2) Europe, the Middle East and Africa (EMEA), 3) and Latin America. Other separate business interests that are not segments include interest, certain corporate assets and overhead costs, and certain other general and administrative costs that are not allocated to any of the operating segments. Historical presentation of segment information has been retrospectively reclassified to conform to the new geographical presentation.

The CODM measures and evaluates segment performance primarily based upon revenue, revenue growth and Adjusted EBITDA. Adjusted EBITDA, as defined by the Company, is equal to net income (loss) from the consolidated statements of operations before (1) income tax benefit (expense), (2) total other income (expense), (3) non-cash impairment charges included within selling, general and administrative expenses, (4) depreciation and amortization expense, and (5) non-cash stock compensation expense included within selling, general and administrative expenses.

Adjusted EBITDA is not a measurement under GAAP and may not be used in the same way by other companies. Management believes that Adjusted EBITDA is an important part of the Company's internal reporting and is a key measure used by management to evaluate profitability and operating performance of the Company and to make resource allocation decisions. Management believes such measurement is especially important in a capital-intensive industry such as telecommunications. Management also uses Adjusted EBITDA to compare the Company's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period its ability to fund capital expenditures, fund growth, service debt and determine bonuses.

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income tax benefit (expense) because these items are associated with the Company's capitalization and tax structures. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses reflect the effect of capital investments which management believes are better evaluated through cash flow measures. Adjusted EBITDA excludes net other income (expense) because these items are not related to the primary operations of the Company.

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

Revenue and the related expenses are attributed to regions based on where services are provided. Revenue and costs for services provided in more than one region are allocated equally between the regions, and the Company does not otherwise charge for services between reportable segments. Therefore, segment results do not include any intercompany revenues. The operating activities of the

separate regions along with the activities that are not attributable to a segment are interdependent, and the regional results in the tables below do not include all intercompany charges and allocations that would be necessary to report the regional results on a standalone basis.

Total revenue consists of:

- Core Network Services revenue from colocation and data center services; transport and fiber; IP and data services; and local and enterprise voice services.
- Wholesale Voice Services and Other revenue from sales to other carriers of long distance voice services, revenue from managed modem and its related intercarrier compensation services and revenue from the SBC Master Services Agreement, which was obtained through an acquisition in 2005.

Core Network Services revenue represents higher margin services and Wholesale Voice Services and Other revenue represents lower margin services. Core Network Services revenue requires different levels of investment and focus and provides different contributions to the Company's operating results than Wholesale Voice Services and Other revenue. Management of the Company believes that growth in revenue from its Core Network Services is critical to the long-term success of its business. The Company also believes it must continue to effectively manage gross margin contribution from the Wholesale Voice Services component and the positive cash flows from the Other revenue component. The Company believes that trends in its communications business are best gauged by analyzing revenue changes in Core Network Services.

The following table presents revenues by segment for each of the years ended December 31,

<u>(dollars in millions)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Core Network Services Revenue:			
North America	\$ 3,949	\$ 3,840	\$ 2,915
EMEA	888	911	475
Latin America	754	712	176
Total Core Network Services Revenue	<u>\$ 5,591</u>	<u>\$ 5,463</u>	<u>\$ 3,566</u>
Wholesale Voice Services and Other Revenue:			
North America	\$ 681	\$ 863	\$ 731
EMEA	31	40	34
Latin America	10	10	2
Total Wholesale Voice Services and Other Revenue	<u>\$ 722</u>	<u>\$ 913</u>	<u>\$ 767</u>
Total Consolidated Revenue	<u>\$ 6,313</u>	<u>\$ 6,376</u>	<u>\$ 4,333</u>

The following table presents Adjusted EBITDA by segment and reconciles Adjusted EBITDA to net loss for each of the years ended December 31,

(dollars in millions)	2013	2012	2011
Adjusted EBITDA:			
North America	\$ 1,799	\$ 1,708	\$ 1,325
EMEA	226	195	104
Latin America	313	278	70
Unallocated Corporate Expenses	(714)	(722)	(541)
Consolidated Adjusted EBITDA	\$ 1,624	\$ 1,459	\$ 958
Income Tax Expense	(38)	(48)	(41)
Total Other Expense	(737)	(949)	(838)
Depreciation and Amortization	(800)	(749)	(805)
Non-Cash Stock Compensation	(151)	(135)	(101)
Non-Cash Impairment	(7)	—	—
Income from Discontinued Operations	—	—	71
Total Consolidated Net Loss	<u>\$ (109)</u>	<u>\$ (422)</u>	<u>\$ (756)</u>

The following table presents capital expenditures by segment and reconciles capital expenditures to consolidated capital expenditures for each of the years ended December 31,

(dollars in millions)	2013	2012	2011
Capital Expenditures:			
North America	\$ 398	\$ 407	\$ 353
EMEA	128	115	66
Latin America	134	122	27
Unallocated Corporate Capital Expenditures	100	99	48
Consolidated Capital Expenditures	<u>\$ 760</u>	<u>\$ 743</u>	<u>\$ 494</u>

The following table presents total assets by segment:

(dollars in millions)	As of December 31,	
	2013	2012
Assets:		
North America	\$ 8,133	\$ 8,495
EMEA	2,030	2,015
Latin America	2,445	2,513
Other	266	284
Total Consolidated Assets	<u>\$ 12,874</u>	<u>\$ 13,307</u>

(17) Commitments, Contingencies and Other Items

The Company is subject to various legal proceedings and other contingent liabilities that individually or in aggregate could materially affect its financial condition, future results of operations or cash flows. Amounts accrued for such contingencies aggregate to \$216 million and are included in "Other" current liabilities and "Other Liabilities" in the Company's consolidated balance sheet at December 31, 2013. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued may have no effect on the Company's results of operations but could materially adversely affect its cash flows for the affected period.

In accordance with the accounting guidance for contingencies, the Company accrues its estimate of a contingent liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Where it is probable that a liability has been incurred and there is a range of expected loss for which no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. The Company reviews its accruals at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

Below is a description of material legal proceedings and other contingencies pending at December 31, 2013. Although the Company believes it has accrued for these matters in accordance with the accounting guidance for contingencies, contingencies are inherently unpredictable and it is possible that results of operations or cash flows could be materially and adversely affected in any particular period by unfavorable developments in, or resolution or disposition of, one or more of these matters. For those contingencies in respect of which the Company believes that it is reasonably possible that a loss may result that is materially in excess of the accrual (if any) established for the matter, the Company has either provided an estimate of such possible loss or range of loss or included a statement that such an estimate cannot be made. In addition to the contingencies described below, the Company is party to many other legal proceedings and contingencies, the resolution of which is not expected to materially affect its financial condition or future results of operations beyond the amounts accrued.

Rights-of-Way Litigation

The Company is party to a number of purported class action lawsuits involving its right to install fiber optic cable network in railroad right-of-ways adjacent to plaintiffs' land. In general, the Company obtained the rights to construct its networks from railroads, utilities, and others, and has installed its networks along the rights-of-way so granted. Plaintiffs in the purported class actions assert that they are the owners of lands over which the fiber optic cable networks pass, and that the railroads, utilities, and others who granted the Company the right to construct and maintain its network did not have the legal authority to do so. The complaints seek damages on theories of trespass, unjust enrichment and slander of title and property, as well as punitive damages. The Company has also received, and may in the future receive, claims and demands related to rights-of-way issues similar to the issues in these cases that may be based on similar or different legal theories. The Company has defeated motions for class certification in a number of these actions but expects that, absent settlement of these actions, plaintiffs in the pending lawsuits will continue to seek certification of statewide or multi-state classes. The only lawsuit in which a class was certified against the Company, absent an agreed upon settlement, occurred in *Koyle, et. al. v. Level 3 Communications, Inc., et. al.*, a purported two state class action filed in the United States District Court for the District of Idaho. The *Koyle* lawsuit has been dismissed pursuant to a settlement reached in November 2010 as described further below.

The Company negotiated a series of class settlements affecting all persons who own or owned land next to or near railroad rights of way in which it has installed its fiber optic cable networks. The United States District Court for the District of Massachusetts in *Kingsborough v. Sprint Communications Co. L.P.* granted preliminary approval of the proposed settlement; however, on September 10, 2009, the court

denied a motion for final approval of the settlement on the basis that the court lacked subject matter jurisdiction and dismissed the case.

In November 2010, the Company negotiated revised settlement terms for a series of state class settlements affecting all persons who own or owned land next to or near railroad rights of way in which the Company has installed its fiber optic cable networks. The Company is currently pursuing presentment of the settlement in applicable jurisdictions. The settlements affecting current and former landowners have received final federal court approval in multiple states and the parties are engaged in the claims process for those states. The settlement has also been presented to federal courts in additional states and approval is pending.

Management believes that the Company has substantial defenses to the claims asserted in all of these actions and intends to defend them vigorously if a satisfactory settlement is not ultimately approved for all affected landowners.

Peruvian Tax Litigation

Beginning in 2005, one of the Company's Peruvian subsidiaries received a number of assessments for tax, penalties and interest for calendar years 2001 and 2002. Peruvian tax authorities ("SUNAT") took the position that the Peruvian subsidiary incorrectly documented its importations resulting in additional income tax withholding and value-added taxes ("VAT"). The total amount of the asserted claims, including potential interest and penalties, was \$26 million, consisting of \$3 million for income tax withholding in connection with the import of services for calendar years 2001 and 2002, \$7 million for VAT in connection with the import of services for calendar years 2001 and 2002, and \$16 million in connection with the disallowance of VAT credits for periods beginning in 2005. Due to accrued interest and foreign exchange effects, and taking into account the developments described below, the total amount of exposure has increased to \$60 million at December 31, 2013.

The Company challenged the tax assessments during 2005 by filing administrative claims before SUNAT. During August 2006 and June 2007, SUNAT rejected the Company's administrative claims, thereby confirming the assessments. Appeals were filed in September 2006 and July 2007 with the Tribunal Fiscal, the highest level of administrative review, which is not part of the Peru judiciary (the "Tribunal"). In October 2011, the Tribunal issued its administrative resolution with respect to the calendar year 2002 tax period regarding VAT, associated penalties and penalties associated with withholding taxes, adjudicating the central issue underlying the assessments in the government's favor, while confirming the assessment in part and denying a portion of the assessment on procedural grounds. During the fourth quarter of 2013, the Company released a reserve of \$28 million for tax, penalty and associated interest related to calendar year 2002 due to the expiration of the statute of limitations. In October 2013, the Tribunal notified the Company of its July 2013 administrative resolution with respect to the calendar year 2001 tax period, determining the central issue underlying the assessments in the government's favor, while confirming the assessment in part and denying a portion of the assessment on procedural grounds. Other than an immaterial amount, all assessed items dismissed by the Tribunal in this administrative resolution remain open for reassessment by SUNAT. In December 2013, SUNAT initiated an audit in order to reassess the 2001 amounts declared null by the Tribunal. The Company is contesting SUNAT's authority to conduct an audit of these amounts.

In November 2011, the Tribunal issued a administrative resolution with respect to assessed 2001 withholding tax, holding that the statute of limitations had run prior to assessment by SUNAT. The Company believes that this administrative resolution of the withholding tax issue is likely to be final, and the Company expects to win a similar administrative resolution with respect to assessed 2002 withholding tax. However, penalties with respect to withholding tax are not time-barred, and were confirmed in the Tribunal's October 2011 administrative resolution.

The Company has appealed the Tribunal's October 2011 decision to the judicial court in Peru and intends to file an appeal of the Tribunal's July 2013 decision to the judicial court as well.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against certain Latin American subsidiaries of the Company for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys fees and statutorily mandated inflation adjustments) as a result of their separation from the Company or termination of service relationships. The Company is vigorously defending itself against the asserted claims, which aggregate to approximately \$40 million at December 31, 2013.

Brazilian Tax Claims

In December 2004, March 2009 and April 2009, the São Paulo state tax authorities issued tax assessments against one of the Company's Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS") with respect to revenue from leasing movable properties (in the case of the December 2004 and March 2009 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 assessment), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues. The Company has filed objections to these assessments, arguing that the lease of assets and the provision of Internet access are not communication services subject to ICMS. The objections to the December 2004 and September 2002 assessments were rejected by the respective state administrative courts, and the Company has appealed those decisions to the judicial courts. In October 2012, the Company received a favorable ruling from the lower court on the December 2004 assessment regarding equipment leasing, but that ruling is subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the March, April and July 2009 and May 2012 assessments are still pending final administrative decisions.

The Company is vigorously contesting all such assessments in both states, and in particular, views the assessment of ICMS on revenue from leasing movable properties to be without merit. Nevertheless, the Company believes that it is reasonably possible that these assessments could result in a loss of up to \$60 million at December 31, 2013 in excess of the accruals established for these matters.

Letters of Credit

It is customary for the Company to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on behalf of the Company in accordance with specified terms and conditions. As of December 31, 2013 and December 31, 2012, the Company had outstanding letters of credit or other similar obligations of approximately \$29 million and \$31 million, respectively, of which \$25 million and \$29 million, are collateralized by cash, that is reflected on the consolidated balance sheets as restricted cash. The Company does not believe exposure to loss related to its letters of credit is material.

Operating Leases

The Company is leasing rights-of-way, facilities and other assets under various operating leases which, in addition to rental payments, may require payments for insurance, maintenance, property taxes and other executory costs related to the lease. Certain leases provide for adjustments in lease cost based upon adjustments in various price indexes and increases in the landlord's management costs.

The right-of-way agreements have various expiration dates through 2088. Payments under these right-of-way agreements were \$161 million in 2013, \$172 million in 2012 and \$135 million in 2011.

The Company has obligations under non-cancelable operating leases for certain colocation, office facilities and other assets, including lease obligations for which facility related restructuring charges have been recorded. The lease agreements have various expiration dates through 2119. Rent expense, including common area maintenance, under non-cancelable lease agreements was \$311 million in 2013, \$308 million in 2012 and \$232 million in 2011.

Certain non-cancelable right of way agreements provide for automatic renewal on a periodic basis. The Company includes payments due during these automatic renewal periods given the significant cost to relocate the Company's network and other facilities.

Future minimum payments for the next five years and thereafter under network and related right-of-way agreements and non-cancelable operating leases for facilities and other assets consist of the following as of December 31, 2013 (dollars in millions):

	Right-of-Way Agreements	Facilities and Other Assets	Total	Future Minimum Sublease Receipts
2014	\$ 119	\$ 268	\$ 387	\$ 13
2015	61	238	299	9
2016	56	183	239	8
2017	50	162	212	6
2018	49	163	212	5
Thereafter	365	553	918	6
	<u>\$ 700</u>	<u>\$ 1,567</u>	<u>\$ 2,267</u>	<u>\$ 47</u>

Certain right-of-way agreements include provisions for increases in payments in future periods based on the rate of inflation as measured by various price indexes. The Company has not included estimates for these increases in future periods in the amounts included above.

Certain other right-of-way agreements are cancelable or can be terminated under certain conditions by the Company. The Company includes the payments under such cancelable right-of-way agreements in the table above for a period of 1 year from January 1, 2014, if the Company does not consider it likely that it will cancel the right of way agreement within the next year.

Cost of Access and Third-Party Maintenance

In addition, the Company has purchase commitments with third-party access vendors that require it to make payments to purchase network services, capacity and telecommunications equipment. Some of these access vendor commitments require the Company to maintain minimum monthly and/or annual billings, in certain cases based on usage. In addition, the Company has purchase commitments with third parties that require it to make payments for maintenance services for certain portions of its network.

The following table summarizes the Company's purchase commitments at December 31, 2013 (dollars in millions):

	<u>Total</u>	<u>Less than 1 Year</u>	<u>2 - 3 Years</u>	<u>4 - 5 Years</u>	<u>After 5 Years</u>
Cost of Access Services	\$ 744	\$ 338	\$ 388	\$ 15	\$ 3
Third-Party Maintenance Services	232	60	46	33	93
	<u>\$ 976</u>	<u>\$ 398</u>	<u>\$ 434</u>	<u>\$ 48</u>	<u>\$ 96</u>

(18) Condensed Consolidating Financial Information

Level 3 Financing, Inc. a wholly owned subsidiary of the Company, has issued Senior Notes that are unsecured obligations of Level 3 Financing, Inc.; however, they are also fully and unconditionally and jointly and severally guaranteed on an unsecured senior basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

In conjunction with the registration of the Level 3 Financing, Inc. Senior Notes, other than the Floating Rate Senior Notes due 2018 and the 6.125% Senior Notes due 2021, the accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 "Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered."

The operating activities of the separate legal entities included in the Company's consolidated financial statements are interdependent. The accompanying condensed consolidating financial information presents the statements of operations, balance sheets and statements of cash flows of each legal entity and, on an aggregate basis, the other non-guarantor subsidiaries based on amounts incurred by such entities, and is not intended to present the operating results of those legal entities on a stand-alone basis. Level 3 Communications, LLC leases equipment and certain facilities from other wholly owned subsidiaries of Level 3 Communications, Inc. These transactions are eliminated in the consolidated results of the Company.

Condensed Consolidating Statements of Operations
For the year ended December 31, 2013

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 2,825	\$ 3,734	\$ (246)	\$ 6,313
Costs and Expenses:						
Cost of Revenue	—	—	1,068	1,649	(246)	2,471
Depreciation and Amortization	—	—	289	511	—	800
Selling, General and Administrative	3	1	1,544	828	—	2,376
Total Costs and Expenses	3	1	2,901	2,988	(246)	5,647
Operating Income (Loss)	(3)	(1)	(76)	746	—	666
Other Income (Expense):						
Interest income	—	—	—	—	—	—
Interest expense	(151)	(497)	(3)	2	—	(649)
Interest income (expense) affiliates, net	1,091	1,706	(2,679)	(118)	—	—
Equity in net earnings (losses) of subsidiaries	(1,039)	(2,164)	550	—	2,653	—
Other, net	—	(85)	4	(7)	—	(88)
Total Other Expense	(99)	(1,040)	(2,128)	(123)	2,653	(737)
Income (Loss) before Income Taxes	(102)	(1,041)	(2,204)	623	2,653	(71)
Income Tax Expense	(7)	2	—	(33)	—	(38)
Net Income (Loss)	(109)	(1,039)	(2,204)	590	2,653	(109)
Other Comprehensive Loss, Net of Income Taxes	10	10	—	10	(20)	10
Comprehensive Income (Loss)	\$ (99)	\$ (1,029)	\$ (2,204)	\$ 600	\$ 2,633	\$ (99)

Condensed Consolidating Statements of Operations
For the year ended December 31, 2012

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 2,657	\$ 3,975	\$ (256)	\$ 6,376
Costs and Expenses:						
Cost of Revenue	—	—	996	1,854	(248)	2,602
Depreciation and Amortization	—	—	260	489	—	749
Selling, General and Administrative	2	1	1,559	896	(8)	2,450
Total Costs and Expenses	<u>2</u>	<u>1</u>	<u>2,815</u>	<u>3,239</u>	<u>(256)</u>	<u>5,801</u>
Operating Income (Loss)	(2)	(1)	(158)	736	—	575
Other Income (Expense):						
Interest income	—	—	1	1	—	2
Interest expense	(168)	(535)	(3)	(27)	—	(733)
Interest income (expense) affiliates, net	976	1,598	(2,233)	(341)	—	—
Equity in net earnings (losses) of subsidiaries	(1,188)	(2,066)	92	—	3,162	—
Other, net	(39)	(184)	6	(1)	—	(218)
Total Other Expense	<u>(419)</u>	<u>(1,187)</u>	<u>(2,137)</u>	<u>(368)</u>	<u>3,162</u>	<u>(949)</u>
Income (Loss) before Income Taxes	(421)	(1,188)	(2,295)	368	3,162	(374)
Income Tax Expense	(1)	—	(4)	(43)	—	(48)
Net Income (Loss)	(422)	(1,188)	(2,299)	325	3,162	(422)
Other Comprehensive Income, Net of Income Taxes	106	106	—	16	(122)	106
Comprehensive Income (Loss)	<u>\$ (316)</u>	<u>\$ (1,082)</u>	<u>\$ (2,299)</u>	<u>\$ 341</u>	<u>\$ 3,040</u>	<u>\$ (316)</u>

Condensed Consolidating Statements of Operations
For the year ended December 31, 2011

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 2,367	\$ 2,196	\$ (230)	\$ 4,333
Costs and Expenses:						
Cost of Revenue	—	—	888	1,036	(218)	1,706
Depreciation and Amortization	—	—	376	429	—	805
Selling, General and Administrative	2	19	1,270	491	(12)	1,770
Total Costs and Expenses	2	19	2,534	1,956	(230)	4,281
Operating Income (Loss)	(2)	(19)	(167)	240	—	52
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(211)	(471)	(3)	(31)	—	(716)
Interest income (expense) affiliates, net	865	1,423	(2,065)	(223)	—	—
Equity in net earnings (losses) of subsidiaries	(1,346)	(2,241)	122	—	3,465	—
Other, net	(62)	(38)	9	(32)	—	(123)
Total Other Expense	(754)	(1,327)	(1,937)	(285)	3,465	(838)
Loss before Income Taxes	(756)	(1,346)	(2,104)	(45)	3,465	(786)
Income Tax Expense	—	—	(15)	(26)	—	(41)
Loss from Continuing Operations	(756)	(1,346)	(2,119)	(71)	3,465	(827)
Income From Discontinued Operations, Net	—	—	—	71	—	71
Net Loss	(756)	(1,346)	(2,119)	—	3,465	(756)
Other Comprehensive Income (Loss), Net of Income Taxes	18	18	—	—	(18)	18
Comprehensive Loss	\$ (738)	\$ (1,328)	\$ (2,119)	\$ —	\$ 3,447	\$ (738)

Condensed Consolidating Balance Sheets
December 31, 2013

(dollars in millions)	<u>Level 3 Communications, Inc.</u>	<u>Level 3 Financing, Inc.</u>	<u>Level 3 Communications, LLC</u>	<u>Other Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
Assets						
Current Assets:						
Cash and cash equivalents	\$ 8	\$ 6	\$ 347	\$ 270	\$ —	\$ 631
Restricted cash and securities	—	—	1	6	—	7
Receivables, less allowances for doubtful accounts	—	—	79	594	—	673
Due from affiliates	15,507	16,886	—	—	(32,393)	—
Other	2	15	47	79	—	143
Total Current Assets	15,517	16,907	474	949	(32,393)	1,454
Property, plant, and equipment, net	—	—	3,028	5,212	—	8,240
Restricted cash and securities	3	—	18	2	—	23
Goodwill and other intangibles, net	—	—	395	2,387	—	2,782
Investment in subsidiaries	10,039	27,014	3,735	—	(40,788)	—
Other assets, net	10	113	11	241	—	375
Total Assets	\$ 25,569	\$ 44,034	\$ 7,661	\$ 8,791	\$ (73,181)	\$ 12,874
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	\$ —	\$ 2	\$ 42	\$ 581	\$ —	\$ 625
Current portion of long-term debt	—	—	3	28	—	31
Accrued payroll and employee benefits	—	—	171	38	—	209
Accrued interest	30	129	—	1	—	160
Current portion of deferred revenue	—	—	131	122	—	253
Due to affiliates	—	—	32,165	228	(32,393)	—
Other	—	13	74	81	—	168
Total Current Liabilities	30	144	32,586	1,079	(32,393)	1,446
Long-term debt, less current portion	1,370	6,905	17	39	—	8,331
Deferred revenue, less current portion	—	—	603	303	—	906
Other liabilities	15	27	135	603	—	780
Commitments and Contingencies						
Stockholders' Equity (Deficit)	24,154	36,958	(25,680)	6,767	(40,788)	1,411
Total Liabilities and Stockholders' Equity (Deficit)	\$ 25,569	\$ 44,034	\$ 7,661	\$ 8,791	\$ (73,181)	\$ 12,874

Condensed Consolidating Balance Sheets
December 31, 2012

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 253	\$ 5	\$ 386	\$ 335	\$ —	\$ 979
Restricted cash and securities	—	—	1	7	—	8
Receivables, less allowances for doubtful accounts	—	—	93	621	—	714
Due from affiliates	14,446	15,709	—	7	(30,162)	—
Other	3	16	49	73	—	141
Total Current Assets	14,702	15,730	529	1,043	(30,162)	1,842
Property, plant, and equipment, net	—	—	2,926	5,273	—	8,199
Restricted cash and securities	12	—	17	6	—	35
Goodwill and other intangibles, net	—	—	429	2,404	—	2,833
Investment in subsidiaries	(11,756)	(20,470)	3,242	—	28,984	—
Other assets, net	16	119	11	252	—	398
Total Assets	\$ 2,974	\$ (4,621)	\$ 7,154	\$ 8,978	\$ (1,178)	\$ 13,307
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	\$ 1	\$ 2	\$ 53	\$ 723	\$ —	\$ 779
Current portion of long-term debt	172	6	6	32	—	216
Accrued payroll and employee benefits	—	—	161	50	—	211
Accrued interest	45	163	—	1	—	209
Current portion of deferred revenue	—	—	109	142	—	251
Due to affiliates	—	—	30,162	—	(30,162)	—
Other	1	1	29	105	—	136
Total Current Liabilities	219	172	30,520	1,053	(30,162)	1,802
Long-term debt, less current portion	1,570	6,886	20	40	—	8,516
Deferred revenue, less current portion	—	—	602	285	—	887
Other liabilities	14	81	75	761	—	931
Commitments and Contingencies						
Stockholders' Equity (Deficit)	1,171	(11,760)	(24,063)	6,839	28,984	1,171
Total Liabilities and Stockholders' Equity (Deficit)	\$ 2,974	\$ (4,621)	\$ 7,154	\$ 8,978	\$ (1,178)	\$ 13,307

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2013

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Net Cash Provided by (Used in) Operating Activities	\$ (169)	\$ (557)	\$ 710	\$ 729	\$ —	\$ 713
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(312)	(448)	—	(760)
Change in restricted cash and securities, net	9	—	(1)	5	—	13
Other	—	—	1	1	—	2
Net Cash Provided by (Used in) Investing Activities	9	—	(312)	(442)	—	(745)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	1,502	—	—	—	1,502
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(173)	(1,586)	(4)	(33)	—	(1,796)
Increase (decrease) due from/to affiliates, net	88	642	(433)	(297)	—	—
Net Cash Provided by (Used in) Financing Activities	(85)	558	(437)	(330)	—	(294)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(22)	—	(22)
Net Change in Cash and Cash Equivalents	(245)	1	(39)	(65)	—	(348)
Cash and Cash Equivalents at Beginning of Year	253	5	386	335	—	979
Cash and Cash Equivalents at End of Year	\$ 8	\$ 6	\$ 347	\$ 270	\$ —	\$ 631

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2012

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ (165)	\$ (520)	\$ 140	\$ 1,123	\$ —	\$ 578
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(276)	(467)	—	(743)
Change in restricted cash and securities, net	6	—	2	12	—	20
Other	—	—	—	(2)	—	(2)
Net Cash Provided by (Used in) Investing Activities	6	—	(274)	(457)	—	(725)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	293	4,211	—	—	—	4,504
Payments on and repurchases of long-term debt, including current portion and refinancing costs	—	(4,161)	—	(141)	—	(4,302)
Proceeds from stock options exercised	5	—	—	—	—	5
Increase (decrease) due from affiliates, net	112	469	(98)	(483)	—	—
Net Cash Provided by (Used in) Financing Activities	410	519	(98)	(624)	—	207
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	1	—	1
Net Change in Cash and Cash Equivalents	251	(1)	(232)	43	—	61
Cash and Cash Equivalents at Beginning of Year	2	6	618	292	—	918
Cash and Cash Equivalents at End of Year	\$ 253	\$ 5	\$ 386	\$ 335	\$ —	\$ 979

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2011

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities of Continuing Operations	\$ (176)	\$ (428)	\$ 293	\$ 699	\$ —	\$ 388
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(197)	(297)	—	(494)
Change in restricted cash and securities, net	—	—	3	(57)	—	(54)
Other	—	—	1	3	—	4
Investments in Global Crossing, net of cash acquired	—	—	—	146	—	146
Net Cash Used in Investing Activities of Continuing Operations	—	—	(193)	(205)	—	(398)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	292	1,586	—	—	—	1,878
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(521)	(755)	—	(341)	—	(1,617)
Increase (decrease) due from affiliates, net	234	(404)	168	2	—	—
Net Cash Provided by (Used in) Financing Activities of Continuing Operations	5	427	168	(339)	—	261
Net Cash Provided by Discontinued Operations	—	—	—	51	—	51
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	—	—	—
Net Change in Cash and Cash Equivalents	(171)	(1)	268	206	—	302
Cash and Cash Equivalents at Beginning of Year	173	7	350	86	—	616
Cash and Cash Equivalents at End of Year	\$ 2	\$ 6	\$ 618	\$ 292	\$ —	\$ 918

(19) Unaudited Quarterly Financial Data

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
(dollars in millions except per share data)								
Revenue	\$ 1,577	\$ 1,586	\$ 1,565	\$ 1,586	\$ 1,569	\$ 1,590	\$ 1,602	\$ 1,614
Gross Margin	948	929	949	938	961	948	984	959
Operating Income	155	116	140	133	152	138	219	188
Net Income (Loss)	(78)	(138)	(24)	(62)	(21)	(166)	14	(56)
Income (Loss) per share (Basic and Diluted)	\$ (0.36)	\$ (0.66)	\$ (0.11)	\$ (0.29)	\$ (0.09)	\$ (0.76)	0.06	\$ (0.26)

Loss per share for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while loss per share for the year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the loss per share for each of the four quarters may not equal the loss per share for the year.

During the fourth quarter of 2013, the Company recognized a loss on modification and extinguishment of debt of \$67 million, including \$10 million related to the refinancing of the Tranche B-II 2019 Term Loan, \$56 million related to the refinancing of the 10% Senior Notes due 2018 and \$1 million related to the refinancing of the Floating Rate Senior Notes due 2015.

During the third quarter of 2013, the Company recognized a loss on modification and extinguishment of debt of \$17 million related to the refinancing of the \$595.5 million Tranche B 2016 and the \$815 million Tranche B 2019 Term Loans.

During the fourth quarter of 2012, the Company recognized a loss on extinguishment of debt of \$50 million in connection with the refinancing of the \$650 million Tranche B-II Term Loan and \$550 million Tranche B-III Term Loan. Additionally in the fourth quarter of 2012, the Company recognized \$20 million of restructuring charges.

During the fourth quarter of 2012, the Company completed an updated analysis and revised its estimated future cash flows of its asset retirement obligations as a result of a strategic review of the Company's real estate portfolio. As a result, the Company reduced its asset retirement obligations liability by \$73 million with an offsetting reduction to property, plant and equipment of \$24 million, selling, general and administrative expenses of \$47 million and depreciation and amortization of \$2 million. (see Note 4 - Asset Retirement Obligations).

During the third quarter of 2012, the Company recognized a loss on extinguishment of debt of \$49 million, including \$9 million related to the refinancing of the \$1.4 billion Tranche A Term Loan and the repayment of existing vendor financing obligations and \$40 million as a result of the redemption of the 8.75% Senior Notes due 2017. Also in the third quarter of 2012, the Company recognized a non-cash loss in "Other, net" of \$60 million on interest rate swap agreements that were deemed "ineffective" under GAAP in connection with the refinancing of the \$1.4 billion Tranche A Term Loan.

During the first quarter of 2012, the Company recognized a loss on extinguishment of debt of \$61 million, including \$22 million related to the redemption of the 9.25% Senior Notes due 2014 and \$39 million as a result of the exchange of a portion of the 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of Level 3 common stock.

INVESTOR RELATIONS

CORPORATE HEADQUARTERS

1025 Eldorado Boulevard
Broomfield, CO 80021
General Information: 720-888-1000

TRANSFER AGENT

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
Post Office Box 64854
St. Paul, MN 55164-0854

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

Wells Fargo Shareholder Services
St. Paul, MN
1-800-468-9716

E-mail Address:
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INVESTOR RELATIONS

Inquiries by securities analysts, investment professionals and stockholders about Level 3 Communications, Inc. Common Stock, including requests for any Securities and Exchange Commission or other Stockholder reports should be directed to:

Investor.Relations@Level3.com
1-877-LVLTCOM (585-8266)

WEBSITE

Additional corporate information including company history, current and historic financials, and press releases, can be found on the Level 3 Communications Web site at www.level3.com.

10-K

After the close of each fiscal year, Level 3 Communications submits a Form 10-K to the Securities and Exchange Commission containing certain additional information about its business. A copy of the Form 10-K may be obtained without charge by addressing your request to Investor Relations at Investor.Relations@Level3.com or Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, CO 80021.

COMMON STOCK

Level 3 Communications Common Stock is traded on the New York Stock Exchange under the symbol LVLTCOM.

As of March 31, 2014, there were 237,171,332 shares of Common Stock issued and outstanding. There were 6,886 stockholders of record.



Connecting and Protecting
the Networked WorldSM

www.Level3.com

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