

2014 ANNUAL REPORT
NOTICE OF 2015 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: successfully integrate the tw telecom acquisition; 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:

2014 was a successful year for Level 3. We announced and completed the acquisition of tw telecom, we maintained our focus on profitable growth, leading us to exceed the financial outlook we established at the beginning of the year and we continued to take share in the enterprise market.

The telecommunications industry continued to evolve as well. After many years of hype about “the cloud,” enterprises of all sizes began to adopt cloud-based solutions in earnest in 2014. We also saw the continued evolution in Software Defined Networks/Network Function Virtualization (SDN/NFV) capabilities. Just like the applications we use on our smartphones to make our lives easier, SDN/NFV makes it easier for businesses to manage networking needs in real-time, by placing greater network control in their hands.

We also saw further expansion of the Internet of Things (IoT), with more and more devices connected to the Internet. Whether through the thermostat in your home, a company’s fleet of vehicles or machines connected for maintenance alerts, the IoT is connecting businesses, people, devices and technology in real time, all of the time. All of these trends, along with many others, will almost certainly create greater bandwidth demands. Level 3 is well-positioned to help our customers take advantage of these developing opportunities.

Additionally, 2014 marked the crossover point at which cyber threats moved from a relatively arcane challenge in the world of select security professionals in limited industries to a problem plaguing the average consumer’s daily life and making nightly news headlines. Addressing cybersecurity is now on the minds of enterprises everywhere. The criticality of cyberattacks is certainly nothing new, but 2014 showed the world how massive and crippling they can be, both for a company’s pocketbook and its reputation. Level 3 is firmly committed to helping protect our customers against current and emerging threats.

While our company will continue to evolve to meet the ever-changing needs of our customers and developments in the industry, certain things will not change. Whether we are expanding our network, developing the right products and services to meet customer needs or improving our operational capabilities, we remain steadfastly focused on driving profitable growth, increasing free cash flow per share and working to improve the customer experience each and every day. These are the guiding principles behind every decision we make at Level 3.

2014 Highlights

The company executed well in 2014, achieving a number of financial and operational milestones throughout the year. Some of the key financial highlights were:

- *Exceeding our outlook for standalone Level 3 revenue, Adjusted EBITDA and Free Cash Flow growth for 2014;*
- *Generating strong, positive Free Cash Flow of \$325 million for the full year 2014 for Level 3 on a standalone basis;*
- *Remaining active in the capital markets, completing over \$3.6 billion of financings and further reducing our Net Debt to Adjusted EBITDA ratio;*
- *Receiving upgrades from every major ratings agency;*
- *Joining the S&P 500 Index in late 2014; and*
- *For the first time in our history, we were profitable for the full year, generating \$314 million of net income in 2014.*

Clearly, the largest operational achievement from 2014 was the completion of the tw telecom acquisition, solidifying our position in the telecom industry as we tie together one of the world’s most sophisticated and extensive international networks with one of our nation’s premier domestic networks. Our solid performance in 2014 positions the company well for growth in the future.

Looking Forward—Continued Growth Strategy

As we look to the future, one thing is clear—enterprises continue to face increasing complexity in addressing their communications challenges and networking capabilities around the globe. Level 3 is keenly focused on continuing to help those customers overcome their challenges around growth,

efficiency and security. With Level 3's broad portfolio of services, we will be a key part of our customers' solutions, whether interconnecting a customer's branch locations throughout the world using an Ethernet-based IP-VPN, connecting a corporate data center to cloud service providers through Level 3 Cloud Connect Solutions, or using Level 3's advanced DDoS mitigation services to protect a company from cyber attacks. At the same time, we are continually assessing and investing in services, networks and systems to ensure our growth well into the future.

In 2015, to position the company for success in meeting these customer challenges, we are focused on three key priorities. The first is the successful integration of Level 3 and tw telecom. We are pleased with our progress in executing against our integration plans. Broadly, these plans are focused on the integration of our organization structure, products and services, network and support systems, as well as achieving our synergy targets. We will remain focused on execution and measuring our progress throughout the year.

Over time, by adopting the best of each company's products, systems and processes, we will be able to better serve our customers while delivering our services over an enhanced, unified, local-to-global infrastructure. We fully expect this transformation to benefit our customers and employees around the world, while also improving our financial performance.

Our second priority is to enable our EMEA region to live up to its full potential and to support the growth we believe we can achieve. With leadership now in place, we are working quickly to improve sales, deliver profitable growth and return the region to the same level of success we have seen in the past.

Our third key priority is to continue to position Level 3 for growth well into the future. Building on the strategy we established in late 2013, we are expanding our delivery of the products and services that enterprises need, but that are also a natural extension of the services we offer today. We remain focused on operational excellence, specifically related to the customer experience. Beyond the benefits we anticipate by adopting components of the sophisticated operating platform developed by tw telecom, we will continue to work to make it easier for customers to do business with us.

We continue to position Level 3 as the trusted connection to the networked world, partnering with our customers to develop the capabilities they require to simplify their operating environments, scale their communications capabilities to keep up with their growth and effectively manage the ever-escalating threat landscape. Even with the strong growth we saw in 2014, our market share remains relatively low, providing significant opportunity for growth.

Finally, we would like to note our sincere thanks to you for your continued support, as well as to our customers, suppliers and partners and especially to our more than 13,000 employees around the globe. We look forward to continuing to shape the future of the Internet together.

James O. Ellis, Jr.



Chairman of the Board

Jeff K. Storey



President and Chief Executive Officer



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

April 7, 2015

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 21, 2015, 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 2016 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
- the approval of the Level 3 Communications, Inc. Stock Incentive Plan; and
- the ratification of the extension of our Rights Agreement that is designed to protect our U.S. net operating loss carryforwards from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended; and
- the approval of the named executive officer executive compensation, which vote is on an advisory basis; and
- a stockholder proposal regarding proxy access; and
- the transaction of such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Our Board of Directors recommends that you:

- elect the 11 nominees for director, each for a one-year term until the 2016 Annual Meeting of Stockholders;
- approve the Level 3 Communications, Inc. Stock Incentive Plan;
- ratify the extension of our Rights Agreement;
- approve the named executive officer compensation on an advisory basis; and
- vote against the stockholder proposal regarding proxy access.

See "ELECTION OF DIRECTORS PROPOSAL," "STOCK INCENTIVE PLAN PROPOSAL," "RATIFICATION OF RIGHTS AGREEMENT PROPOSAL," "VOTE ON COMPENSATION PROPOSAL" and "STOCKHOLDER 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 "James O. Ellis, Jr." in a cursive script.

James O. Ellis, Jr.
Chairman of the Board

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LEVEL 3 COMMUNICATIONS, INC.

**1025 Eldorado Boulevard
Broomfield, CO 80021**

NOTICE OF 2015 ANNUAL MEETING OF STOCKHOLDERS

To be held May 21, 2015

To the Stockholders of Level 3 Communications, Inc.:

The 2015 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 21, 2015, for the following purposes:

1. To elect to our Board of Directors 11 directors, each for a one-year term until the 2016 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve the Level 3 Communications, Inc. Stock Incentive Plan; and
3. To ratify the extension of our Rights Agreement that is designed to protect our U.S. net operating loss carryforwards from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended; and
4. To approve the named executive officer executive compensation, which vote is on an advisory basis; and
5. To consider a stockholder proposal regarding proxy access; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 31, 2015 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 11, 2015, 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 ratification of rights agreement proposal requires the affirmative vote of stockholders holding at least a majority of the outstanding shares of our common stock.

Each of the other proposals to be considered at the Annual Meeting 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. Because the stockholder proposal regarding proxy access is a non-binding resolution, we will not be required to take the requested action if the proposal is approved; however, we will reevaluate our recommendation if the proposal is approved.

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 7, 2015

By Order of the Board of Directors

A handwritten signature in black ink that reads "John M. Ryan". The signature is written in a cursive style with a large, stylized "J" and "R".

John M. Ryan
Executive Vice President and Secretary

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 21, 2015: The Level 3 Communications, Inc. Proxy Statement for the 2015 Annual Meeting of Stockholders and the 2014 Annual Report to Stockholders are available at <http://www.proxyvote.com>.



LEVEL 3 COMMUNICATIONS, INC.

1025 Eldorado Boulevard
Broomfield, CO 80021

PROXY STATEMENT

April 7, 2015

2015 ANNUAL MEETING OF STOCKHOLDERS

May 21, 2015

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 21, 2015, 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 8, 2015. 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 21, 2015. 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 2014 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 of Internet Availability of Proxy Materials (the "Notice") provides 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 21, 2015. If you would like directions to the Annual Meeting, please see our website at <http://investors.level3.com/2015annualmeeting>.

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 to our Board of Directors 11 directors, each for a one-year term until the 2016 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve the Level 3 Communications, Inc. Stock Incentive Plan; and
3. To ratify the extension of our Rights Agreement that is designed to protect our U.S. net operating loss carryforwards from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended; and
4. To approve the named executive officer executive compensation, which vote is on an advisory basis; and
5. To consider a stockholder proposal regarding proxy access; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

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 2016 Annual Meeting of Stockholders.

Our Board of Directors also recommends that you vote:

- **for approval** of the Level 3 Communications, Inc. Stock Incentive Plan;
- **to ratify** the extension of our Rights Agreement;
- **for approval** of the named executive officer compensation on an advisory basis; and
- **against approval** of the stockholder proposal regarding proxy access.

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 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, 2015 (the “Record Date”), then you may attend and vote at the meeting. At the close of business on the Record Date, we had 354,151,027 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.

If you are a "street name" holder and fail to instruct the broker, bank, trust company or other nominee that is the stockholder of record how you want to vote your shares on a particular proposal, those shares are considered to be "uninstructed." Stockholders of record have the discretion to vote uninstructed shares on specified routine matters, but do not have the authority to vote uninstructed shares on non-routine matters.

What will happen if I return my proxy card without indicating how to vote?

Stockholders of Record. If you are a stockholder of record and you submit your proxy by internet, telephone or mail but do not specify how you want to vote your shares on a particular proposal, 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 "street name" holder and fail to instruct the broker, bank, trust company or other nominee that is the stockholder of record how you want to vote your shares on a particular proposal, those shares are considered to be "uninstructed," and 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, STOCK INCENTIVE PLAN PROPOSAL, VOTE ON COMPENSATION PROPOSAL, RATIFICATION OF RIGHTS PLAN PROPOSAL and STOCKHOLDER 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. Only the ratification of rights agreement proposal requires an affirmative vote based on our total shares outstanding. In this instance, 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—To approve the Level 3 Communications, Inc. Stock Incentive Plan	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.
Proposal 3—To ratify the extension of our Rights Agreement that is designed to protect our U.S. net operating loss carryforwards from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended	The affirmative vote of stockholders holding at least a majority of the outstanding shares of our common stock is required for approval of this proposal.
Proposal 4—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.
Proposal 5—To consider a stockholder proposal regarding proxy access	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, 2015.

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 2016 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 2016 Proxy Statement must submit the proposal so that it is received by us no later than December 10, 2015. 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 2016 Proxy Statement, but instead wishes to present it directly at the 2016 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before March 22, 2016, but no earlier than February 21, 2016, for the proposal to be included in our proxy material relating to that meeting. Proposals received after March 22, 2016 will not be voted on at the 2016 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2016 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 2016 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—*Nomination 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 2016 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 2015, STT Crossing is entitled to designate for nomination two individuals and has selected Steven T. Clontz and Peter Seah Lim Huat.

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 March 15, 2015. Other than Jeff K. Storey, none of these directors is our employee.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Admiral James O. Ellis, Jr.	67	Director(3)(4)
Jeff K. Storey	54	President and Chief Executive Officer and Director(4)
General Kevin P. Chilton	60	Director(3)(4)
Steven T. Clontz	64	Director(3)(5)
Irene M. Esteves	55	Director(1)(4)
T. Michael Glenn	59	Director(1)
Spencer B. Hays	70	Director(2)
Michael J. Mahoney	64	Director(2)
Kevin W. Mooney	56	Director(1)
Peter Seah Lim Huat	68	Director(2)
Peter van Oppen	62	Director(1)(2)

- (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

Admiral Archie R. Clemins, U.S. Navy (ret.), who is currently a member of the Board, is not standing for reelection at the Annual Meeting. Mr. Clemins will remain a member 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.

Admiral James O. Ellis, Jr., U.S. Navy (ret.), has been our Chairman of the Board since May 2014 and a director since March 2005. Since May 2012, Mr. Ellis has been a private investor and since November 2014, he has served as an Annenberg Distinguished Visiting Fellow of the Hoover Institution at Stanford University. From May 2005 until May 2012, Mr. 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, Mr. 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. Mr. 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. Mr. Ellis served on the Board of Directors of Inmarsat PLC until March 2015. Mr. Ellis has been elected to The National Academy of Engineering, which honors those who have made outstanding contributions to engineering research, practice, or education. Mr. 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 Mr. 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. Mr. Ellis is a member of the Board's Classified Business and Security Committee and is chairman of the Nominating and Governance Committee.

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. Mr. 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, Mr. 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. Mr. 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. Mr. Chilton is a director of Anadarko Petroleum Corporation and Orbital Sciences Corporation. Mr. Chilton is also a member of the Board of Trustees 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 and a member of the Board of Governors of the Lawrence Livermore National Laboratory. The Board selected Mr. 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. Mr. Chilton also gained managerial, financial and executive experience with his involvement in preparing the Air Force five-year budget/program for several years. Mr. Chilton is chairman of the Board's Classified Business and Security Committee and a member of the Nominating and Governance 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 (International) of Singapore Technologies Telemedia Pte. Ltd. since January 2010. Effective March 2014, 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 2014. 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.

Irene M. Esteves has been our director since October 31, 2014 and was a member of the tw telecom inc. Board of Directors from June 2014 until October 31, 2014. Ms. Esteves is an experienced public company executive, having served most recently as Chief Financial Officer of Time Warner Cable Inc. from July 2011 to May 2013, with oversight over all finance functions, including treasury, accounting, internal audit, strategic financial planning, mergers and acquisitions and investor relations. Ms. Esteves previously served as Executive Vice President and Chief Financial Officer of XL Group plc from May 2010 to June 2011. Prior to that position,

Ms. Esteves served as Senior Vice President and Chief Financial Officer of Regions Financial Corporation from April 2008 to February 2010 and as Chief Financial Officer of the Capital Management Group, Wachovia Corporation from 2006 to 2008. Ms. Esteves is a member of the Board of Directors of Aramark and previously served on the Board of Directors of Timberland Co. and Johnson Diversey Inc. With over 20 years of experience overseeing global finance, risk management, finance operations, human resources and corporate strategy for prominent U.S. and global companies, including Time Warner Cable Inc., the Board believes Ms. Esteves will bring a strong history of strategic leadership, strong accounting and finance background, and valuable industry perspective to the Level 3 Board. Ms. Esteves is a member of the Board's Audit Committee and Classified Business and Security 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 is a member of the Board's Audit Committee.

Spencer B. Hays has been our director since October 31, 2014 and was a member of the tw telecom inc. Board of Directors from 2007 until October 31, 2014 and from 1999 to 2006. Mr. Hays served as tw telecom inc.'s Lead Director from 2011 until October 31, 2014. Mr. Hays is a senior corporate attorney with over 25 years of experience with a large public company. Prior to his retirement, Mr. Hays served as Senior Vice President and Deputy General Counsel of Time Warner Inc., from January 2001 to March 2006. Prior to that, Mr. Hays served as Vice President and Deputy General Counsel of Time Warner Inc., from its formation in 1990 to January 2001. The Board selected Mr. Hays to serve as a director because Mr. Hays has broad experience in a wide array of issues confronting public companies, including corporate governance, executive compensation, mergers and acquisitions, finance, securities and business law and corporate compliance. Mr. Hays is a member of the Board's Compensation 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 Telephone Enterprises, Inc. ("Commonwealth"). Prior to that, from 1997 until 2000, Mr. Mahoney was President and Chief Operating Officer of RCN Corporation. 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. Mr. Mahoney was previously a member of 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.

Kevin W. Mooney has been our director since October 31, 2014 and was a member of the tw telecom inc. Board of Directors from 2005 until October 31, 2014. Mr. Mooney has extensive experience in telecommunications operations and, as a former chief financial officer of a public telecommunications company, in accounting matters. Since October 2009, Mr. Mooney has served as President, General Markets Division, of Blackbaud, Inc., a leading provider of software and professional services to the not-for-profit market, where he previously served as Chief Commercial Officer. Prior to that, Mr. Mooney served as Chief Commercial Officer of Travelport GDS, a privately held provider of IT infrastructure and distribution services to the travel industry from August 2007 to July 2008. Prior to this position, Mr. Mooney served as Chief Financial Officer of Worldspan, L.P., a privately held transaction processing firm from March 2005 until its acquisition by Travelport GDS in August 2007. The Board selected Mr. Mooney to serve as a director because Mr. Mooney will bring perspective from his experience with a non-telecommunications enterprise organization, his finance and accounting background and his expertise in telecommunications, IT infrastructure and software. Mr. Mooney is a member of the Board's Audit Committee.

Peter Seah Lim Huat has been our director 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 and is also the Chairman of the Board of LaSalle College of the Arts Limited. In addition, Mr. Seah has served on the boards of the DBS Bank Ltd and DBS Group Holdings Ltd since 2009 and now is the Chairman of each of those boards. 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 2014. Mr. Seah was awarded the Distinguished Service Order in 2012 and the Public Service Star in 1999 by the Government of Singapore. 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 a member of the UW Medicine Board, which consists of community leaders appointed by the University of Washington Board of Regents, a member of the Board of Trustees at Whitman College and is its former Chairman of the Board and Chair of the Investment Committee and serves on the boards of directors of several private companies. Mr. van Oppen was formerly a director of Isilon Systems, Inc. and Western Wireless Corporation. 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 chairman of the Board's Audit Committee and a member of the Compensation 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 and encouraged to suggest the inclusion of items on the agenda. Each Board member is free and encouraged 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 of our senior officers at each Board meeting.
- 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 the 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 independent members of 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;
- any material violations of our policies brought to its attention;
- the outcome of our annual internal audit department's risk assessment, which seeks to identify internal controls risks and drives the internal audit plan for the coming year; and
- the outcome of periodic formal general business risk assessment discussions conducted amongst our CEO, the CEO's direct reports and other members of senior management.

The chairman of the Audit Committee reports to the full Board at regularly scheduled Board meetings on these reviews.

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: James O. Ellis, Jr., Kevin P. Chilton, Steven T. Clontz, Irene M. Esteves, T. Michael Glenn, Spencer B. Hays, Michael J. Mahoney, Kevin W. Mooney, Peter Seah Lim Huat and Peter van Oppen. 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

The Board had a total of 10 meetings in 2014, with no director attending less than 75% of the meetings that were held during the time that the person was a Board member. All of our directors attended more than 75% of the meetings of the Board's committees of which the person was a member. In addition, the non-management directors met without any management directors or employees present four times during 2014. 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 2014 Annual Meeting of Stockholders attended that meeting, other than Mr. Peter Seah Lim Huat.

Section 16(a) Beneficial Ownership Reporting Compliance

To our knowledge, 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 during 2014 all reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended.

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. Subsequent to the 2014 Annual Meeting of Stockholders, for the balance of 2014, the members of the Audit Committee were Peter van Oppen (Chairman), Kevin P. Chilton, Archie R. Clemens and T. Michael Glenn. Ms. Irene M. Esteves and Mr. Kevin W. Mooney joined the Audit Committee effective with the closing of the tw telecom acquisition on October 31, 2014, and Mr. Chilton departed the committee. 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 while other members of the Audit Committee have the requisite credentials and financial background to qualify as a "financial expert" as defined by the SEC, Peter van Oppen, Chairman of the Audit Committee, has been designated as the "financial expert" pursuant to that definition. The Audit Committee met five times during 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 2015. 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: (i) the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our independent auditor's qualifications and independence; (iv) the performance of our independent auditors; and (v) 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 2014 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 Kevin P. Chilton (Chairman), James O. Ellis, Jr., Irene M. Esteves (upon the completion of the tw telecom acquisition) and Jeff K. Storey. The Classified Business and Security Committee met four times during 2014.

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), Spencer B. Hays (upon completion of the tw telecom acquisition), Peter Seah Lim Huat and Peter van Oppen. Richard R. Jaros was a member of the Compensation Committee until October 31, 2014, when he departed the Board. 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 10 times in 2014.

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 is included at the beginning 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.

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 James O. Ellis, Jr. (Chairman), Kevin P. Chilton and Steven T. Clontz. Albert C. Yates was the chairman of the Nominating and Governance Committee until October 31, 2014, when he departed the Board. 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 six times in 2014.

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.

During 2014 the members of the Strategic Planning Committee were Steven T. Clontz (Chairman), Archie R. Clemins and Richard R. Jaros (until October 31, 2014). 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. 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 did not meet during 2014 and the Company and STT have determined that while this committee will remain a standing committee of the Board, it will not meet separately and will have a single member until further notice.

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 March 15, 2015, 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	53	Executive Vice President and Chief Financial Officer
Laurinda Y. Pang	45	Executive Vice President and Chief Administrative Officer
John M. Ryan	52	Executive Vice President, Chief Legal Officer and Secretary
Eric J. Mortensen	56	Senior Vice President and Controller
Héctor R. Alonso	57	Regional President Latin America
John T. Blount	56	Regional President North America and Asia
Andrew E. Crouch	44	Regional President EMEA and GAM Division

Sunit S. Patel has been Chief Financial Officer and an Executive Vice President of Level 3 since March 2008. 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.

Laurinda Y. Pang has been Chief Administrative Officer and an Executive Vice President of Level 3 since June 2014. Ms. Pang was the Chief Human Resources Officer for Level 3, developing the global organization to support the company's strategic initiatives and profitable growth. She has nearly 20 years of experience in the telecommunications industry, holding leadership roles in human resources, customer experience, investor relations, operations, product management, sales and sales operations. Prior to Level 3, Ms. Pang was Senior Vice President of Human Resources at Global Crossing. She also served as Vice President of Global Crossing customer experience re-engineering, where she was responsible for all aspects of global business transformation affecting customer experience. Prior to that, as Vice President for Global Crossing investor relations, she was responsible for communicating with shareholders, bondholders and financial analysts. She also served as the Chief of Staff to the CEO and Vice President of Operations for Global Crossing, and was a member of the executive team that restructured Global Crossing during a critical phase in its history.

John M. Ryan has been Executive Vice President and Chief Legal Officer of Level 3 since June 2011. Mr. Ryan also became our Secretary in June 2014, having served as our Assistant Secretary 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.

John T. Blount has served as our Regional President, North America and APAC since October 31, 2014. Prior to that, he served as President of tw telecom from January 2014 and Chief Operating Officer of tw telecom from 2005 to October 31, 2014. Prior to that, Mr. Blount served as Executive Vice President, Field Operations of tw telecom from 2000 to 2005. Prior to that position, Mr. Blount served as Senior Vice President, Sales of tw telecom from 1998 to 2000.

Andrew E. Crouch has been the Regional President, EMEA and Global Accounts Management Division since October 31, 2014 and prior to that served as Regional President North America from October 2012 to October 31, 2014. Mr. Crouch has responsibility for the overall business results of the region including sales, marketing and operations. Prior to his position as Regional President North America, 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 Level 3's Sales organization. From January 2004 to August 2005, Mr. Crouch led Level 3's Enterprise Voice product team and from November 2001 to January 2004, held senior positions within the Sales organization.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Committee Report

The Compensation Committee of the Board, or the Committee, 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, 2014 and Level 3's Proxy Statement with respect to the 2015 Annual Meeting of Stockholders.

Compensation Committee

Michael J. Mahoney (Chairman)
Spencer B. Hays
Peter Seah Lim Huat
Peter van Oppen

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I. Executive Summary

Level 3 is a premiere provider of global communication services, creating solutions that strengthen the growth, efficiency and security of businesses around the world. Our vision is to be the trusted connection to the networked world. To fulfill that vision, we need to attract, motivate and inspire exceptional leaders to join Level 3 and grow with us. Our executive compensation program is designed to reward outstanding leadership in our complex and global organization and the Committee is committed to a program that aligns executive pay with both the performance of the company and the interests of Level 3's stockholders.

In this Compensation Discussion and Analysis, we refer to the individuals shown below, and who are shown in the Summary Compensation Table, as our "Named Executive Officers."

- Jeff K. Storey President and Chief Executive Officer
- Sunit S. Patel Executive Vice President and Chief Financial Officer
- Andrew E. Crouch Regional President—EMEA and Global Account Management Division
- Laurinda Y. Pang Executive Vice President and Chief Administrative Officer
- John F. Waters, Jr. Chief Technology Officer

Our Committee makes all decisions for the compensation of our Named Executive Officers, other than for Mr. Storey. 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, for their approval, a recommendation for his compensation levels consistent with our compensation philosophy.

Our executive compensation program appropriately balances compensation elements, including:

- competitive base 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 linked 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 to create long-term value for our stockholders while supporting our recruiting and retention needs.

In an effort to stay aligned with the interests of our stockholders, management regularly meets with stockholders and collects information regarding their thoughts and concerns, including those relating to any compensation programs. The Committee reviews this feedback and considers it when making changes to our executive compensation programs.

2014 Performance

2014 was a very successful year for Level 3. The 2014 compensation provided to our Named Executive Officers both motivated and rewarded them for delivering exceptional financial, operational and strategic results, as outlined below.

Stock Price Appreciation. In 2014, our year-end stock price increased from \$33.17 to \$49.38, an increase of 48.9%. This was on top of increases for 2013 and 2012 of 43.5% and 36.0%, respectively.

Financial Performance. For the year ended December 31, 2014, our stand-alone financial performance without including tw telecom inc.'s financial performance can be summarized as follows.

- Our 2014 Core Network Services revenue increased 6.1% over 2013 on a constant currency basis.
- Our 2014 Enterprise Core Network Services revenue increased 10% over 2013 on a constant currency basis.
- Our full-year 2014 Adjusted EBITDA increased 19% over full-year 2013, excluding acquisition related expenses.
- Our full-year 2014 Sustainable Free Cash Flow was \$325 million, an increase of \$372 million over full-year 2013.

Merger and Acquisition Activity. During 2014, we announced and closed the acquisition of tw telecom inc., which deepened our position in the United States market by adding approximately:

- 20,000 on-net buildings to our network;
- 24,000 metropolitan route miles in the United States;
- more than 20,000 customers, the majority of which are in the enterprise market; and
- \$1.6 billion of total revenue on an annualized basis.

This acquisition substantially improved our ability to deliver competitive, high quality communications services to customers in the United States.

Capital Markets Activities. During 2014, our activities in the capital markets resulted in the following capitalization changes.

- We reduced our year-end 2014 ratio of net debt (defined as total debt less cash and marketable securities) to Adjusted EBITDA to 4.4x (on a pro forma basis for the tw telecom acquisition and excluding acquisition-related expenses) from 4.8x (on a Level 3 stand-alone basis) at year end 2013 and our weighted average cost of debt excluding capitalized leases decreased to 5.9% from 6.8%.
- Pro Forma for the tw telecom acquisition, our debt maturity profile continued to improve as \$3.6 billion in new and refinancing debt was raised during 2014.
- Given our decreased weighted average cost of debt, we expect that our cash interest expense for 2015 will be approximately the same as it was in 2013 at \$640 million despite our total debt outstanding being approximately \$3 billion higher in 2015 than 2013 as a result of the debt related to the tw telecom acquisition and the assumption at the closing of the acquisition of \$152 million in capital leases.

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. These financial figures measure our results on a stand-alone basis, excluding the costs, revenue and synergies associated with our acquisition of tw telecom inc. on October 31, 2014.

2014 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 2014 Annual Meeting of Stockholders, approximately 98% of the votes cast on the say-on-pay proposal relating to 2013 compensation were voted in favor of the proposal.

To foster stockholder engagement on compensation related questions, 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.

During 2013 and 2014, the Committee implemented several changes to our compensation programs in response to 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 the following.

- 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 is approved by all of the independent members of the Board based on a recommendation from the Committee.
- Beginning in 2014, our LTI awards include a "double trigger" that needs to be satisfied before payout related to a change of control.
- We no longer grant employees outperform stock appreciation rights, or OSOs.
- We award performance-based restricted stock units, or PRSUs, to our senior executives rather than awarding OSOs. PRSUs have a two-year performance measurement period with specific performance criteria determined by the Committee for each annual award cycle. PRSUs, which are earned and eligible to vest based on the satisfaction of performance conditions, vest 50% on the second anniversary of the grant date and the remaining 50% vest on February 1st of the following year, as a retention component.
- Beginning in 2014, we pay our bonuses in cash. Over the last several years, we have paid our bonuses with a combination of cash and stock. We are now generating enough free cash flow that we are able to pay bonuses all in cash.

With regard to 2014 compensation decisions, the Committee continued to follow our compensation best practices that are described in more detail below. The Committee felt supported in this course of action by our stockholders' overwhelming approval of the say-on-pay proposal at the 2014 Annual Meeting. The Committee will continue to take stockholder feedback regarding compensation, from both management's meetings with stockholders as well as through the say-on-pay vote results, into consideration for future compensation decisions.

II. Compensation Best Practices

Our executive compensation program incorporates and is administered according to what we believe are the following best practices.

- The Compensation Committee approves the philosophy, framework, design, policies and practices of all executive compensation programs, as well as the specific compensation for the Named Executive Officers, except for our President and Chief Executive Officer. The Committee is comprised of experienced and independent Board members.
- Our President and Chief Executive Officer's compensation requires approval by the independent members of the Board based on a recommendation from the Committee.
- The Committee uses an independent compensation consultant for advice and information regarding compensation practices of our Peer Group as well as industry survey data. The consultant provides other consulting services to the company, however all of these services relate to LatAm and EMEA-based programs that do not affect any of the Named Executive Officers.

- Equity awards granted under the long-term incentive program, or LTI, have a “double trigger” accelerated vesting provision in the event of a change in control.
- Our long-term incentive plan prohibits the repricing of stock options without stockholder approval.
- Only two perquisites are provided to our Named Executive Officers, personal use of the corporate aircraft and reimbursement for an Executive Physical. Other than this Executive Physical, there are no special health and welfare benefits for our Named Executive Officers. For more information regarding perquisites, please see “IV. 2014 Executive Compensation Components—E. Perquisites” below.
- Our President and Chief Executive Officer and all of the executives reporting to him have stock ownership guidelines that are at or above the guidelines established by most of the companies in our Peer Group.
- None of our Named Executive Officers has an employment contract.
- Our executive compensation programs do not provide any tax gross-ups in the event of a change in control (other than with respect to certain equity awards granted prior to April 1, 2012).
- In the event of an executive’s misconduct resulting in a significant restatement of our financial results, we maintain the right to recover 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.
- We prohibit our executives from pledging their shares of Level 3 common stock, trading options on Level 3 common stock and holding their shares of Level 3 common stock in a margin account.

III. Executive Compensation Framework and Risk Considerations

A. Executive Compensation Program Philosophy

Our success depends in large part on our ability to attract, retain and motivate qualified executives who possess the skills necessary to grow our business. The following core principals provide a framework for our executive compensation program.

- Our executives are rewarded fairly and competitively based on the results they achieve.
- We pay above market total compensation for results that exceed expectations.
- Our short and long-term incentives set expectations, measure results, reward achievement and hold executives accountable for expected results.
- We reward executives who achieve results, while adhering to our corporate values.
- Our bonus program is linked to company performance and the achievement of annual goals.
- Our LTI program is linked to company performance and the creation of long-term stockholder value.
- Stock ownership demonstrates an economic stake in our business that helps align executive’s interests with those of our stockholders.
- Our executive compensation program is based heavily on creating long-term value.

B. Assessment of Risk

In structuring our executive compensation programs, the Committee seeks to discourage executives from engaging in risky behavior, or seeking short-term results that are detrimental to long-term performance. Our executive compensation programs balance the use of short-term cash compensation (base salary and bonus) with long-term stock compensation that rewards the creation of long-term stockholder value.

Our short-term bonus program does not encourage unnecessary or excessive risk-taking, since the payment of a bonus to any individual, including the Named Executive Officers, is entirely at the discretion of our Committee. The bonus program's full discretion component allows the Committee to make adjustments, up or down, to the extent that it believes business decisions were made that could have a positive or negative effect on the short- or long-term business results.

Our LTI program does not motivate participants to take unnecessary or excessive risks, since the LTI awards are made on a regular fixed schedule and the LTI vesting schedules 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.

- RSUs have a four-year vesting schedule.
- PRSUs have a three-year vesting schedule.
- The outstanding OSOs that were awarded prior to the discontinuation of the program in 2013 have a three-year cliff vest.

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.

In addition, all employees, including our Named Executive Officers, are subject to our Worldwide Business Code of Conduct and our policies, including penalties for violations.

Taken as a whole, we have concluded that our compensation structure, elements and incentives for 2014 appropriately balance incentives for risk taking and preservation of long-term stockholder value and are therefore not reasonably likely to have a future material adverse effect on Level 3.

C. Setting Executive Compensation

Compensation decisions for our Named Executive Officers generally take place on an annual basis in February. The Committee determines the following with respect to our Named Executive Officers, other than our President and Chief Executive Officer. The Committee makes a recommendation to the independent members of the full Board for their approval of the following with respect to our President and Chief Executive Officer:

- the bonuses for the prior year, if any;
- the base salaries for the current year;
- the LTI award levels for the current year; and
- the goals and objectives for the bonus program for the current year.

Our President and Chief Executive Officer provides recommendations for each Named Executive Officer's base salary, bonus and LTI awards. He does not provide an assessment of the individual's performance using quantifiable individualized targets nor performance measures. He develops his recommendations based on his subjective view of:

- the company's performance with respect to established goals;

- the individual's contribution to the company's performance, informed by the individual's performance relative to his or her individual objectives; and
- competitive market data, including surveys and Peer Group data.

In making its determinations on compensation for a Named Executive Officer, the Committee considers, among other factors:

- the executive's experience, skills, job position and responsibilities;
- individual contribution to the company's success;
- expected future performance;
- retention concerns;
- internal pay equity;
- competitive market data, including surveys and Peer Group data; and
- our President and Chief Executive Officer's recommendations.

The determination of any bonus payout is at the full discretion of the Committee with respect to our Named Executive Officers, other than our President and Chief Executive Officer. The Committee makes a recommendation to the independent members of the full Board for their approval with respect to our President and Chief Executive Officer. In exercising this discretion, those decisions are based on the Committee's and Board's assessment of the individual performance of our Named Executive Officers and each one's contribution to the company meeting our overall corporate goals. Our Committee also considers our President and Chief Executive Officer's recommendations with respect to the other Named Executive Officers. Individual performance targets or performance measures are not set for our Named Executive Officers.

Similar to our approach for bonus payouts, we do not set individual performance targets or performance measures for our Named Executive Officers to receive LTI awards. The determination of these awards is made by the Committee in their discretion, which is informed by, among other things:

- equity dilution metrics;
- the competitive market, including surveys and Peer Group data; and
- our President and Chief Executive Officer's recommendations.

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 Committee can exercise its discretion to implement, reject or modify any recommendations provided by any member of management, including our President and Chief Executive Officer.

D. Role of Management and Consultants

The Committee retained Towers Watson & Co. as its compensation consultant for its 2014 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 an EMEA pension plan that we acquired. Towers Watson also provides competitive compensation data for our Latin America region. None of our Named Executive Officers, other executive officers or any of our Board members participate in the EMEA pension plan nor are included in the Latin American compensation analysis. In addition, the consulting teams at Towers Watson that provide these services for EMEA and Latin America do not consult with the team that provides services to the Committee.

For 2014, we paid Towers Watson approximately \$164,600 for services provided to the Committee and approximately \$203,000 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 2014, 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. The Committee 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 President and Chief Executive Officer with the same information and analysis that it provides to the Committee, which in part informs his recommendations. With respect to 2014 compensation determinations, Mr. Storey was also provided analyses by our Chief Administrative Officer and our Senior Vice President responsible for compensation and benefits in our Human Resources Department.

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 Towers Watson's 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 characteristics, such as lines of business, revenue, number of employees and geography, which 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 2014:

Automatic Data Processing, Inc.	Juniper Networks, Inc.
Cablevision Systems Corporation	Liberty Global Inc.
CenturyLink, Inc.	Motorola Solutions
Charter Communications Inc.	NCR Corp.
Computer Sciences Corporation	NetApp, Inc.
Dish Network Corp.	Telephone & Data Systems Inc.
Fiserv, Inc.	T-Mobile US, Inc.
Frontier Communications Corp.	United States Cellular Corp.
Harris Corp.	Windstream Corporation

We note that in 2014, the Committee removed NII Holdings from the Peer Group because its revenue and market cap have dropped substantially and replaced it with Motorola Solutions.

To assess how closely we align to the Peer Group companies, Towers Watson compared several metrics and determined our relative position to the members of the Peer Group. For our Peer Group companies they used available data for the most recent fiscal year. For Level 3, they used pro forma data, taking into account the completion of the tw telecom acquisition. Our percentile ranking for total revenue, market capitalization, enterprise value and EBITDA, all as analyzed and determined by Towers Watson, as being between the 60th and 70th percentile. The percentile ranking shows the percentage of Peer Group companies that are the same or lower than us with respect to the particular metric.

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.

IV. 2014 Executive Compensation Components

For the year ended December 31, 2014, the principal components of Named Executive Officer compensation were:

- base salary;
- discretionary cash bonus; and
- long-term equity incentive compensation.

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. Our LTI program—focuses on retaining, motivating and challenging the executive to achieve superior long-term, sustained results and increase stockholder value.

A. Base Salary

Base salary levels for our Named Executive Officers are typically reviewed annually as part of our performance review process, as well as upon a promotion or other change in job responsibility. In addition certain of the Named Executive Officers' base salaries were adjusted in connection with the company's acquisition of tw telecom, inc. Base salary adjustments made during 2014 are discussed below under "V. Determination of Total Compensation for 2014—A. Base Salary."

B. Bonus

Our Corporate Discretionary 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.

In August of each year, the Committee reviews the goals for the Corporate Discretionary 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 2014 to the goals or weightings discussed in "*V. Metrics for Performance Based Compensation*" below or to their relative weightings, the Committee did also take into consideration other strategic and subjective factors in determining the final payouts under the 2014 Corporate Discretionary Bonus Program, as described in that section below.

The Committee assesses these goals and objectives after completion of the year and determines the percentage at which to fund the bonus pool for the full employee base. As discussed in "*V. Metrics for Performance Based Compensation*" below, 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, the Committee may elect to pay a bonus above the range of targeted payouts. Performance goals are 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.

C. Stock Based Awards

A critical component of our executive compensation philosophy is providing appropriate incentives to executives through our LTI program. For 2014, our LTI program provided for two types of equity awards. The first is performance-based restricted stock units—or PRSUs—that have both a performance element and a time vesting element. PRSUs are earned if a specified performance metric is achieved. If the required level of performance is achieved, the PRSUs vest over a period of three years, depending on the participant's continued employment. The second type of equity award is time-based 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 serve several purposes, including:

- encouraging key employees to focus on sustainable long-term performance,
- strengthening the relationship between compensation and stock price performance,
- aligning management's financial interests with those of the stockholders, and
- helping attract and retain talented people.

LTI award determinations are made annually. For existing employees, PRSUs are awarded on April 1 and RSUs are awarded on July 1. The 2014 award level for each Named Executive Officer 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, or SVT, methodology informs the determination of the number of shares for:

- annual LTI awards;
- new hire, retention, special incentive and promotion LTI awards; and
- any off-cycle LTI awards approved by the Committee 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 value depending upon the company stock price on the date of grant. The SVT methodology analyzes, as of the date of its calculation, the aggregate fair value 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 2014, the Committee approved an SVT percent of 1% of our market capitalization for the 2014 annual LTI program award pool. For the Peer Group, the 50th percentile SVT percent was 0.74% and the 75th percentile was 1.22%. The approved SVT percent resulted in a run rate of approximately 1.10% for LTI awards. For 2014, the stock awards attributable to the LTI program resulted in an SVT percent of 1.03%. In 2014, we also issued stock rather than using cash to pay a portion of our bonuses. We are now generating enough free cash flow that we are able to pay bonuses all in cash. We also issued stock related to an incentive earned under the 2012 Management Incentive and Retention Program, or MIRP. When stock awarded for the bonus program and the MIRP is included, the SVT percent was 1.77%. The MIRP no longer exists and we no longer pay bonuses in shares of our common stock.

RSUs. An RSU represents our agreement to issue to the employee shares of our common stock (or, in the Committee's discretion, cash) on the date that the restrictions lapse, so long as the employee is employed on that date. RSUs are generally granted on July 1 of each year. RSU grants for new hires, retention and promotions are made on the first day of the quarter following the event. The restrictions on RSUs generally lapse in equal annual installments over four years, subject to the terms of the specific grant. Upon retirement, the restrictions on a prorated percentage of all outstanding RSUs held by that person lapse. When restrictions lapse on an RSU, the employee is issued the number of shares of common stock equal to the number of RSUs for which the restrictions have lapsed.

PRsUs. A PRSU represents our agreement to issue to the employee shares of our common stock (or, in the Committee's discretion, cash) on the date that the restrictions lapse, so long as specific performance objectives are achieved. PRsUs are generally granted on April 1 of each year. The performance period for PRsUs issued in 2014 ends on December 31, 2015, and the performance objective is based on 2015 Adjusted EBITDA.

The Committee established threshold, target and maximum performance levels for 2015 Adjusted EBITDA. The 2015 Adjusted EBITDA determines the number of 2014 PRsUs earned, as shown below.

- If the threshold level of Adjusted EBITDA is not met, the 2014 PRsUs are cancelled.
- If the threshold level of Adjusted EBITDA is achieved, 50% of the 2014 PRsUs are earned.
- If target Adjusted EBITDA is achieved, 100% of the PRsUs are earned.
- If maximum Adjusted EBITDA is achieved, 200% of the 2014 PRsUs are earned.
- For performance between threshold and target and between target and maximum, the number of 2014 PRsUs earned is interpolated.

If any of the 2014 PRsUs are earned, the restrictions lapse 50% on April 1, 2016, with the remaining 50% lapsing on February 1, 2017, subject in each case to continuous employment by the recipient. Upon retirement, a prorated percentage of all outstanding PRsUs become vested, and the number of shares issued is determined at the end of the performance period. If retirement occurs after the performance period has ended, the shares earned are issued immediately. If retirement occurs during the performance period, the shares are issued after the performance period ends and the Committee has determined the performance level.

Change of Control. A "double trigger" is applied to all LTI awards made beginning April 1, 2014, including all PRsUs. A double trigger provision requires that in addition to a change of control, the employee must also have his or her position terminated or materially changed in order for the vesting of the awards to accelerate.

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.

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 determine that such event or transaction does not constitute a Change in Control, provided that the Committee reasonably concludes that such event or transaction:

- 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
- 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.

Modifications. From time to time, management and our Committee evaluate all elements of our LTI programs to determine whether these programs are accomplishing our goals in the most cost-effective manner. The Committee also considers the feedback management has received from our stockholders regarding our LTI programs. The Committee 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. For information regarding the adoption of the Level 3 Communications, Inc. Incentive Stock Plan and the proposal for the stockholders to approve that plan at the Annual Meeting, please see “STOCK INCENTIVE PLAN PROPOSAL.”

D. Benefits

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

E. Perquisites

We limit the perquisites that we make available to our Named Executive Officers. With only two exceptions as described below, 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 Named Executive Officers the opportunity for personal use of our corporate aircraft. We provide this perquisite because we believe that it generally affords us increased security and allows our executives to work more efficiently and productively when traveling for personal reasons. For Named Executive Officers other than Mr. Storey, any personal use of our corporate aircraft is pursuant to an Aircraft Time-Share Agreement, under which the Named Executive Officer must reimburse us for our incremental cost of providing his or her personal use of the corporate aircraft. For Mr. Storey, we impute as income the cost of his personal use of our aircraft. To

calculate the amount of imputed income, we use the Internal Revenue Service's Standard Industry Fare Level, or SIFL, rates. For all Named Executive Officers, when a guest accompanies the executive on business travel and when required by applicable Internal Revenue Service regulations, we impute as income to that executive the cost of that additional traveler.

We also provide up to \$2,500 for an annual Executive Physical for our Named Executive Officers and other senior members of management who are over 50. For those who are under age 50, they are eligible for this benefit every five years. We provide this perquisite because we believe it is in the company's best interest for our Named Executive Officers to remain healthy.

F. Post-Employment Compensation

Pension Benefits. We do not provide pension arrangements for our Named Executive Officers. Our 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 2014, we matched up to 100% of participants' contributions up to 4% of eligible earnings, or regulatory limits if lower. Neither the Named Executive Officers nor our other employees are able to purchase units in the Level 3 Stock Fund. All of the 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 or her 401(k) plan account.

Retirement Benefits. None of our Named Executive Officers is currently eligible for retirement. Upon a Named Executive Officer's retirement in accordance with our retirement program, restrictions on outstanding LTI become vested as follows.

- The restrictions on all RSUs issued prior to January 1, 2014 lapse.
- OSOs are retained by the individual until those OSOs settle on the third anniversary of their grant.
- A prorated percentage of RSUs issued after January 1, 2014 become vested.
- A prorated percentage of all outstanding PRSUs become vested, and the number of shares issued is determined at the end of the performance period.

In addition, under our Corporate Discretionary Bonus Program, Named Executive Officers who are U.S. residents and retire from the company are eligible for a prorated bonus based on the number of days worked during the year. The bonus payment is calculated by multiplying the Named Executive Officer's individual bonus target first by the Corporate bonus pool funding percentage determined by the Committee and second by an assumed 100% performance rating for the individual.

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

Other Post-Employment Payments. At December 31, 2014, all of our Named Executive Officers were employees-at-will and as such did not have employment contracts with us. However, each of our 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," each as defined in the plan. Participants in the KESP include senior members of management designated by the Committee.

A 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 or her most recent target annual bonus;
- a lump sum cash payment equal to two times the sum of his base salary and most recent target annual bonus for Messrs. Storey and Patel and one times the sum of his or her base salary and most recent target annual bonus for Mr. Crouch, Ms. Pang and Mr. Waters;
- 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 and Patel and twelve months for Mr. Crouch, Ms. Pang and Mr. Waters;
- reimbursement of up to \$10,000 for the cost of outplacement services; and
- vesting of a portion of his or her equity-based awards as described below.

If a Named Executive Officer is not retirement-eligible under our retirement benefit at the time of a qualifying termination, the accelerated vesting will apply to that portion of his or her equity awards that would have vested during the twelve-month period following termination. If a Named Executive Officer is retirement-eligible, the accelerated vesting will apply to all of his or her equity awards, which currently consist of RSUs, PRSUs and OSOs. None of our Named Executive Officers is retirement eligible.

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

Pursuant to the terms of the applicable award agreements, all equity awards granted before April 1, 2014, and currently held by the Named Executive Officer vest upon a change in control of the company regardless of whether a termination occurs. All equity awards granted on April 1, 2014 or after and currently held by the Named Executive Officer vest upon a change in control and a resulting termination of employment.

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

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 amended 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.

V. Metrics for Performance Based Compensation

A. Corporate Discretionary Bonus Program

Our Corporate Discretionary Bonus Program is designed to reward our executives for their performance compared to short-term financial and business goals. In February 2014, our Committee determined the 2014 financial and business goals for the Corporate Discretionary Bonus Program, of which all Named Executive Officers are participants. Bonuses for 2014 did not have a preset minimum or maximum payout.

The 2014 Corporate Discretionary Bonus Program goals were:

- Meet overall 2014 financial goals, with overweighting on achievement of cash flow target, budgeted revenue growth and Adjusted EBITDA growth.
 - Performance measured against 2014 Board approved budget targets and Core Network Services revenue exit run rate (that is, the monthly recurring Core Network Services revenue in December 2014). The Committee assigned a 70% weighting for this goal.
- Continue focus on improving the customer experience; maintain or improve 2013 scores.
 - Performance measured by customer satisfaction surveys. The Committee assigned a 15% weighting for this goal.
- Ensure the company attracts and retains the appropriate workforce.
 - Performance measured by voluntary turnover rates for our high performing employees and for our vice presidents and above. The Committee assigned a 15% weighting for this goal.

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.

B. Performance-Based Restricted Stock Units

Our performance-based restricted stock units, or PRSUs, are designed to reward our executives for their performance against long-term financial goals. All Named Executive Officers received PRSU awards in 2014. In February 2014, our Committee determined two-year Adjusted EBITDA growth was the metric for the 2014 PRSUs. Performance will be measured by comparing 2015 Adjusted EBITDA to 2013 Adjusted EBITDA. The Committee, however, has discretion to adjust the metric if events occur after the award date that are unrelated to our performance and result in a distortion of the metric. Events that could give rise to an adjustment include but are not limited to:

- restructurings, acquisitions, discontinued operations, extraordinary items or events, and other unusual or non-recurring charges;
- an event either not directly related to our operations or not within the reasonable control of management; and
- a change in tax law or accounting standards required by generally accepted accounting principles.

VI. Determination of Total Compensation for 2014

Given the Named Executive Officers' roles in leading Level 3 during 2014, the Committee considers the total compensation provided to the Named Executive Officers as set forth below for 2014 to be appropriate given the company's exceptional financial, operational and strategic achievements. The Committee has also concluded that the total compensation paid to the Named Executive Officers for 2014 is consistent with our compensation philosophy of paying for performance and rewarding the creation of stockholder value.

For detailed information on the development and operation of our compensation programs, please see "*IV. 2014 Executive Compensation Components*" earlier in this Compensation Discussion and Analysis.

A. Base Salary

In February 2014, the Committee reviewed the 2014 base salaries for our Named Executive Officers. Mr. Storey provided recommendations for consideration by the Committee. In March 2014, each Named Executive Officer received a salary increase based on market data, individual performance and the average merit increase for all other company employees. These salary increases ranged between 3.0% and 5.0%. Mr. Storey did not receive a salary increase at that time.

In May 2014, Ms. Pang was promoted to Executive Vice President and Chief Administrative Officer with the retirement of Thomas C. Stortz. Ms. Pang received an 11.65% salary increase to \$460,000 to reflect the increased scope and competitive market for her new role.

In October 2014, in connection with the company's acquisition of tw telecom inc., the Committee determined to increase the base salary for Mr. Patel, and to recommend to the full Board an increase in the base salary for Mr. Storey. In November 2014, the Board unanimously agreed with the Committee's recommendation regarding the proposed increase in Mr. Storey's base salary. As a result of these actions, Mr. Storey's annual base salary was increased by 26.0% to \$1,200,000, and Mr. Patel's annual base salary was increased by 7.7% to \$650,000, each of which was effective for the first full pay period following the closing of the tw telecom acquisition. The Committee (and the full Board, as it pertains to Mr. Storey) felt that these increases were necessary, primarily in order to remain competitive given the increased size and complexity of the company after closing of the transaction, and in order to ensure that these high-performing executives would receive compensation that was commensurate with their performance and contributions to the company's success.

Additionally, in connection with the closing of the company's acquisition of tw telecom inc, Mr. Crouch, who previously was Regional President—North America, was named as the Regional President, EMEA and Global Accounts Management Division. Mr. Crouch has been very successful leading our North America region and the Committee determined he had the right skills and experience to effect an improvement in EMEA's performance. With this appointment, Mr. Crouch received a 24.0% salary increase to \$588,000. The Committee determined this increase was appropriate due to the challenges related to leading our EMEA region and the higher cost-of-living in London, the site of our EMEA headquarters.

When compared against the available information from the Peer Group, the Committee observed that our Named Executive Officers' 2014 base salaries were generally at or below the 50th percentile of the Peer Group. With the changes made to Mr. Storey and Mr. Patel's base salary effective in November 2014, their base salaries are at the 75th 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.

In connection with the Committee's review of base salaries in 2015, Ms. Pang and Mr. Waters received merit based base salary adjustments effective March 28, 2015. The remaining Named Executive Officers did not receive a merit based salary adjustment for 2015, because their respective base salaries were adjusted at the time of the tw telecom acquisition closing.

B. Bonus

In February 2015, when determining the 2014 bonuses for the Named Executive Officers, the Committee considered the company's performance against the objectives described in section V. *Metrics for Performance Based Compensation* as well as each Named Executive Officer's individual contribution to the company's success in 2014. The company's performance against objectives is covered in the following items.

2014 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 2014, as adjusted during 2014 for payments of severance and accelerated interest payments that were not anticipated when the budget was initially set.

<u>Metric</u> <u>(\$ in Millions)</u>	<u>2014</u> <u>Budget</u>	<u>2014</u> <u>Actual</u> <u>Results</u>	<u>% to</u> <u>Budget</u>
Core Network Services Revenue	\$5,864	\$5,915	100.9%
Adjusted EBITDA	\$1,780	\$1,869	105.0%
Core Network Services Run Rate	\$ 498	\$ 513	103.0%
Sustainable Free Cash Flow	\$ 263	\$ 325	123.6%

All figures measure the company’s results on a stand-alone basis and on a constant currency basis to compare against budget, excluding the costs, revenue and synergies associated with the company’s acquisition of tw telecom inc. on October 31, 2014.

Customer experience. During the course of the year, our performance against this goal was measured by various customer satisfaction surveys. 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. Customer satisfaction scores increased in EMEA and in Latin America versus 2013 results. On a global basis, overall scores decreased slightly versus 2013 driven by lower scores in North America. Based on transactional surveys, the company’s North America operations showed improvements as they exited 2014. 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 retain the appropriate workforce, based in part on the review of a variety of voluntary turnover rate statistics, which showed our turnover rates were positive relative to the market and compared to the prior year. In addition, the Committee believed that the company’s ability to retain key executives following the announcement and closing of the tw transaction positioned the company for a successful integration following closing.

Other Factors. The Committee also considered the tw telecom acquisition which substantially improved our ability to deliver competitive, high quality communications services to customers in the United States.

The Committee also considered capital markets related activities completed during 2014. We raised a total of \$3.6 billion of new and refinancing debt. We expect to maintain the same level of cash interest expense in 2015 as it was in 2013, despite having increased the total amount of our outstanding debt by \$3 billion since 2013 related to the tw telecom acquisition and the assumption of \$152 million in capital leases held by tw telecom.

For the year ended December 31, 2014, the Committee and the full Board of Directors were pleased 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;
- the tw telecom acquisition; and
- 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 and each Named Executive Officer's individual contribution to this performance, the Committee approved the payment of cash 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	\$3,000,000
Sunit S. Patel	\$1,119,574
Andrew E. Crouch	\$ 903,563
Laurinda Y. Pang	\$ 609,591
John F. Waters, Jr.	\$ 566,140

C. Stock Based Awards

In February 2014, a total award pool for all eligible employees was determined for restricted stock units, or RSUs, and performance restricted stock units, or PRSUs, as well as each eligible employee's award level. These award levels were consistent with the Committee's practices and the philosophy described in "IV. 2014 Executive Compensation Components" earlier in this Compensation Discussion and Analysis.

Mr. Storey provided the Committee his recommendation for each Named Executive Officer's LTI award level. He based his recommendations on his subjective assessment of the relative value of the roles held by Mr. Patel, Mr. Crouch, Ms. Pang and Mr. Waters and his review of competitive information from surveys and our Peer Group. Mr. Storey did not make recommendations 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.

During calendar year 2014, as participants in our LTI program, each Named Executive Officer received the RSUs and PRSUs indicated in the table below. All PRSU awards were made on April 1, 2014 and are shown at target. All RSU awards were made on July 1, 2014.

<u>Name</u>	<u>RSUs</u>	<u>PRSUs</u>
Jeff K. Storey	80,000	80,000
Sunit S. Patel	40,000	40,000
Andrew E. Crouch	20,000	20,000
Laurinda Y. Pang	17,500	16,250
John F. Waters, Jr.	15,000	15,000

D. Benefits

Our Human Resources, Finance and Legal Departments handle the day-to-day design and administration of savings, health, welfare and paid-time-off plans and policies applicable to our employees, including our Named Executive Officers. 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.

E. Perquisites

The only perquisites we make available to our Named Executive Officers are the permitted personal use of our corporate aircraft and reimbursement of up to \$2,500 for expenses associated with an Executive Physical.

For Mr. 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 him 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 2014, Mr. Storey had \$34,235 of imputed income. These amounts differ from the amounts disclosed in the Summary Compensation Table below, which we have calculated as approximately \$196,553, for Mr. Storey. 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 him on business travel.

In 2014, Mr. Crouch used the aircraft for solely personal reasons and reimbursed the company for that personal use pursuant to his Time Sharing Agreement. The rates paid are higher than the SIFL rates, and therefore no income is imputed for that personal use.

In 2014, Mr. Crouch and Ms. Pang utilized the Executive Physical perquisite.

VII. 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 require our President and Chief Executive Officer and each senior executive reporting directly to our President and Chief Executive Officer to hold stock that has a value that is equal to or greater than a multiple of his or her base salary, as follows:

<u>Title</u>	<u>Base Salary Multiple</u>
President and Chief Executive Officer	8
Chief Financial Officer	4
Other Senior Executives Reporting to CEO	3

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 our senior executives to meet our stockownership guidelines. In addition, the Committee does not require private or open market purchases of our common stock to meet the ownership guidelines. Rather, the Committee has concluded that until the executive is in compliance with these guidelines, the executive should hold at least 50% of the stock issued upon any vesting of OSOs, RSUs or PRSUs, after shares are sold to cover taxes. The failure of an executive 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.

The members of our Board are subject to an ownership guideline requiring them to hold stock that has a value that is equal to or greater than seven times (7x) the current annual cash retainer for a Board member. For members of our Board, 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. Provided, however, that a Board member is permitted to sell stock to cover income tax liabilities associated with the vesting of a stock award even if the Board member does not then meet the guideline. To determine a Board member's compliance with the ownership guideline, all awarded but unvested 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 who 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 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.

VIII. Potential Effect on Compensation from Executive Misconduct—"Clawback"

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.

IX. 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 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 PRSUs and previously granted OSOs are 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.

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	2014	\$978,846	\$3,000,000	\$6,644,000	\$ —	\$ —	\$228,015	\$10,850,861
	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
Sunit S. Patel Executive Vice President and Chief Financial Officer	2014	\$601,346	\$1,119,574	\$3,322,000	\$ —	\$ —	\$ 26,071	\$ 5,068,991
	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
Andrew E. Crouch Regional President, EMEA and GAM	2014	\$483,262	\$ 903,563	\$1,661,000	\$ —	\$ —	\$ 26,964	\$ 3,074,789
	2013	\$460,000	\$ 727,824	\$ 584,775	\$ 574,941	\$ 450,483	\$ 10,200	\$ 2,808,223
	2012	\$417,696	\$ 575,350	\$1,479,800	\$ 461,013	\$ —	\$ 17,501	\$ 2,951,360
Laurinda Y. Pang Executive Vice President and Chief Administrative Officer	2014	\$436,462	\$ 609,591	\$1,410,413	\$ —	\$ —	\$ 24,922	\$ 2,481,388
	2013	\$370,800	\$ 323,183	\$ 577,729	\$ 402,459	\$ 404,172	\$ 10,200	\$ 2,088,543
	2012	\$361,385	\$ 301,485	\$1,627,735	\$ 398,115	\$ —	\$ 10,000	\$ 2,698,720
John F. Waters, Jr. Chief Technology Officer	2014	\$426,927	\$ 566,140	\$1,245,750	\$ —	\$ —	\$ 23,782	\$ 2,262,599
	2013	\$417,768	\$ 617,670	\$ 421,600	\$ 459,953	\$ 455,367	\$ 10,200	\$ 2,382,558
	2012	\$414,060	\$ 375,963	\$1,738,862	\$ 461,013	\$ —	\$ 10,000	\$ 2,999,898

(1) Amounts in this column for 2013 include cash payments made to Mr. Storey (\$487,500), Mr. Patel (\$431,250), Mr. Crouch (\$206,644), Ms. Pang (\$185,400) and Mr. Waters (\$208,884) for the retention portion of the 2012 Management Incentive and Retention Plan, or the MIRP, which has now terminated. Other amounts in this column for 2013 include amounts paid under our Corporate Discretionary Bonus Program. There were no payments under the MIRP in 2014. All amounts in this column for 2014 represent amounts earned under our Corporate Discretionary Bonus Program.

(2) For all of the years shown in this table, we award restricted stock units ("RSUs"). For 2012 and 2013 we also awarded outperform stock appreciation rights ("OSOs") and for 2014 we awarded performance restricted stock units ("PRSUs"). RSUs, OSOs and PRSUs are all 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 in accordance with FASB ASC Topic 718. For RSUs, fair value is calculated using the closing price of our common stock on the day before the grant. For OSOs, fair value is calculated using a formula based methodology. For PRSUs, the fair value is calculated assuming performance is ultimately achieved at the probable performance level (or, the target level). The PRSUs value, based on achievement of the highest level of performance conditions under the plan, are as follows (representing 200% of the target payouts): Mr. Storey \$6,262,400; Mr. Patel \$3,131,200; Mr. Crouch \$1,565,600; Ms. Pang \$1,283,976; and Mr. Waters \$1,174,200.

These columns represent the full grant date fair value of the RSUs, OSOs and PRSUs awarded to the Named Executive Officer in accordance with FASB ASC Topic 718, 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 2014, refer to note 13 of our financial statements in our Form 10-K for the year ended December 31, 2014, as filed with the SEC.

Amounts for 2012 in this column 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.

Ms. Pang's bonus in 2013 and 2012 was partially paid in the form of shares of our common stock. Amounts in this column for Ms. Pang include the value of the common stock issued to her for 2013 of \$208,829 and for 2012 of \$180,000. Mr. Water's bonus in 2012 was partially paid in the form of shares of our common stock. Amounts in this column for Mr. Waters include the value of the common stock issued to him for 2012 of \$259,062.

(3) Amounts in this column for 2013 include cash payments made to the Named Executive Officers for the incentive portion of the MIRP, which has now terminated.

(4) This column includes \$10,400 of company matching contributions to each Named Executive Officer's 401(k) plan account for 2014. These contributions were made in the form of units of the Level 3 Stock Fund.

For Mr. Storey, amounts in this column also include \$196,553 related to his personal use of our aircraft in 2014, pursuant to the arrangement described above under the caption "Compensation Discussion and Analysis—IV. 2014 Executive Compensation Components—E. Perquisites." The calculation of the amounts set forth in the table for personal use of our aircraft by Mr. Storey is based on our incremental cost relating to his 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 include a gross up for taxes incurred by the Named Executive Officers as a result of their participation as executive hosts for the 2014 award trip given to our top performing sales executives of \$17,192 for Mr. Storey, \$15,671 for Mr. Patel, \$16,564 for Mr. Crouch, \$14,522 for Ms. Pang and \$13,382 for Mr. Waters. In addition, Mr. Storey also received recreational benefits during that trip in the amount of \$3,870.

Grants of Plan Based Awards in 2014

This table provides information about equity awards granted to the Named Executive Officers in 2014.

Name	Grant Date	Estimated future payouts under equity incentive plan awards(1)			All Other Stock Awards: Number of Shares of Stock or Units(2)	Grant Date Fair Value of Stock and Option Awards(3)
		Threshold (#)	Target (#)	Maximum (#)		
Jeff K. Storey	4/1/2014	40,000	80,000	160,000		\$3,131,200
	7/1/2014				80,000	\$3,512,800
Sunit S. Patel	4/1/2014	20,000	40,000	80,000		\$1,565,600
	7/1/2014				40,000	\$1,756,400
Andrew E. Crouch	4/1/2014	10,000	20,000	40,000		\$ 782,800
	7/1/2014				20,000	\$ 878,200
Laurinda Y. Pang	3/10/2014				5,551	\$ 208,829
	4/1/2014	7,500	15,000	30,000		\$ 587,100
	7/1/2014				17,500	\$ 768,425
	7/1/2014	625	1,250	2,500		\$ 54,888
John F. Waters, Jr.	4/1/2014	7,500	15,000	30,000		\$ 587,100
	7/1/2014				15,000	\$ 658,650

- (1) Represents the number of shares of common stock subject to PRSUs granted in 2014 that vest at target achievement and maximum achievement of the performance conditions applicable to such awards. The maximum number of shares subject to PRSUs that may vest and settle is equal to 200% of target and the threshold number of shares subject to PRSUs that may vest and settle is equal to 50% of target. PRSUs have a two year performance measurement period with specific performance criteria determined by the Compensation Committee for each annual award cycle. PRSUs vest 50% on the second anniversary of grant (after the relevant performance has been measured and determined to have been met) and the remaining 50% vest on February 1st of the following year, as a retention component.
- (2) Represents the number of shares of common stock subject to RSUs granted in 2014. Each of these grants, other than Ms. Pang's March 10, 2014 grant, which vested immediately, will vest and settle in shares in four equal installments on the first, second, third and fourth anniversaries of the date of grant.
- (3) This column shows the full grant date fair value of RSUs and PRSUs awarded to the Named Executive Officers in 2014 without any reduction in the grant date fair value of the awards for the possibility of service based forfeiture. 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 \$43.91 for the July 1, 2014 grant. For PRSUs, the fair value is calculated assuming probable performance (or, target level) is achieved. The PRSUs value, assuming the achievement of the highest level of performance conditions under the plan, are as follows (representing 200% of the target payouts): Mr. Storey \$6,262,400; Mr. Patel \$3,131,200; Mr. Crouch \$1,565,600; Ms. Pang \$1,283,976; and Mr. Waters \$1,174,200.

For additional information relating to the assumptions made by us in valuing these awards for 2014, refer to note 13 of our financial statements in our Form 10-K for the year ended December 31, 2014, as filed with the SEC.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 Table

A critical component of our compensation philosophy is providing appropriate incentives to employees through our LTI program. For 2014, our LTI program provided for two types of equity awards. The first is performance based restricted stock units, or PRSUs, which have a two year performance measurement period with specific performance criteria determined by the Compensation Committee for each annual award cycle. 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.

A PRSU represents our agreement to issue to the employee shares of our common stock (or, in the Compensation Committee’s discretion, cash) on the date that the restrictions lapse, so long as specific performance objectives are achieved. PRSUs are generally granted on April 1 of each year. The performance period for PRSUs issued in 2014 ends on December 31, 2015, and the performance objective is based on a comparison of 2015 Adjusted EBITDA to 2013 Adjusted EBITDA.

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.

For additional information regarding the LTI program awards, please see *“Compensation Discussion and Analysis—IV. 2014 Executive Compensation Components—C. Stock Based Awards”* above.

Outstanding Equity Awards at 2014 Fiscal Year End

The following table provides information on the holdings of unvested OSOs, unvested RSUs and unvested PRSUs by the Named Executive Officers as of December 31, 2014. 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—IV. 2014 Executive Compensation Components—C. Stock Based Awards”* 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, 2014, indicating that our common stock price had not outperformed the S&P 500®

Index from the grant date of these OSOs through December 31, 2014. 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			
		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 (\$)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)(3)
Jeff K. Storey	1/1/2012	23,633	\$27.86	1/1/2015				
	4/1/2012	18,244	\$37.67	4/1/2015				
	7/1/2012	24,529	\$33.53	7/1/2015				
	10/1/2012	25,522	\$32.88	10/1/2015				
	1/1/2013	24,708	\$33.41	1/1/2016				
	4/1/2013	34,961	\$38.52	4/1/2016				
	7/1/2013	45,807	\$27.06	7/1/2016				
	10/1/2013	34,329	\$32.73	10/1/2016				
	7/1/2011				13,368	(a) \$ 660,112		
	7/1/2012				37,500	(c) \$1,851,750		
	7/1/2013				75,000	(e) \$3,703,500		
	7/1/2014				80,000	(f) \$3,950,400		
	4/1/2014						80,000	(g) \$3,950,400
	Sunit S. Patel	1/1/2012	13,785	\$27.86	1/1/2015			
4/1/2012		12,162	\$37.67	4/1/2015				
7/1/2012		16,353	\$33.53	7/1/2015				
10/1/2012		17,015	\$32.88	10/1/2015				
1/1/2013		16,472	\$33.41	1/1/2016				
4/1/2013		23,307	\$38.52	4/1/2016				
7/1/2013		22,904	\$27.06	7/1/2016				
10/1/2013		17,164	\$32.73	10/1/2016				
7/1/2011					7,798	(a) \$ 385,065		
7/1/2012					25,000	(c) \$1,234,500		
7/1/2013					37,500	(e) \$1,851,750		
7/1/2014					40,000	(f) \$1,975,200		
4/1/2014							40,000	(g) \$1,975,200
Andrew E. Crouch .		1/1/2012	6,629	\$27.86	1/1/2015			
	4/1/2012	4,865	\$37.67	4/1/2015				
	7/1/2012	6,541	\$33.53	7/1/2015				
	10/1/2012	6,806	\$32.88	10/1/2015				
	1/1/2013	8,236	\$33.41	1/1/2016				
	4/1/2013	11,654	\$38.52	4/1/2016				
	7/1/2013	11,452	\$27.06	7/1/2016				
	10/1/2013	8,582	\$32.73	10/1/2016				
	7/1/2011				3,750	(a) \$ 185,175		
	7/1/2012				10,000	(c) \$ 493,800		
	1/1/2013				1,875	(d) \$ 92,588		
	7/1/2013				18,750	(e) \$ 925,875		
	7/1/2014				20,000	(f) \$ 987,600		
	4/1/2014						20,000	(g) \$ 987,600

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 (\$)(3)
		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 (\$)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)(4)	
Laurinda Y. Pang	1/1/2012	5,303	\$27.86	1/1/2015				
	4/1/2012	4,257	\$37.67	4/1/2015				
	7/1/2012	5,724	\$33.53	7/1/2015				
	10/1/2012	5,955	\$32.88	10/1/2015				
	1/1/2013	5,765	\$33.41	1/1/2016				
	4/1/2013	8,157	\$38.52	4/1/2016				
	7/1/2013	8,016	\$27.06	7/1/2016				
	10/1/2013	6,008	\$32.73	10/1/2016				
	1/1/2012				4,500	(b) \$	222,210	
	7/1/2012				8,750	(c) \$	432,075	
	7/1/2013				13,125	(e) \$	648,113	
	7/1/2014				17,500	(f) \$	864,150	
	4/1/2014							15,000 (g) \$ 740,700
	7/1/2014							1,250 (g) \$ 61,725
John F. Waters, Jr.	1/1/2012	6,629	\$27.86	1/1/2015				
	4/1/2012	4,865	\$37.67	4/1/2015				
	7/1/2012	6,541	\$33.53	7/1/2015				
	10/1/2012	6,806	\$32.88	10/1/2015				
	1/1/2013	6,589	\$33.41	1/1/2016				
	4/1/2013	9,323	\$38.52	4/1/2016				
	7/1/2013	9,161	\$27.06	7/1/2016				
	10/1/2013	6,866	\$32.73	10/1/2016				
	7/1/2011				3,750	(a) \$	185,175	
	7/1/2012				10,000	(c) \$	493,800	
	7/1/2013				15,000	(e) \$	740,700	
	7/1/2014				15,000	(f) \$	740,700	
	4/1/2014							15,000 (g) \$ 740,700

- (1) The number of shares of our common stock indicated in this column is the result of determining the OSO value at December 31, 2014, 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 13 of our financial statements in our Form 10-K for the year ended December 31, 2014, 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, 2014.
- (3) The market value is based on the closing price of our common stock of \$49.38 on December 31, 2014, the final business day of calendar year 2014.
- (4) 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 PRSU award assuming target performance. For a detailed discussion of the terms and conditions of the PRSUs granted to the Named Executive Officers, including the vesting conditions, please see “Compensation Discussion and Analysis—IV. 2014 Executive Compensation Components—C. Stock Based Awards” above.

Vesting Information

OSOs. OSOs vest and fully settle on the third anniversary of the grant date. 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 and PRSUs. RSUs and PRSUs vest as follows.

- (a) vests on July 1, 2015
- (b) vests in equal installments on January 1, 2015 & 2016
- (c) vests in equal installments on July 1, 2015, and 2016
- (d) vests in equal installments on January 1, 2015, 2016 and 2017
- (e) vests in equal installments on July 1, 2015, 2016 and 2017
- (f) vests in equal installments on July 1, 2015, 2016, 2017 and 2018
- (g) vests in equal installments on April 1, 2016 and February 1, 2017

Options Exercised and Stock Vested in 2014

The following table provides information for the Named Executive Officers relating to (1) OSO settlements during 2014, 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	36,894	\$1,374,051	252,579	\$9,655,925
Sunit S. Patel	21,522	\$ 801,546	161,879	\$6,149,186
Andrew E. Crouch	10,351	\$ 385,510	51,722	\$2,009,896
Laurinda Y. Pang	4,266	\$ 145,282	44,376	\$1,671,673
John F. Waters, Jr.	10,351	\$ 385,510	50,237	\$1,948,913

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 2000 tw telecom inc. Employee Stock Plan. We assumed the 2000 tw telecom inc. Employee Stock Plan in connection with the acquisition of tw telecom. Awards outstanding under the 2000 tw telecom inc. Employee Stock Plan at the acquisition date were cancelled and converted into the right to receive merger consideration. In addition, in connection with our acquisition of Global Crossing, we assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan. 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. Since this plan's term has expired, no shares remain for future issuances under this plan, but shares do remain for awards outstanding as of the expiration of the term. 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 2000 tw telecom inc. Employee Stock Plan and

the 2003 Global Crossing Limited Stock Incentive Plan (in the “Equity compensation plans not approved by stockholders” category) as of December 31, 2014. The information presented here amends and restates in its entirety the information previously included in Item 5. of the Company’s Form 10-K for the year ended December 31, 2014 under the same caption.

<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	4,220,739(1)	\$22.33(2)	9,906,032
Equity compensation plans not approved by stockholders	783,748(3)	\$23.29(2)	8,290,270(4)

- (1) Includes, among other awards, awards of outperform stock appreciation units (“OSOs”), and performance restricted stock units (“PRSUs”). For purposes of this table, each OSO was considered to use a single share of our common stock and each PRSU was also assumed to use a single share of our common stock (which would be target performance) 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.
- (2) At December 31, 2014, the only type of award outstanding 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.
- (3) The 2003 Global Crossing Limited Stock Incentive Plan provided 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. Amounts shown indicate the number of awards outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at December 31, 2014. Includes 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 even though the actual payout multiplier may range from zero to four, as described below. The 2000 tw telecom Employee Stock Plan provides for the granting of (i) stock options, (ii) restricted stock, (iii) common stock, (iv) stock appreciation rights, (v) restricted stock units and (vi) performance awards to eligible participants. No awards were outstanding at December 31, 2014.
- (4) Represents only shares available under the 2000 tw telecom Employee Stock Plan. The Company does not currently intend to grant any future awards under this plan.

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 2014 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.

OSOs are no longer awarded. Instead, we 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 remaining 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, 2014, the Named Executive Officers did not have employment agreements with us. However, each or our Named Executive Officers participates in the Key Executive Severance Plan, or KESP, which provides for payments in certain circumstances upon termination. For a detailed discussion of the terms and conditions of the KESP, including the amounts payable in connection with certain terminations, please see “Compensation Discussion and Analysis—IV. 2014 Executive Compensation Components—F. Post-Employment Compensation” above.

The information below describes and quantifies certain compensation that would become payable under existing plans and arrangements if the Named Executive Officer’s employment had terminated on December 31, 2014, given the Named Executive Officer’s compensation and, if applicable, based on our closing stock price on that date.

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 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 granted prior to April 1, 2014 would lapse immediately and remaining restrictions on awards of RSUs and PRSUs granted on or after April 1, 2014, would lapse in full on death or disability and would lapse on a pro rata basis for retirement. For these purposes, “disability” generally means total disability, resulting in the grantee being unable to perform his or her job.

At December 31, 2014, none of the Named Executive Officers was eligible to retire pursuant to our retirement benefit opportunity.

The following table includes calculations relating to death and disability. OSO value is determined based upon the OSO mechanisms described above as of December 31, 2014. RSU value is determined based on the closing price of our common stock of \$49.38 on December 31, 2014 and PRSU value is determined based on an assumption of target performance for those PRSUs for which the level of performance has not yet been determined.

Death and Disability

Name	As of December 31, 2014				
	Cash	OSOs	RSUs	PRSUs	Total
Jeff K. Storey	\$—	\$11,442,989	\$10,165,762	\$3,950,400	\$25,559,151
Sunit S. Patel	\$—	\$ 6,871,837	\$ 5,446,515	\$1,975,200	\$14,293,552
Andrew E. Crouch	\$—	\$ 3,198,083	\$ 2,685,038	\$ 987,600	\$ 6,870,721
Laurinda Y. Pang	\$—	\$ 2,428,773	\$ 2,166,548	\$ 802,425	\$ 5,397,746
John F. Waters, Jr.	\$—	\$ 2,803,799	\$ 2,160,375	\$ 740,700	\$ 5,704,874

Involuntary Separation from Service. If one of the Named Executive Officers were to have his or her employment with the company involuntarily terminated other than for cause and not related to

a change of control, or if the Named Executive Officer were to terminate his or her employment with us for good reason as defined in the Key Executive Severance Plan, a portion of his or her OSOs that would have vested during the twelve month period following termination will remain outstanding until the applicable settlement date; the restrictions on awards of RSUs would lapse with respect to that portion of his or her equity awards that would have vested during the twelve month period following termination; and the restrictions on awards of PRSUs would lapse on a pro rata basis.

The following table includes calculations relating to involuntary separation from service as described above. OSO value is determined based upon the OSO mechanisms described above as of December 31, 2014. RSU value is determined based on the closing price of our common stock of \$49.38 on December 31, 2014 and PRSU value is determined based on an assumption of target performance for those PRSUs for which the level of performance has not yet been determined. The information below reflects the results required under the Key Executive Severance Plan. The amount in the Cash column includes the payment of health and welfare benefits ranging from \$12,947 to \$27,865 for each of the Named Executive Officers.

Name	As of December 31, 2014				
	Cash	OSOs	RSUs	PRSUs	Total
Jeff K. Storey	\$8,735,893	\$4,539,436	\$3,808,087	\$1,975,200	\$19,058,616
Sunit S. Patel	\$3,287,865	\$2,928,989	\$2,113,365	\$ 987,600	\$ 9,317,819
Andrew E. Crouch	\$1,792,789	\$1,226,660	\$1,018,463	\$ 493,800	\$ 4,531,712
Laurinda Y. Pang	\$1,172,947	\$1,048,776	\$ 759,218	\$ 401,213	\$ 3,382,154
John F. Waters, Jr.	\$1,314,836	\$1,226,660	\$ 864,150	\$ 370,350	\$ 3,775,996

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 granted prior to April 1, 2014 would lapse immediately and remaining restrictions on awards of RSUs and PRSUs granted on or after April 1, 2014, would lapse in full on a change of control if the Named Executive Officer's employment with us is also terminated without cause or good reason. In this case we will, in our sole discretion, either (a) issue all unissued shares of our common stock issuable pursuant to the RSU and PRSU awards 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 or her termination of employment by us without cause following that change in control in order for the remaining restrictions on his or her RSUs granted prior to April 1, 2014, 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 or her 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, 2014, as dictated by the terms of the OSO awards. In addition, we will provide gross ups for our Named Executive Officers 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. For purposes of the PRSUs, the value is determined based on an assumption of target performance for those PRSUs for which the level of performance has not yet been determined.

The following tables summarize the dollar value, as of December 31, 2014, 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, 2014 along with or without a termination of the Named Executive Officers having occurred on December 31, 2014. Amounts in the Cash column also include the cost of health and welfare benefits.

The following tables also reflect the results required under the Key Executive Severance Plan in the context of a change of control and a termination of employment that is effective December 31, 2014.

Change of Control Payments without Termination

Name	As of December 31, 2014				
	Cash	OSOs	RSUs	PRSUs	Total
Jeff K. Storey	\$568,922	\$11,805,248	\$6,215,362	\$—	\$18,589,532
Sunit S. Patel	\$294,429	\$ 7,092,010	\$3,471,315	\$—	\$10,857,754
Andrew E. Crouch	\$131,752	\$ 3,298,879	\$1,697,438	\$—	\$ 5,128,069
Laurinda Y. Pang	\$ —	\$ 2,506,432	\$1,302,398	\$—	\$ 3,808,830
John F. Waters, Jr.	\$ —	\$ 2,893,262	\$1,419,675	\$—	\$ 4,312,937

Change of Control Payments with Termination

Name	As of December 31, 2014				
	Cash	OSOs	RSUs	PRSUs	Total
Jeff K. Storey	\$9,367,854	\$11,805,248	\$10,165,762	\$3,950,400	\$35,289,264
Sunit S. Patel	\$3,628,342	\$ 7,092,010	\$ 5,446,515	\$1,975,200	\$18,142,067
Andrew E. Crouch	\$1,951,024	\$ 3,298,879	\$ 2,685,038	\$ 987,600	\$ 8,922,541
Laurinda Y. Pang	\$1,286,290	\$ 2,506,432	\$ 2,166,548	\$ 802,425	\$ 6,761,695
John F. Waters, Jr.	\$1,459,544	\$ 2,893,262	\$ 2,160,375	\$ 740,700	\$ 7,253,881

At December 31, 2014, our Current Named Executive Officers did have non compete agreements other than as described above in the Compensation Discussion and Analysis with respect to the Named Executive Officers participating in the Key Executive Severance Plan.

Director Compensation

During 2014, each of our directors (other than Mr. Ellis, whose compensation is described below) who was not employed by us during 2014 earned fees for his or her Board service consisting of a \$75,000 annual cash retainer. The director who serves as the chair of the Audit Committee earned an additional \$35,000 annual cash retainer and the director who serves as the chair of the Compensation Committee earned an additional \$30,000 annual cash retainer for serving as chair of those committees. Each chair 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 chair of that committee. Any member of the Board who was not employed by us during 2014 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 2014 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. James O. Ellis, Jr., our Chairman of the Board, is entitled to receive an annual cash retainer of \$135,000 for serving as our Chairman of the Board.

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 \$250,000 for Mr. Ellis) 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 is subject to an overall cap of 6,666 shares (or 11,111 shares for Mr. Ellis). These RSUs vest and settle in shares of our common stock on the following July 1st.

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 2014 the fees earned or paid in cash to our directors, the full grant date fair value of restricted stock unit awards made to our directors and other compensation received by our directors.

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Stock Awards(2)</u>	<u>All Other Compensation</u>	<u>Total</u>
James O. Ellis, Jr. (Chairman)(1)	\$139,925	\$239,222		\$379,147
Kevin P. Chilton	\$100,763	\$172,522		\$273,285
Archie R. Clemins	\$100,000	\$172,522		\$272,522
Steven T. Clontz	\$105,000	\$172,522		\$277,522
Irene M. Esteves(3)	\$ 16,500	\$ —		\$ 16,500
T. Michael Glenn	\$ 90,000	\$172,522		\$262,522
Spencer B. Hays(3)	\$ 14,850	\$ —		\$ 14,850
Michael J. Mahoney	\$105,000	\$172,522		\$277,522
Kevin W. Mooney(3)	\$ 14,850	\$ —		\$ 14,850
Peter Seah Liam Huat	\$ 90,000	\$172,522		\$262,522
Peter van Oppen	\$116,667	\$172,522		\$289,189
Former Director				
Walter Scott, Jr.	\$125,000	\$ —	\$66,760(4)	\$191,760
Richard R. Jaros	\$100,000	\$172,522		\$272,522
John T. Reed	\$ 60,000	\$ —		\$ 60,000
Charles C. Miller, III	\$ 42,500	\$ —		\$ 42,500
Albert C. Yates	\$ 95,000	\$172,522		\$267,522

(1) Mr. Ellis became the Chairman of the Board on May 22, 2014. His compensation represents a combination of his compensation as a Board member for 2014 and a prorated portion of his annual compensation as Chairman of the Board.

(2) This column represents the full grant date fair value of the restricted stock units issued to our non-employee directors during 2014 based on our common stock price of \$43.91 on June 30, 2014. For additional information relating to the assumptions made by us in valuing these awards for 2014, refer to note 13 of our financial statements in our annual report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

The following indicates the restricted stock units held by our non-employee directors at December 31, 2014:

<u>Name</u>	<u>Number of Shares</u>
James O. Ellis, Jr. (Chairman)(1)	5,448
Kevin P. Chilton	9,933
Archie R. Clemins	3,929
Steven T. Clontz	9,933
Irene M. Esteves(3)	—
T. Michael Glenn	10,554
Spencer B. Hays(3)	—
Michael J. Mahoney	3,929
Kevin W. Mooney(3)	—
Peter Seah Liam Huat	3,929
Peter van Oppen	11,471

- (3) Ms. Esteves, Mr. Hays and Mr. Mooney became members of the Board effective October 31, 2014 as part of the closing of the tw telecom inc. acquisition.
- (4) We provided secretarial services to Mr. Scott. The amount indicated represents our incremental costs for the provision of those secretarial services.

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 2014.

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 2014, 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 2014—Perquisites" above.

Southeastern Asset Management. In connection with the execution of the Agreement and Plan of Merger, dated as of June 15, 2014 Level 3, Saturn Merger Sub 1, LLC, a Delaware limited liability company and our direct wholly owned subsidiary, Saturn Merger Sub 2, LLC, a Delaware limited liability company and our direct wholly owned subsidiary and tw telecom inc., a Delaware corporation (the "Merger Agreement"), we and Southeastern Asset Management, Inc., a Tennessee corporation ("Southeastern"), entered into an amendment (the "Standstill Amendment") to that certain Standstill Agreement, between Level 3 and Southeastern, as amended by Amendment No. 1 dated as of March 15, 2012 (such standstill agreement, as amended by Amendment No. 1 thereto, the "Standstill Agreement").

The Standstill Agreement provided for, among other things, limitations until February 18, 2015 (the "Standstill Period"), on Southeastern's ability to (i) acquire additional shares of our common stock, (ii) enter arrangements, understandings or agreements that would cause a "change of control" (as defined in our indentures, supplemental indentures or credit agreements, as the case may be, relating to any indebtedness for borrowed money) or an "ownership change" (within the meaning in the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (the "Code")) for Level 3, (iii) form, join or participate in a group (as defined by the SEC's rules) in connection with the foregoing, and (iv) transfer shares of our common stock in certain negotiated transactions. Southeastern beneficially owned shares of common stock of tw telecom, which converted into 0.7 shares of our common stock and the right to receive \$10 in cash in connection with the transactions contemplated by the Merger Agreement. Effective upon the earlier of the consummation of the Merger contemplated by the Merger Agreement and the last day of the Standstill Period, the Standstill Amendment increased the maximum number of shares of our common stock that Southeastern was permitted to beneficially own during the term of the Standstill Agreement to up to 66,780,000 shares from 49,840,000 shares.

Southeastern also agreed that during the period beginning on the earlier of (i) completion of the mergers contemplated by the Merger Agreement and (ii) the expiration of the Standstill Period and ending on the third anniversary of the completion of the mergers contemplated by the Merger Agreement: (a) the Schedule 13Gs that Southeastern may file in the future with respect to our common stock will reflect that Southeastern or any fund or account which Southeastern manages or advises are not a "group" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended; and (b) Southeastern shall in no event make any acquisition of our common stock for its own account or on behalf of any fund or account which Southeastern manages or advises if it or such fund or account is on the date of that purchase or would become, as a result of such purchase, a "5-percent shareholder" of Level 3 within the meaning of Section 382 of the Code.

STOCK INCENTIVE PLAN PROPOSAL

Overview

We are seeking stockholder approval of the Level 3 Communications, Inc. Stock Incentive Plan (the “2015 Plan”), which, if approved by our stockholders, will enable us to make future stock- and cash-based awards in furtherance of our broader compensation strategy and philosophy, as discussed below.

We are requesting stockholder approval for the 2015 Plan in order to comply with the stockholder approval requirements for:

- the listing of our shares on the New York Stock Exchange; and
- Sections 162(m) of the Code to allow the Compensation Committee the ability to grant stock- and cash-based awards intended to qualify as performance based compensation.

Background for this Proposal

On March 20, 2015, the Board adopted the 2015 Plan, subject to approval by our stockholders. If approved by our stockholders at the 2015 Annual Meeting of Stockholders, the 2015 Plan will become effective upon such approval and will replace our existing Level 3 Communications, Inc. Stock Plan, as amended (the “Prior Plan”). If our stockholders approve the 2015 Plan, no additional awards will be made under the Prior Plan from and after the date of such approval but the terms and conditions of any outstanding awards granted under the Prior Plan will not be affected. In addition, if our stockholders approve the 2015 Plan, no awards will be made under the 2000 tw telecom Employee Stock Plan after the date of such approval, which we acquired as part of the tw telecom acquisition (the “tw telecom Plan”). If the 2015 Plan is not approved by stockholders, the 2015 Plan will be null and void, but the Prior Plan and the tw telecom Plan will remain in full force and effect in accordance with their respective terms and conditions until May 20, 2020 and June 4, 2019, respectively. No awards will be granted pursuant to the 2015 Plan until our stockholders approve it.

Under the 2015 Plan, we will be authorized to issue up to 14,000,000 new shares plus:

- 3,587,742 shares reserved under the Prior Plan, which have not been awarded to any participants as of the effective date of the 2015 Plan; plus
- any shares canceled, forfeited, settled in cash, or otherwise terminated without a delivery of the full number of shares to which the award related pursuant to the Prior Plan. As of March 1, 2015, there were awards covering 6,074,632 shares outstanding under the Prior Plan.

To calculate the number of shares that will be carried over from the Prior Plan referenced above we used the following assumptions:

- one (1) share of our common stock is treated as outstanding for each outstanding restricted stock unit, or RSU and two (2) shares of our common stock is treated as outstanding for each outstanding performance restricted stock unit, or PRSU, which for the PRSUs assumes a maximum level of performance; and
- the number of shares that would be issuable upon settlement of outstanding outperform stock appreciation rights, or OSOs is determined using the value of the OSOs as of March 1, 2015. For additional information on how share amounts for OSOs are calculated, please see “Equity Compensation Plan Information,” above.

The 14,000,000 shares the Board has reserved for issuance under the 2015 Plan (which does not include shares already reserved and available for grant under the Prior Plan that will be carried over), represent approximately 4.0% of our outstanding common stock and 3.7% of our fully diluted common stock as of the record date, March 31, 2015, assuming the 14,000,000 shares for the Plan and the 9,662,374 shares from the Prior Plan are included as outstanding for fully diluted.

In addition, if the 2015 Stock Plan is approved by our stockholders, approximately 8.3 million shares previously reserved under the tw telecom Plan will no longer be reserved, and will not be carried over to the 2015 Plan.

The Board strongly believes that the approval of the 2015 Plan is essential to our continued success. In adopting the 2015 Plan, the Board considered various factors relating to our compensation strategy and philosophy. The Board strongly believes in its historical philosophy of linking a significant portion of compensation to the interests of our stockholders and our future performance. The Board continues to believe that equity compensation supports our goals of:

- encouraging key employees to focus on sustainable long-term performance;
- strengthening the relationship between compensation and stock price performance;
- aligning management's financial interests with those of our stockholders; and
- helping to attract and retain talented people.

In adopting the 2015 Plan, the Board considered, among other things, the following items:

- the need for shares available for issuance to support our long-term incentive program as a result of the significant growth we experienced in connection with our acquisition of tw telecom, inc. during 2014;
- our desire to have a single comprehensive long-term incentive plan, rather than continuing with two separate plans—the Prior Plan and the tw telecom Plan;
- the impending exhaustion of the shares reserved for awards under the Prior Plan as a result of which we would not be able to issue additional awards after the scheduled July 1, 2015 RSUs;
- the belief that the 2015 Plan will serve a critical role in attracting, retaining and motivating high caliber employees and non-employee directors essential to our success and in motivating these individuals to enhance our growth and profitability; and
- the belief that stock ownership by our management team and non-employee directors provides performance incentives and fosters long-term commitment which benefits us and our stockholders.

The 2015 Plan contains several key features that enhance our commitment to our stockholders' long-term interests and sound corporate governance, some of which are carried over from our Prior Plan:

- **No "Evergreen" Feature.** The 2015 Plan has a fixed number of shares available for grant that will not automatically increase because of an "evergreen" feature; stockholder approval is required to issue any additional shares, allowing our stockholders to have direct input on our equity compensation program.
- **No Repricing without Stockholder Approval.** The 2015 Plan expressly prohibits repricing of stock options without prior stockholder approval.

- **Limits on Share “Recycling.”** The 2015 Plan includes a prohibition against re-granting shares used to pay stock option exercise prices, stock appreciation right base prices or shares withheld to pay taxes on awards, in each case, under the 2015 Plan.
- **Limits on Single Trigger Vesting.** No award agreement will provide for vesting upon the occurrence of a change in control without a concurrent or subsequent termination of employment.
- **Limited Term.** The 2015 Plan sets a 10-year maximum term for stock options and if approved by stockholders will terminate on May 20, 2025.
- **No Transferability.** Awards granted under the 2015 Plan may not be transferred, except by will or the laws of descent and distribution, unless approved by the Compensation Committee.
- **No Liberal Change in Control Definition.** The 2015 Plan contains a definition of change in control whereby potential acceleration of awards will only occur in the event of an actual change in control transaction.
- **No Discounted Stock Options or SARs.** The 2015 Plan requires that stock option exercise prices and SAR base prices be at least the fair market value of our common stock on the date of grant.
- **Performance Awards.** Under the 2015 Plan, the Compensation Committee may grant performance-based awards intended to qualify as exempt performance-based compensation under Section 162(m) of the Code as well as other performance-based awards.
- **No Automatic Grants.** The 2015 Plan does not provide for automatic grants to any participant.
- **Independent Compensation Committee.** Our Compensation Committee, which will administer the 2015 Plan, consists entirely of independent directors.
- **Awards Subject to Forfeiture/Clawback.** Awards under the 2015 Plan will be subject to recoupment under certain circumstances.
- **No Tax Gross-Ups.** The 2015 Plan does not provide for any tax gross-ups and no award agreement will permit us to gross-up any tax obligations that may arise with respect to such award.

Burn Rate, Dilution, and Shares Outstanding

The Compensation Committee carefully monitors our annual burn rate and total dilution by granting only the appropriate number of stock incentive awards that it believes are necessary to attract, reward and retain employees, non-employee directors and service providers.

Burn rate, or run rate, measures the rate at which a company uses the supply of shares authorized for issuance under its share incentive plan. The table below provides Level 3’s burn rate over the last three fiscal years, calculated by dividing the number of shares subject to equity awards

granted during each fiscal year by the average number of shares outstanding (calculated using the number of shares of our common stock outstanding as of the first and last day of each fiscal year):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OSOs Granted(1)	0	555,325	1,017,153
RSUs Granted(2)	3,106,974	2,588,980	4,533,029
RSUs Granted Pursuant to MIRP . . .	408,650(3)	0	430,000(4)
Average Number of Shares of Common Stock Outstanding	287,807,141	226,384,067	212,996,749
Burn Rate	1.22%	1.39%	2.81%

- (1) OSOs valued based on one share of common stock per OSO granted.
- (2) Total excludes PRSUs which are subject to a two-year performance-period and which were granted during 2014, and will be earned subject to achievement of the relative performance criteria.
- (3) Represents RSUs granted as “incentive awards” under our MIRP. These incentive awards were subject to performance-based vesting and were earned in 2014.
- (4) Represents RSUs granted as “retention awards” under our MIRP. These retention awards were subject to time-based vesting and were granted during 2012.

Dilution measures the degree to which our stockholder’s ownership could be diluted by share-based compensation awarded under our share plans. The table below provides Level 3’s dilution as of March 1, 2015, calculated by dividing the number of shares subject to equity awards outstanding by the number of common shares outstanding.

	<u>March 1, 2015</u>
OSOs Outstanding(1)	817,530
RSUs (other than PRSUs) Outstanding(2)	2,717,629
Total Shares Outstanding excluding PRSUs	3,535,159
Number of Shares of Common Stock Outstanding	345,890,027
Dilution	1.02%

- (1) Represents one share of common stock subject to each OSO outstanding. Weighted average exercise price is \$23.11 and weighted average remaining term is 0.84 years.
- (2) Excludes 565,881 shares of common stock for PRSUs, which is calculated as one share of common stock subject to each PRSU outstanding.

Section 162(m) Considerations

We are requesting that our stockholders approve the business criteria under the 2015 Plan for purposes of Section 162(m) of the Internal Revenue Act of 1986 (the “Code”), so that certain awards granted under the 2015 Plan may qualify as performance-based compensation under Section 162(m) of the Code. Section 162(m) of the Code generally does not allow public companies to take a federal income tax deduction for compensation in excess of \$1 million paid to the chief executive officer or any of the three other highest-paid executive officers (other than the chief financial officer) employed at the end of that company’s fiscal year unless such compensation qualifies as “performance-based compensation.” In order for awards to qualify as “performance-based” compensation within the meaning of Section 162(m) of the Code, the business criteria that the Compensation Committee can designate for performance goals under the 2015 Plan must be re-approved by our stockholders every five years. The Compensation Committee currently intends to

submit the business criteria for stockholder re-approval no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved the business criteria for performance goals.

2015 Plan Summary

The following is a summary of the material features of the 2015 Plan, the complete text of which is attached to this proxy statement as Annex 3.

Purpose

The 2015 Plan is designed to aid in our ability to attract, retain, motivate and reward qualified individuals to become and remain our employees, officers, directors and consultants, and to promote the creation of long-term value for our stockholders by aligning the interests of these individuals with those of our stockholders. We, the Compensation Committee and Board, believe that talented employees create a competitive advantage and that recruiting, motivating, and retaining these talented employees requires that these individuals have a vested interest in the long-term success of our business. Accordingly, the Board has adopted the 2015 Plan as part of its broader compensation strategy, which has been and will continue to have a material portion of compensation in the form of long-term incentive opportunities.

Administration

The 2015 Plan will be administered by the Compensation Committee. The Compensation Committee will have the authority to, among other things, designate participants, grant awards, determine the number of shares of common stock to be covered by awards and determine the terms and conditions of any awards, and construe and interpret the 2015 Plan and related award agreements. The Compensation Committee is also permitted to delegate its authority under the 2015 Plan to our officers or employees. However, the Compensation Committee must expressly approve any award granted to any person who is:

- not our employee;
- subject to Section 16 of the Securities Exchange Act of 1934; or
- granted an award that is intended to qualify as performance-based compensation under Section 162(m) of the Code.

Shares Subject to the 2015 Plan

Under the 2015 Plan, we will be authorized to issue up to 14,000,000 new shares plus:

- 3,587,742 shares reserved under the Prior Plan, which have not been awarded to any participants as of the effective date of the 2015 Plan; plus
- any shares canceled, forfeited, settled in cash, or otherwise terminated without a delivery of the full number of shares to which the award related pursuant to the Prior Plan. As of March 1, 2015, there were awards covering 6,074,632 shares outstanding under the Prior Plan.

To calculate the number of shares that will be carried over from the Prior Plan referenced above we used the following assumptions:

- one (1) share of our common stock is treated as outstanding for each outstanding restricted stock unit, or RSU and two (2) shares of our common stock is treated as outstanding for each

outstanding performance restricted stock unit, or PRSU, which for the PRSUs assumes a maximum level of performance; and

- the number of shares that would be issuable upon settlement of outstanding outperform stock appreciation rights, or OSOs is determined using the value of the OSOs as of March 1, 2015. For additional information on how share amounts for OSOs are calculated, please see “Equity Compensation Plan Information,” above.

The 14,000,000 shares the Board has reserved for issuance under the 2015 Plan (which does not include shares already reserved and available for grant under the Prior Plan that will be carried over), represent approximately 4.0% of our outstanding common stock and 3.7% of our fully diluted common stock as of the record date, March 31, 2015, assuming the 14,000,000 shares for the Plan and the 9,662,374 shares from the Prior Plan are included as outstanding for fully diluted.

In addition, if the 2015 Stock Plan is approved by our stockholders, approximately 8.3 million shares previously reserved under the tw telecom Plan will no longer be reserved, and will not be carried over to the 2015 Plan.

Awards and the shares authorized under the 2015 Plan, as well as any individual share limits, are subject to adjustment as described below under “Changes in Capital Structure.” If any award granted under the 2015 Plan expires or is canceled, forfeited, settled in cash or otherwise terminated without delivery of shares to a participant, the undelivered shares will again become available for awards under the 2015 Plan. Any shares withheld for the payment of any exercise price or taxes relating to any award under the 2015 Plan will be deemed to constitute shares delivered and will not again become available for awards under the 2015 Plan.

During any time that we are subject to Section 162(m) of the Code, the maximum number of shares of common stock subject to stock options, performance awards or stock appreciation rights that may be granted to any individual in any one calendar year may not exceed 3,000,000 shares of our common stock. Similarly, the maximum value of a performance award that is valued in dollars (as opposed to shares) and that is intended to qualify as performance-based compensation under Section 162(m) of the Code that may be granted to any individual in any one calendar year may not exceed \$10,000,000.

Eligibility

The following individuals will be eligible to participate in the 2015 Plan:

- each of our (or our affiliates’) employees and officers, of which there are currently approximately 13,500;
- each of our non-employee directors, of which after the Annual Meeting there will be 10;
- individuals who are not our employees or directors but nonetheless provide substantial services to us or our affiliates, and who are designated as eligible by the Compensation Committee; and
- our (or our affiliates’) prospective employees, although these individuals may not receive any payment or exercise any rights relating to awards until they have actually commenced employment.

Grants of Awards

The Compensation Committee may grant awards of performance awards (including cash-based performance awards), restricted stock unit awards, restricted stock awards, non-qualified stock options, incentive stock options, stock appreciation rights and other stock-based awards.

Performance Awards. Performance awards include performance shares, performance units or cash awards. A performance award is the right to receive certain amounts based on the achievement of pre-determined performance goals during a designated performance period. The terms of each performance award will be set forth in the applicable award agreement. The Compensation Committee will be responsible for setting the applicable performance goals, which will be limited to specific levels of or increases in one or more of the following business criteria:

- earnings, including net earnings, total earnings, operating earnings, earnings growth, operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items);
- pre-tax income or after-tax income;
- earnings per share (basic or diluted);
- operating profit;
- revenue, revenue growth, or rate of revenue growth;
- return on assets (gross or net), return on investment, return on capital, return on equity, financial return ratios, or internal rates of return;
- returns on sales or revenues;
- operating expenses;
- stock price appreciation;
- cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (discounted or otherwise), net cash provided by operations or cash flow in excess of cost of capital, working capital turnover;
- implementation or completion of critical projects or processes;
- economic value created;
- balance sheet measurements (including, but not limited to, receivable turnover);
- cumulative earnings per share growth;
- operating margin, profit margin, or gross margin;
- stock price or total stockholder return;
- cost or expense targets, reductions and savings, productivity and efficiencies;
- sales or sales growth;
- economic value added;
- earnings measures/ratios;
- inventory turns;
- strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, market share, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures, and similar transactions, and budget comparisons;
- increase in the fair market value per share; and

- personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, the formation of joint ventures, research or development collaborations, and the completion of other corporate transactions.

In order for awards to qualify as “performance-based” compensation within the meaning of Section 162(m) of the Code, the business criteria that the Compensation Committee can designate for performance goals under the 2015 Plan must be re-approved by our stockholders every five years. The Compensation Committee currently intends to submit the business criteria for stockholder re-approval no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved the business criteria for performance goals.

Performance goals may be established:

- on a Company-wide basis, project or geographical basis or otherwise, as the context permits;
- with respect to one or more of our business units, divisions, lines of business, subsidiaries, products, regions, or other operational units or departments (or in combination thereof); or
- related to the performance of an individual participant.

Performance goals may be expressed in absolute terms, or relative or comparative to:

- current internal targets or budgets;
- our past performance (including the performance of one or more subsidiaries, divisions, or operating units);
- the performance of one or more similarly situated companies;
- the performance of an index covering multiple companies; or
- other external measures of the selected performance criteria.

The Compensation Committee may adjust any performance goal and the related acceptable level of achievement if, in the sole judgment of the Compensation Committee, events or transactions have occurred after the award’s grant date that are unrelated to our performance or the performance of the participant and result in a distortion of the performance goals or the related acceptable level of achievement. However, in no event will any adjustment be made if the performance award is intended to qualify for the performance-based compensation exception under Section 162(m) and such adjustment would cause the award to fail to so qualify.

Performance awards which have been earned as a result of the relevant performance goals being achieved may be paid in the form of cash, common stock or other awards under the 2015 Plan (or some combination thereof). Except as otherwise provided by the Compensation Committee in an agreement relating to a performance award, if a participant is terminated for any reason, the participant will forfeit all performance awards held by such participant.

Restricted Stock Units. The Compensation Committee may award restricted stock units under the 2015 Plan, which represent the right to receive one share of common stock (or the cash value of one share of common stock) on a specified settlement date. The Compensation Committee will establish the conditions of the restricted stock unit award in the applicable award agreement. When a participant satisfies the conditions of the restricted stock unit award, we may settle the award in shares, cash or property, as determined by the Compensation Committee in its discretion. Except as otherwise provided by the Compensation Committee, in the event a participant is terminated for any reason, the vesting with respect to the participant’s restricted stock units will cease. Each of the terminated participant’s outstanding unvested restricted stock units will be forfeited for no consideration as of the date of such termination. Any shares remaining undelivered with respect to

the terminated participant's vested restricted stock units will be delivered on the delivery date specified in the applicable award agreement.

Restricted Stock. An award of restricted stock is a grant of shares of common stock which are subject to limitations on transfer during a restricted period established in the applicable award agreement. Generally, holders of restricted stock will have the rights and privileges of a stockholder with respect to their restricted stock. Except as otherwise provided by the Compensation Committee, in the event a participant is terminated for any reason, the vesting with respect to the participant's restricted stock will cease. As soon as practicable following the termination, we will repurchase all of such participant's unvested shares of restricted stock at a purchase price equal to the original purchase price paid for the restricted stock, or if the original purchase price is equal to \$0, the unvested shares of restricted stock will be forfeited by the participant to us for no consideration.

Stock Options. The 2015 Plan provides for the grant of both incentive stock options, within the meaning of Section 422(b) of the Code, and non-qualified stock options. We are seeking stockholder approval of the 2015 Plan to meet the stockholder approval requirements of Section 422 of the Code to allow the Compensation Committee to grant incentive stock options.

A stock option granted under the 2015 Plan provides a participant with the right to purchase, within a specified period of time, a stated number of shares of common stock at the price specified in the applicable award agreement. The exercise price applicable to a stock option will be set by the Compensation Committee at the time of grant and will not be less than the fair market value of a share of common stock on the date of grant. Stock options will vest in accordance with the terms of the applicable award agreement. The maximum term of a stock option granted under the 2015 Plan is ten years from the date of grant (or five years in the case of an incentive stock option granted to a 10% stockholder). Payment of the exercise price of a stock option may be made in:

- cash;
- common stock;
- pursuant to a broker-assisted cashless exercise in accordance with procedures approved by the Compensation Committee;
- pursuant to a delivery of a notice of "net exercise;" or
- any other form of consideration approved by the Compensation Committee.

The 2015 Plan provides that participants terminated for "cause" (as such term is defined in the 2015 Plan) will forfeit all of their stock options, whether or not vested. Participants terminated for any other reason will forfeit their unvested stock options, retain their vested stock options, and will have one year (in the case of a termination by reason of death or disability) or 90 days (in all other cases) following their termination date to exercise their vested stock options.

Stock Appreciation Rights. A stock appreciation right, or SAR, is a conditional right to receive an amount equal to the value of the appreciation in the common stock over a specified period. The base price applicable to a SAR will be set by the Compensation Committee at the time of grant and will not be less than the fair market value of a share of common stock on the date of grant. The maximum term of a SAR granted under the 2015 Plan is ten years from the date of grant. Upon exercise of a SAR, payment in respect of such SAR may be made in cash, common stock, property as specified in the applicable award agreement, or as otherwise determined by the Compensation Committee. Upon the exercise of a SAR, a payment will be made, in each case having a value in respect of each share of common stock underlying the portion of the stock appreciation right so exercised, equal to the difference between the base price of such SAR and the fair market value of one share of our common stock on the exercise date.

The 2015 Plan provides that participants terminated for “cause” (as such term is defined in the 2015 Plan) will forfeit all of their SARs, whether or not vested. Participants terminated for any other reason will forfeit their unvested SARs, retain their vested SARs, and will have one year (in the case of a termination by reason of death or disability) or 90 days (in all other cases) following their termination date to exercise their vested SARs.

Other Stock-Based Awards. The 2015 Plan authorizes the Compensation Committee to grant other awards that may be denominated in, payable in, valued in, or otherwise related to shares of common stock. Such awards and the terms applicable to such awards will be set forth in award agreements.

Termination. The 2015 Plan authorizes the Compensation Committee to provide different treatment of any outstanding awards upon termination than that described above, as determined in its sole discretion.

Clawback. All awards granted under the 2015 Plan will be subject to incentive compensation clawback and recoupment practices and policies implemented by the Board (or a committee or subcommittee of the Board) from time to time.

Sub-Plans. The Compensation Committee may authorize procedures and sub-plans that are necessary to permit participation in the 2015 Plan by individuals who are non-United States nationals or are primarily employed or providing services outside the United States. The Compensation Committee may modify the terms of any awards granted to such participants in a manner deemed by the Compensation Committee to be necessary in order that such awards conform with the laws of the country or countries where such participants are located.

Gross-up Prohibition. No award agreement will permit us to reimburse (or “gross-up”) any award to satisfy tax obligations, including without limitation, an excise tax imposed pursuant to Section 4999 of the Code or any penalty imposed by Section 409A of the Code.

No-Repricing of Awards. No awards may be repriced without stockholder approval. For purposes of the 2015 Plan, “repricing” means any of the following:

- changing the terms of the award to lower its exercise price or base price;
- repurchasing for cash or canceling an award in exchange for another award at a time when its exercise price or base price is greater than the fair market value of the underlying stock; and
- any other action that is treated as a repricing under generally accepted accounting principles.

Changes in Capital Structure

In the event of any change in our outstanding common stock or capital structure, the declaration of any extraordinary dividend, or any change in applicable laws or circumstances that results or could result in the substantial dilution or enlargement of participants’ rights under the 2015 Plan, the Compensation Committee will, in its sole discretion, adjust the aggregate number of shares of common stock that may be granted pursuant to awards, the number of shares of common stock covered by outstanding awards under the 2015 Plan, and the per-share price of outstanding awards under the 2015 Plan. These changes will not take place automatically.

Corporate Events

Under the 2015 Plan, no award agreement will provide for acceleration or vesting upon the occurrence of a “corporate event.” For purposes of the 2015 Plan, a “corporate event” means

- a merger, amalgamation, or consolidation involving us in which we are not the surviving corporation;
- a merger, amalgamation, or consolidation involving us in which we are the surviving corporation but the holders of shares of our common stock receive securities of another corporation or other property or cash;
- a “change in control” (as defined in the 2015 Plan); or
- our reorganization, dissolution or liquidation.

In connection with a corporate event, the Compensation Committee may, in its discretion, provide for any one or more of the following:

- require that outstanding awards be assumed or substituted in connection with such event;
- accelerate the vesting of any outstanding awards upon the consummation of such event (with any awards that vest subject to the achievement of performance criteria deemed earned at the actual level of performance achieved, pro-rated for the actual performance period completed, the target level, or the maximum level, in each case, as determined by the Compensation Committee in its sole discretion, with respect to any unexpired performance periods);
- cancel outstanding awards upon the consummation of such event (whether vested or unvested) and provide award holders with the per-share consideration being received by our stockholders in connection with such event in exchange for their awards (or, with respect to a cash award, the amount payable pursuant to the award);
- cancel all outstanding stock options, stock appreciation rights or other awards (whether vested or unvested) subject to exercise as of the consummation of such event, and provide the holder at least ten days to exercise each stock option, stock appreciation right or other award canceled prior to the consummation of such event; or
- replace outstanding awards with a cash incentive program that preserves the value of the replaced awards and contains identical vesting conditions.

Non-Transferability of Awards

Except as otherwise provided by the Compensation Committee, the 2015 Plan provides that awards are generally nontransferable other than by will or the laws of descent and distribution, and that restricted stock is generally nontransferable.

Termination and Amendment

The Board or the Compensation Committee may amend or terminate the 2015 Plan at any time. However, no amendment may violate the stockholder approval requirements of the national securities exchange on which the common stock is principally listed, without stockholder approval. Unless terminated earlier, the 2015 Plan will terminate on the day before the tenth anniversary of the date the 2015 Plan is approved by our stockholders.

Certain U.S. Federal Income Tax Consequences

The following is a brief discussion of the U.S. federal income tax consequences for awards granted under the 2015 Plan. The 2015 Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended, and it is not, nor is it intended to be, qualified under Section 401(a) of the Code. This discussion is not intended to be exhaustive and, among

other things, does not describe state, local or foreign tax consequences, which may be substantially different. Holders of awards under the 2015 Plan should consult with their own tax advisors.

Non-Qualified Stock Options and Stock Appreciation Rights. Except as noted below for corporate “insiders,” with respect to nonqualified stock options and stock appreciation rights,

- no income is realized by a participant at the time the award is granted;
- generally, ordinary income is realized at exercise by the participant in an amount equal to the difference between the exercise or base price paid for the shares and the fair market value of the shares on the date of exercise, and the participant’s employer is generally entitled to a tax deduction in the same amount subject to applicable tax withholding requirements; and
- upon a subsequent sale of the stock received on exercise, appreciation (or depreciation) after the date of exercise is treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held, and no deduction will be allowed to such participant’s employer.

Incentive Stock Options. No income is realized by a participant upon the grant or exercise of an incentive stock option; however, such participant will generally be required to include the excess of the fair market value of the shares at exercise over the exercise price in his or her alternative minimum taxable income. If shares are issued to a participant pursuant to the exercise of an incentive stock option, and if no disqualifying disposition of such shares is made by such participant within two years after the date of grant or within one year after the transfer of such shares to such participant, then

- upon sale of such shares, any amount realized in excess of the exercise price will be taxed to such participant as a long-term capital gain, and any loss sustained will be a long-term capital loss, and
- no deduction will be allowed to the participant’s employer for federal income tax purposes.

Except as noted below for corporate “insiders,” if shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, generally:

- the participant will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at exercise (or, if less, the amount realized on the disposition of such shares) over the exercise price paid for such shares; and
- the participant’s employer will generally be entitled to deduct such amount for federal income tax purposes.

Any further gain (or loss) realized by the participant will be taxed as short-term or long-term capital gain (or loss), as the case may be, and will not result in any deduction by the employer.

Subject to certain exceptions for disability or death, if an incentive stock option is exercised more than three months following termination of employment, the exercise of the stock option will generally be taxed as the exercise of a nonqualified stock option.

Other Stock-Based Awards. The tax effects related to other stock-based awards under the 2015 Plan are dependent upon the structure of the particular award.

Withholding. At the time a participant is required to recognize ordinary compensation income resulting from an award, as described above, such income will be subject to applicable federal, state and local income tax withholding requirements. We will deduct or withhold, or require the participant to remit to his or her employer, an amount sufficient to satisfy the minimum federal, state, local and

foreign taxes required by law or regulation to be withheld with respect to any taxable event as a result of the 2015 Plan.

Section 162(m). In general, Section 162(m) of the Code denies a publicly held corporation a deduction for federal income tax purposes for compensation in excess of \$1 million per year per person to its chief executive officer and the three other highest-paid executive officers (other than the chief financial officer) employed at the end of that company's fiscal year, subject to certain exceptions (including an exception for performance-based compensation). The 2015 Plan is designed so that stock options and stock appreciation rights qualify for this exemption, and it permits the Compensation Committee to grant other awards designed to qualify for this exemption. The Compensation Committee is authorized to also grant awards that are not qualified under Section 162(m) of the Code.

Section 409A. Certain awards under the 2015 Plan may be subject to Section 409A of the Code, which regulates "nonqualified deferred compensation" (as defined in Section 409A). If an award under the 2015 Plan (or any other Company plan) that is subject to Section 409A is not administered in compliance with Section 409A, then all compensation under the 2015 Plan that is considered "nonqualified deferred compensation" (and awards under any other Company plan that are required pursuant to Section 409A to be aggregated with the award under the 2015 Plan) will be taxable to the participant as ordinary income in the year of the violation, or if later, the year in which the compensation subject to the award is no longer subject to a substantial risk of forfeiture. In addition, the participant will be subject to an additional tax equal to 20% of the compensation that is required to be included in income as a result of the violation, plus interest from the date that the compensation subject to the award was required to be included in taxable income.

Certain Rules Applicable to "Insiders." As a result of the rules under Section 16(b) of the Exchange Act, depending upon the particular exemption from the provisions of Section 16(b) utilized, "insiders" (as defined in Section 16(b)) may not receive the same tax treatment as set forth above with respect to the grant and/or exercise or settlement of awards. Generally, insiders will not be subject to taxation until the expiration of any period during which they are subject to the liability provisions of Section 16(b) with respect to any particular award. Insiders should check with their own tax advisers to ascertain the appropriate tax treatment for any particular award.

New Plan Benefits

Because awards to be granted in the future under the 2015 Plan are at the discretion of the Compensation Committee, it is not possible to determine the benefits, the amounts received, or the amounts that will be received under the 2015 Plan by eligible participants.

Required Vote

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.

The Board has unanimously adopted a resolution recommending that you vote **FOR**, this proposal

RATIFICATION OF RIGHTS AGREEMENT PROPOSAL

We are asking stockholders to ratify the extension of the Rights Agreement, which is designed to protect our U.S. net operating loss carryforwards from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended.

On April 10, 2011, we entered into a Rights Agreement with Wells Fargo Bank, N.A., as Rights Agent and amended by Amendment No. 1 thereto dated as of March 15, 2012, between the Company and the Rights Agent (as amended, the "Rights Agreement"). Pursuant to the Rights Agreement we issued the Rights (as defined below). We adopted the Rights Agreement and issued the Rights in an effort to deter acquisitions of our common stock that would potentially limit our ability to use our built in losses and any resulting net loss carryforwards, or NOLs, to reduce potential future federal income tax obligations. On May 24, 2012, the stockholders approved and ratified the implementation of the Rights Agreement. On July 21, 2014, we amended the Rights Agreement to extend its term for an additional three years, which we refer to as the July 2014 Amendment.

At the time that we adopted the July 2014 Amendment, we provided that the Rights would expire on the earliest of:

- October 31, 2017 (which is the third anniversary of the closing of our acquisition of tw telecom inc.);
- the time at which the Rights are redeemed;
- the time at which the Rights are exchanged;
- the time at which the Board determines that the NOLs are utilized in all material respects or that an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, would not adversely effect in any material respect the time period in which we could use the NOLs, or materially impair the amount of the NOLs that we could use in any particular time period, for applicable tax purposes;
- October 31, 2015, if approval of the Rights Agreement (as amended) by the affirmative vote of the holders of a majority of the voting power of our outstanding common stock has not been obtained prior to that date; or
- a determination by our Board, prior to the date that the rights are distributed, that the Rights Agreement and the rights are no longer in our and our stockholders' best interests.

The Board believes that the continued effectiveness of the Rights Agreement remains in our best interest and the best interest of the stockholders to protect our NOLs from limitations pursuant to Section 382 under the U.S. Internal Revenue Code of 1986, as amended.

Description of the Rights Agreement and the Rights

General. Under the Rights Agreement, from and after the record date of April 21, 2011, each share of our common stock carries with it one preferred share purchase right, which is referred to as a Right, until the Distribution Date (as defined below) or earlier expiration of the Rights, which is also described below.

In general terms, the Rights will impose a significant penalty upon any person that, together with all Affiliates and Associates (each as defined in the Rights Agreement) of such person, acquires 4.9% or more of our outstanding common stock after April 10, 2011. Stockholders that owned 4.9% or more of our outstanding common stock as of the close of business on April 10, 2011, do not trigger the Rights so long as they do not (i) acquire additional shares of our common stock representing one-half of one percent (0.5%) or more of the shares of our common stock outstanding at the time of such acquisition or (ii) fall under 4.9% ownership of our common stock and then re-acquire shares that in the aggregate equal 4.9% or more of our common stock.

A person will not trigger the Rights solely as a result of any transaction that the Board determines, in its sole discretion, is an exempt transaction.

STT Crossing and its Affiliates and Associates are exempt for the purposes of the Rights Agreement, unless and until STT Crossing (or any Affiliates of STT Crossing) acquires any of our common stock other than (a) pursuant to a transaction that is permitted under Section 4 of the STT Stockholder Rights Agreement or (b) any transfers of our common stock or other of our equity interests between STT Crossing and its Affiliates. In addition, any entity or person to whom STT Crossing transfers any amount of our common stock permitted by Section 4.3(iii) of the STT Stockholder Rights Agreement are exempt for the purposes of the Rights Agreement unless and until that entity or person (or any Affiliates or Associates of that entity or person) acquires any additional shares of our common stock.

Southeastern Asset Management, Inc. and its Affiliates and Associates are also exempt for the purposes of the Rights Agreement.

The Board may, in its sole discretion prior to the Distribution Date, exempt any person or group for purposes of the Rights Agreement if it determines the acquisition by such person or group will not jeopardize the our tax benefits or is otherwise in our best interests. Any person that acquires shares of our common stock in violation of these limitations is known as an "Acquiring Person." The Board has previously deemed:

- BlackRock, Inc., together with its subsidiaries (collectively, "BlackRock") and the various investment funds and accounts for which BlackRock acts, or may in the future act, as the manager and/or investment advisor;
- Fidelity Management & Research Company and certain of its subsidiaries and affiliates and FIL Limited and certain of its subsidiaries and affiliates (collectively, the "Fidelity Advisors") and the various investment funds and separately managed accounts for which the Fidelity Advisors act or in the future may act as the manager and/or investment advisor; and
- The Vanguard Group, Inc., together with its subsidiaries (collectively, "Vanguard") and the various investment funds and accounts for which Vanguard acts, or may in the future act, as the manager and/or investment advisor

as Exempt Persons under the Rights Agreement; in each case on the basis of the representations, warranties and agreements those persons made to the Company.

While the Rights Agreement was implemented by the Board in an effort to deter acquisitions of our common stock that would potentially limit our ability to use our built in losses and any resulting net loss carryforwards to reduce potential U.S. federal income tax obligations, these acquisitions may still occur. In addition, the Rights Agreement may make it more difficult and more expensive to acquire us, and may discourage open market purchases of our common stock or a non-negotiated tender or exchange offer for our common stock. Accordingly, the Rights Agreement may limit a stockholder's ability to realize a premium over the market price of our common stock in connection with any acquisition transaction.

The Rights. From the record date of April 21, 2011, until the Distribution Date or earlier expiration of the Rights, the Rights will trade with, and will be inseparable from, our common stock. New Rights will also accompany any new shares of our common stock that we issue after April 21, 2011 until the Distribution Date or earlier expiration of the Rights.

Exercise Price. Each Right will allow its holder to purchase from us fifteen ten-thousandths (0.0015) of a share of Series B Junior Participating Preferred Stock (a "Preferred Share") for \$9.00, subject to adjustment (the "Exercise Price"), once the Rights become exercisable. This portion of a Preferred Share will give the stockholder approximately the same dividend and liquidation rights as would one share of our common stock. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights.

Exercisability. The Rights will not be exercisable until 15 business days after the public announcement that a person or group has become an Acquiring Person unless the Rights Agreement has been terminated or the Rights have been redeemed (as described below).

The date when the Rights become exercisable is the “Distribution Date.” Until that date or earlier expiration of the Rights, our common stock will also evidence the Rights, and any transfer of shares of our common stock constitutes a transfer of Rights. After the Distribution Date, the Rights will separate from our common stock and be evidenced by book-entry credits or by Rights certificates that we will mail to all eligible holders of our common stock. Any Rights held by an Acquiring Person, or any Affiliates or Associates of the Acquiring Person, are void and may not be exercised.

Consequences of a Person or Group Becoming an Acquiring Person. If a person or group becomes an Acquiring Person, all holders of Rights except the Acquiring Person, or any Affiliates or Associates of the Acquiring Person, may, upon payment of the Exercise Price, purchase shares of our common stock with a market value of twice the Exercise Price, based on the ‘current per share market price’ of our common stock (as defined in the Rights Agreement) on the date of the acquisition that resulted in such person or group becoming an Acquiring Person.

Exchange. After a person or group becomes an Acquiring Person, the Board may extinguish the Rights by exchanging one share of our common stock or an equivalent security for each Right, other than Rights held by the Acquiring Person, or any Affiliates or Associates of the Acquiring Person.

Preferred Share Provisions. Each one ten-thousandth of a Preferred Share, if issued:

- will not be redeemable;
- will entitle its holder to dividends equal to the dividends, if any, paid on one share of our common stock;
- will entitle its holder upon liquidation either to receive \$1.00 or an amount equal to the payment made on one share of our common stock, whichever is greater;
- will vote together with our common stock as one class on all matters submitted to a vote of our stockholders and will have the same voting power as one share of our common stock, except as otherwise provided by law; and
- will entitle holders to a per share payment equal to the payment made on one share of our common stock, if shares of our common stock are exchanged via merger, consolidation, or a similar transaction.

The value of one ten-thousandth interest in a Preferred Share is expected to approximate the value of one share of our common stock.

Expiration. The Rights will expire as described above.

Redemption. The Board may redeem the Rights for \$0.0015 per Right at any time before the Distribution Date. If the Board redeems any Rights, it must redeem all of the Rights. Once the Rights are redeemed, the only right of the holders of Rights will be to receive the redemption price of \$0.0015 per Right. The redemption price will be adjusted if we have a stock split or stock dividends of our common stock.

Anti-Dilution Provisions. The Board may adjust the Exercise Price, the number of Preferred Shares issuable and the number of outstanding Rights to prevent dilution that may occur from a stock dividend, a stock split, or a reclassification of the Preferred Shares or our common stock.

Amendments. The terms of the Rights Agreement may be amended by the Board without the consent of the holders of the Rights. After the Distribution Date, the Board may not amend the agreement in a way that adversely affects holders of the Rights (other than an Acquiring Person, or an Affiliate or Associate of an Acquiring Person).

Vote Required

The affirmative vote of stockholders holding at least a majority of the outstanding shares of our common stock is required for approval of this proposal.

The Board has unanimously adopted a resolution seeking stockholder approval of, and recommends that you vote **FOR**, this proposal.

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 executives are rewarded fairly and competitively based on the results they achieve.
- We pay above market total compensation for results that exceed expectations.
- Our short and long-term incentives set expectations, measure results, reward achievement and hold executives accountable for expected results.
- We reward executives who achieve results, while adhering to our corporate values.
- Our bonus program is linked to company performance and the achievement of annual goals.
- Our LTI program is linked to company performance and the creation of long-term stockholder value.
- Stock ownership demonstrates an economic stake in our business that helps align executive’s interests with those of our stockholders.
- Our executive compensation program is 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 23 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 2015 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.

STOCKHOLDER PROPOSAL REGARDING PROXY ACCESS

The Comptroller of the City of New York, Municipal Building, One Centre Street, Room 629, New York, N.Y. 10007-2341, as the custodian and a trustee of the New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, and the New York City Police Pension Fund, and the custodian of the New York City Board of Education Retirement System (each a "System" and together the "NYC Systems"), represented that each System beneficially owned more than \$2,000 of our common stock for more than one year and, that each System intends to continue to hold at least \$2,000 worth of these securities through the date of the Annual Meeting.

The NYC Comptroller, as representative of the NYC Systems, has notified us that, the NYC Comptroller is offering the proposal set forth in quotes below (the "Proxy Access Proposal") at the Annual Meeting for the consideration and vote of our stockholders at the Annual Meeting.

The Board opposes the following Stockholder Proposal for the reasons stated after the proposal. "RESOLVED: Shareholders of Level 3 Communications, Inc. (the "Company") ask the board of directors (the "Board") to adopt, and present for shareholder approval, a "proxy access" bylaw. Such a bylaw shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or group (the "Nominator") that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

- a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination;
- b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and
- c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (c) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of the nominee (the "Statement"). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit."

Supporting Statement of the NYC Systems

"We believe proxy access is a fundamental shareholder right that will make directors more accountable and contribute to increased shareholder value. The CFA Institute's 2014 assessment of

pertinent academic studies and the use of proxy access in other markets similarly concluded that proxy access:

- Would “benefit both the markets and corporate boardrooms, with little cost or disruption.”
- Has the potential to raise overall US market capitalization by up to \$140.3 billion if adopted market-wide. (<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n9.1>)

The proposed bylaw terms enjoy strong investor support—votes for similar shareholder proposals averaged 55% from 2012 through September 2014—and similar bylaws have been adopted by companies of various sizes across industries, including Chesapeake Energy, Hewlett-Packard, Western Union and Verizon.

We urge shareholders to vote FOR this proposal.”

Statement of the Board of Directors in Opposition to Stockholder Proposal Regarding Proxy Access

Your Board believes that the need for “proxy access” should be evaluated after considering a number of factors, including our efforts to assure that stockholders have input on issues of importance (including Board nominations) and the continuing need for the Company to assure that its Board members have the independence, expertise, professional judgment and commitment to effectively oversee our performance. The Board requires that all Board members act in the best interests of all of our stockholders, regardless of how or why they were nominated to serve on the Board, not simply because it is the law, but because it is best for all our stockholders.

Your Board believes that its current nomination process, and the directors nominated for election at the 2015 Annual Meeting, already reflect our stockholders’ desires. Stockholders with meaningful long-term holdings in the Company are already well represented on the Board. Since our 2011 acquisition of Global Crossing, STT Crossing Ltd, which holds approximately 18.5% of our outstanding common stock, has the right to nominate for election to the Board a number of Directors that is proportional to its ownership. For election at the Annual Meeting, STT has two nominees for election to the Board. In addition, at the Annual Meeting, the Company has committed to nominate three individuals who previously served on the tw telecom board of directors at the time of our acquisition of tw telecom.

The Board has changed significantly in recent years; it is not stagnant or unresponsive to stockholder input or to changes in our business. Comparing this year’s 11 nominees to the nominees elected in 2011 demonstrates the willingness of the Board to consistently evaluate and adjust its membership. In 2011, the Company proposed a slate of 14 nominees, only two of whom (James O. Ellis, Jr. and Michael J. Mahoney) remain as nominees for election at the Annual Meeting. In other words, nine of the 11 nominees to your Board in the current proxy statement have been Board members for less than four years.

The Company has strong governance practices—all Directors are elected annually, ten of the 11 Directors, including the Chairman of the Board, are independent, and there are no supermajority voting provisions in our charter or By-laws. Stockholders have opportunities to bring potential nominees to the Board’s attention, and the Nominating and Governance Committee of the Board has committed to consider nomination suggestions from stockholders. The Nominating and Governance Committee, and your Board, have been receptive to these suggestions.

The Board has been responsive to stockholder views on a wide variety of other issues as well. As first noted in our proxy statement for the 2014 Annual Meeting, over the last 18 months the Company adjusted a number of its compensation practices in order to address concerns expressed by our stockholders. For example, we eliminated “single trigger” vesting of equity awards upon a

change in control, we no longer have an employment agreement with our CEO, and we regularly consult with significant stockholders regarding management compensation and other issues related to our performance.

All of these factors demonstrate that your Board and the Company are very responsive to the desires of its significant long-term stockholders, and that the proposed “proxy access” By-law change is unnecessary and potentially disruptive.

In addition, the Board believes that the proxy access proposal is unfair to the majority of stockholders because it may provide some stockholders with nomination rights that are disproportionate to their ownership. Under the proposal, a stockholder (or group of stockholders joining together) with only 3% ownership would have the right to propose in the Company’s proxy statement 25% of the nominees for Board membership. When coupled with the Company’s practice requiring annual elections for all Directors, and the fact that more than one stockholder may meet the ownership requirement and submit nominees in a single year, the proposal could encourage potentially disruptive and costly election contests where there is no demonstrated need for a greater stockholder voice.

In summary, the Board believes that a proxy access By-law is not in the best interest of the Company or its stockholders.

Required Vote

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. Because the stockholder proposal regarding proxy access is a non-binding resolution, we will not be required to take the requested action if the proposal is approved; however, we will reevaluate our recommendation if the proposal is approved.

The Board has unanimously adopted a resolution recommending that you vote **AGAINST**, this proposal.

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 17, 2015, 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)	320,831	*
Sunit S. Patel(2)	258,190	*
Andrew E. Crouch(3)	63,432	*
Laurinda Y. Pang(4)	38,924	*
John F. Waters, Jr.(5)	33,290	*
James O. Ellis, Jr.	55,654	*
Kevin P. Chilton	11,579	*
Archie R. Clemins	28,913	*
Steven T. Clontz	48,079	*
Irene M. Esteves	2,757	*
T. Michael Glenn	13,322	*
Spencer B. Hays	74,945	*
Michael J. Mahoney	52,315	*
Kevin W. Mooney	37,302	*
Peter Seah Lim Huat	57,875	*
Peter van Oppen	15,604	*
Directors and Executive Officers as a Group (19 persons)(6)	1,316,494	*
STT Stockholder Group(7)	63,931,025	18.50
Southeastern Asset Management, Inc.(8)	54,735,045	16.30
The Vanguard Group(9)	21,591,758	6.42

* Less than 1%.

- (1) Includes 22,901 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015.
- (2) Includes 15,268 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015, and 1,000 shares of our common stock held in an individual retirement account.
- (3) Includes 6,107 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015.
- (4) Includes 5,344 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015.
- (5) Includes 6,107 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015.
- (6) Includes 67,942 shares issuable upon the settlement of OSOs within 60 days of March 17, 2015, assuming the OSO value as of March 17, 2015.
- (7) Based on information provided in Amendment No. 5 to Schedule 13D by this stockholder on March 2, 2015. STT Crossing Ltd. ("STT Crossing") is an indirect subsidiary of Temasek

Holdings (Private) Limited (“Temasek”), its ultimate parent entity, and is located at Les Cascades Building, Edith Cavell Street, Port Louis Mauritius. As of March 2, 2015, STT Crossing owned 63,931,025 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.

- (8) Address for Southeastern Asset Management, Inc. 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 13, 2015. 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. Southeastern Asset Management, Inc. exercises sole dispositive power with respect to 26,908,853 shares of our common stock beneficially owned by discretionary managed accounts, 27,826,192 shares of our common stock beneficially owned by discretionary managed accounts for which Southeastern Asset Management has shared dispositive power. Also includes 21,871,214 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has sole voting power, 21,871,214 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has shared voting power and 5,037,639 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.

- (9) Address for The Vanguard Group is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355. The following information is based solely on The Vanguard Group’s Schedule 13G filed with the SEC on February 10, 2015. Percentage of our outstanding common stock is as reported in their Schedule 13G.

Information in the table is presented by The Vanguard Group as a registered investment adviser. All of the securities reported by The Vanguard Group are owned legally by The Vanguard Group’s investment advisory clients and none are owned directly or indirectly by The Vanguard Group. The Vanguard Group exercises sole dispositive power with respect to 21,142,115 shares of our common stock, 449,643 shares of our common stock for which The Vanguard Group has shared dispositive power. Also includes 482,416 shares of our common stock for which The Vanguard Group has sole voting power.

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 2016 Proxy Statement must submit the proposal so that it is received by us no later than December 10, 2015. 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 2016 Proxy Statement, but instead wishes to present it directly at the 2016 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before March 22, 2016, but no earlier than February 21, 2016, for the proposal to be included in our proxy material relating to that meeting. Proposals received after March 22, 2016 will not be voted on at the 2016 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2016 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 2016 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.

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, 2014.

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 2014, 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, 2014 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 2015.

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 Auditing Standard No. 16, Communications 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, 2014.

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, 2014, June 30, 2014 and September 30, 2014, 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, 2014, and 2013 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>2014</u>	<u>2013</u>
Audit Fees(1)	\$6,402,000	\$5,419,000
Audit-Related Fees(2)	260,000	622,000
Tax Fees(3)	188,000	429,000
All Other Fees	<u>0</u>	<u>0</u>
Total Fees	<u>\$6,850,000</u>	<u>\$6,470,000</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:
Peter van Oppen, Chairman
Archie R. Clemens
Irene M. Esteves
T. Michael Glenn
Kevin W. Mooney

For the year ended December 31, 2014

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. Adjusted EBITDA also excludes acquisition-related expenses associated with the Company's acquisition of tw telecom inc.

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

(dollars in millions)	Year Ended December 31, 2014
Net Income	\$ 293
Income Tax Benefit	(78)
Total Other Expense	757
Depreciation and Amortization Expense	745
Non-Cash Compensation Expense	72
Non-Cash Impairment	1
Acquisition-Related expenses	79
Adjusted EBITDA	<u>\$1,869</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 also excludes cash paid for acquisition-related expenses associated with the Company's acquisition of tw telecom inc.

Sustainable Free Cash Flow is calculated as follows:

(dollars in millions)	Year Ended December 31, 2014
Adjusted EBITDA, Including Acquisition-Related Expenses	\$1,790
Capital Expenditures	(847)
Net Cash Interest	(597)
Cash Paid for Acquisition-Related Expenses	64
Changes in Working Capital	(85)
Sustainable Free Cash Flow	<u>\$ 325</u>

Net Debt to Pro Forma Adjusted EBITDA Ratio is defined as debt, reduced by cash and cash equivalents and divided by Adjusted EBITDA Pro Forma to include tw telecom results excluding acquisition-related expenses.

Net Debt to Pro Forma Adjusted EBITDA Ratio is calculated as follows:

(dollars in millions)	<u>Year Ended December 31, 2014</u>
Debt	\$11,366
Cash and Cash Equivalents	<u>(580)</u>
Net Debt	<u>\$10,786</u>
Pro Forma Adjusted EBITDA	<u>\$ 2,443</u>
Net Debt to Pro Forma Adjusted EBITDA Ratio	<u>4.4</u>

Net Debt to Adjusted EBITDA Ratio is defined as debt, reduced by cash and cash equivalents and divided by Adjusted EBITDA.

Net Debt to Adjusted EBITDA Ratio is calculated as follows:

(dollars in millions)	<u>Year Ended December 31, 2013</u>
Debt	\$8,392
Cash and Cash Equivalents	<u>(631)</u>
Net Debt	<u>\$7,761</u>
Adjusted EBITDA	<u>\$1,624</u>
Net Debt to Adjusted EBITDA Ratio	<u>4.8</u>

Measures referred to as being calculated “on a constant currency basis” are intended to present the relevant information assuming a constant exchange rate between the two periods being compared. Such measures are calculated by applying the currency exchange rates used in the preparation of the prior period financial results to the subsequent period results.

**LEVEL 3 COMMUNICATIONS, INC.
STOCK INCENTIVE PLAN**

1. Purpose.

The purpose of the Plan is to assist the Company in attracting, retaining, motivating, and rewarding certain key employees, officers, directors, and consultants of the Company and its Affiliates and promoting the creation of long-term value for stockholders of the Company by closely aligning the interests of such individuals with those of such stockholders. The Plan authorizes the award of Stock-based incentives to Eligible Persons to encourage such persons to expend maximum effort in the creation of stockholder value.

2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) “*Affiliate*” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person.
- (b) “*Award*” means any Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Award (including any Cash Award), or other Stock-based award granted under the Plan.
- (c) “*Award Agreement*” means an Option Agreement, a Restricted Stock Agreement, an RSU Agreement, an SAR Agreement, a Performance Award Agreement, or an agreement governing the grant of any other Stock-based Award granted under the Plan.
- (d) “*Board*” means the Board of Directors of the Company.
- (e) “*Cash Award*” means a Performance Award representing the right to receive a future cash payment, the payment of which is subject to the achievement of Performance Objectives during a Performance Period.
- (f) “*Cause*” means, with respect to any Participant and in the absence of an Award Agreement or Participant Agreement otherwise defining Cause, (1) the Participant’s plea of *nolo contendere*, conviction of or indictment for any crime (whether or not involving the Company or its Affiliates) (i) constituting a felony or (ii) that has, or could reasonably be expected to result in, an adverse effect on the performance of the Participant’s duties to the Service Recipient, or otherwise has, or could reasonably be expected to result in, an adverse effect on the business or reputation of the Company or its Affiliates, (2) conduct of the Participant, in connection with his or her employment or service, that has resulted, or could reasonably be expected to result, in an adverse effect on the business or reputation of the Company or any of its Affiliates, (3) any material violation of the policies of the Company or its Affiliates, including but not limited to those relating to sexual harassment or the disclosure or misuse of confidential information, or those set forth in the manuals or statements of policy of the Company or any of its Affiliates, (4) the Participant’s act(s) of gross negligence or willful misconduct in the course of his or her employment or service with the Service Recipient; (5) misappropriation by the Participant of any assets or business opportunities of the Company or any of its Affiliates; (6) embezzlement or fraud committed by the Participant, at the Participant’s direction, or with the Participant’s prior actual knowledge; or (7) willful neglect in the performance of the Participant’s duties for the Service Recipient or willful or repeated failure or refusal to perform such duties. If, subsequent to the Termination of a Participant for any reason other than by the Service Recipient for Cause, it is discovered that the Participant’s employment or service could have been terminated for Cause, such Participant’s employment or service shall, at the discretion of the Committee, be deemed to have been terminated by the Service Recipient for Cause for all purposes under the Plan, and the Participant shall be required to repay to the Company all amounts received by

him or her in connection with Awards following such Termination that would have been forfeited under the Plan had such Termination been by the Service Recipient for Cause. In the event that there is an Award Agreement or Participant Agreement otherwise defining Cause, "Cause" shall have the meaning provided in such agreement, and a Termination by the Service Recipient for Cause hereunder shall not be deemed to have occurred unless all applicable notice and cure periods in such Award Agreement or Participant Agreement are complied with.

(g) "*Change in Control*" means the first of the following to occur after the Effective Date:

(1) a change in ownership or control of the Company effected through a transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission or pursuant to a Non-Control Transaction) whereby any "person" (as defined in Section 3(a)(9) of the Exchange Act) or any two or more persons deemed to be one "person" (as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), other than the Company or any of its Affiliates, an employee benefit plan sponsored or maintained by the Company or any of its Affiliates (or its related trust), or any underwriter temporarily holding securities pursuant to an offering of such securities, directly or indirectly acquire "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's securities eligible to vote in the election of the Board (the "*Company Voting Securities*");

(2) the date, within any consecutive twenty-four (24) month period commencing on or after the Effective Date, upon which individuals who constitute the Board as of the Effective Date (the "*Incumbent Board*") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual who becomes a director subsequent to the Effective Date whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then constituting the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such individual is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest (including but not limited to a consent solicitation) 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

(3) the consummation of a merger, consolidation, share exchange, or similar form of corporate transaction involving the Company or any of its Affiliates that requires the approval of the Company's stockholders (whether for such transaction or the issuance of securities in the transaction or otherwise) (a "*Reorganization*"), unless immediately following such Reorganization (i) more than fifty percent (50%) of the total voting power of (A) the corporation resulting from such Reorganization (the "*Surviving Company*") or (B) if applicable, the ultimate parent corporation that has, directly or indirectly, beneficial ownership of one hundred percent (100%) of the voting securities of the Surviving Company (the "*Parent Company*"), is represented by Company Voting Securities that were outstanding immediately prior to such Reorganization (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Reorganization), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among holders thereof immediately prior to the Reorganization, (ii) no person, other than an employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company (or its related trust), is or becomes the beneficial owner, directly or indirectly, of

fifty percent (50%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Company, or if there is no Parent Company, the Surviving Company, and (iii) at least a majority of the members of the board of directors of the Parent Company, or if there is no Parent Company, the Surviving Company, following the consummation of the Reorganization are members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization (any Reorganization which satisfies all of the criteria specified in (i), (ii), and (iii) above shall be a "*Non-Control Transaction*"); or

(4) the sale or disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any "person" (as defined in Section 3(a)(9) of the Exchange Act) 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 Exchange Act) other than the Company's Affiliates.

Notwithstanding the foregoing, (x) a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of fifty percent (50%) or more of the Company Voting Securities as a result of an acquisition of Company Voting Securities by the Company that reduces the number of Company Voting Securities outstanding; *provided* that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control shall then occur, and (y) with respect to the payment of any amount that constitutes a deferral of compensation subject to Section 409A of the Code payable upon a Change in Control, a Change in Control shall not be deemed to have occurred, unless the Change in Control constitutes a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company under Section 409A(a)(2)(A)(v) of the Code.

(h) "*Code*" means the U.S. Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(i) "*Committee*" means the Board or such other committee consisting of two or more individuals appointed by the Board to administer the Plan and each other individual or committee of individuals designated to exercise authority under the Plan.

(j) "*Company*" means Level 3 Communications, Inc., a Delaware corporation.

(k) "*Company Voting Securities*" has the meaning set forth in Section 2(g)(1) above.

(l) "*Corporate Event*" has the meaning set forth in Section 11(b) below.

(m) "*Data*" has the meaning set forth in Section 21(e) below.

(n) "*Disability*" means, in the absence of an Award Agreement or Participant Agreement otherwise defining Disability, the permanent and total disability of such Participant within the meaning of Section 22(e)(3) of the Code. In the event that there is an Award Agreement or Participant Agreement defining Disability, "*Disability*" shall have the meaning provided in such Award Agreement or Participant Agreement.

(o) "*Disqualifying Disposition*" means any disposition (including any sale) of Stock acquired upon the exercise of an Incentive Stock Option made within the period that ends either (i) two years after the date on which the Participant was granted the Incentive Stock Option or (ii) one year after the date upon which the Participant acquired the Stock.

(p) "*Effective Date*" means [●], 2015, which is the date on which the Plan was first approved by the Company's stockholders.

(q) “*Eligible Person*” means (1) each employee and officer of the Company or of any of its Affiliates, including each such employee and officer who may also be a director of the Company or any of its Affiliates, (2) each non-employee director of the Company or any of its Affiliates, (3) each other natural person who provides substantial services to the Company or any of its Affiliates as a consultant or advisor and who is designated as eligible by the Committee, and (4) each natural person who has been offered employment by the Company or any of its Affiliates; *provided* that such prospective employee may not receive any payment or exercise any right relating to an Award until such person has commenced employment or service with the Company or its Affiliates; *provided further, however*, that (i) with respect to any Award that is intended to qualify as a “stock right” that does not provide for a “deferral of compensation” within the meaning of Section 409A of the Code, the term Affiliate as used in this Section 2(q) shall include only those corporations or other entities in the unbroken chain of corporations or other entities beginning with the Company where each of the corporations in the unbroken chain other than the last corporation owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, and (ii) with respect to any Award that is intended to qualify as an Incentive Stock Option, the term “Affiliate” as used in this Section 2(q) shall include only those entities that qualify as a “subsidiary corporation” with respect to the Company within the meaning of Code Section 424(f). An employee on an approved leave of absence may be considered as still in the employ of the Company or its Affiliates for purposes of eligibility for participation in the Plan.

(r) “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time, including rules and regulations thereunder and successor provisions and rules and regulations thereto.

(s) “*Expiration Date*” means the date upon which the term of an Option or Stock Appreciation Right expires, as determined under Section 5(b) or 8(b) hereof, as applicable.

(t) “*Fair Market Value*” means, as of any date when the Stock is listed on one or more national securities exchanges, the closing price reported on the principal national securities exchange on which such Stock is listed and traded on the date of determination, or if the closing price is not reported on such date of determination, the closing price on the most recent date on which such closing price is reported. If the Stock is not listed on a national securities exchange, the Fair Market Value shall mean the amount determined by the Board in good faith, and in a manner consistent with Section 409A of the Code, to be the fair market value per share of Stock.

(u) “*Incentive Stock Option*” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(v) “*Incumbent Board*” shall have the meaning set forth in Section 2(f)(2) hereof.

(w) “*Non-Control Transaction*” has the meaning set forth in Section 2(g)(3) above.

(x) “*Nonqualified Stock Option*” means an Option not intended to qualify as an Incentive Stock Option.

(y) “*Option*” means a conditional right, granted to a Participant under Section 5 hereof, to purchase Stock at a specified price during a specified time period.

(z) “*Option Agreement*” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Option grant.

(aa) “*Parent Company*” has the meaning set forth in Section 2(g)(3) above.

(bb) "*Participant*" means an Eligible Person who has been granted an Award under the Plan, or if applicable, such other Person who holds an Award.

(cc) "*Participant Agreement*" means (i) an employment or services agreement between a Participant and the Service Recipient that describes the terms and conditions of such Participant's employment or service with the Service Recipient and is effective as of the date of determination or (ii) the Level 3 Communications, Inc. Key Executive Severance Plan, as amended from time to time, with respect to those Participants participating in such plan as of the date of determination.

(dd) "*Performance Award*" means an Award granted to a Participant under Section 9 hereof, which Award is subject to the achievement of Performance Objectives during a Performance Period. A Performance Award shall be designated as a "*Performance Share*," a "*Performance Unit*" or a "*Cash Award*" at the time of grant.

(ee) "*Performance Award Agreement*" means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Performance Award grant.

(ff) "*Performance Objectives*" means the performance objectives established pursuant to this Plan for Participants who have received Performance Awards.

(gg) "*Performance Period*" means the period designated for the achievement of Performance Objectives.

(hh) "*Performance Share*" means a Performance Award denominated in shares of Stock which may be earned in whole or in part based upon the achievement of Performance Objectives during a Performance Period.

(ii) "*Performance Unit*" means a Performance Award which may be earned in whole or in part based upon the achievement of Performance Objectives during a Performance Period.

(jj) "*Person*" means any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, or other entity.

(kk) "*Plan*" means this Level 3 Communications, Inc. Stock Incentive Plan, as may be amended from time to time.

(ll) "*Prior Plan*" means the Level 3 Communications, Inc. Stock Plan, as amended.

(mm) "*Qualified Member*" means a member of the Committee who is a "Non-Employee Director" within the meaning of Rule 16b-3 under the Exchange Act and an "outside director" within the meaning of Treasury Regulation Section 1.162-27(e)(3) under Section 162(m) of the Code.

(nn) "*Qualified Performance-Based Award*" means an Option, Stock Appreciation Right, or Performance Award that is intended to qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

(oo) "*Qualifying Committee*" has the meaning set forth in Section 3(b) hereof.

(pp) "*Reorganization*" has the meaning set forth in 2(g)(3) above.

(qq) "*Restricted Stock*" means Stock granted to a Participant under Section 6 hereof that is subject to certain restrictions and to a risk of forfeiture.

(rr) "*Restricted Stock Agreement*" means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Restricted Stock grant.

(ss) “*Restricted Stock Unit*” means a notional unit representing the right to receive one share of Stock (or the cash value of one share of Stock, if so determined by the Committee) on a specified settlement date.

(tt) “*RSU Agreement*” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual grant of Restricted Stock Units.

(uu) “*SAR Agreement*” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual grant of Stock Appreciation Rights.

(vv) “*Securities Act*” means the U.S. Securities Act of 1933, as amended from time to time, including rules and regulations thereunder and successor provisions and rules and regulations thereto.

(ww) “*Service Recipient*” means, with respect to a Participant holding a given Award, either the Company or an Affiliate of the Company by which the original recipient of such Award is, or following a Termination was most recently, principally employed or to which such original recipient provides, or following a Termination was most recently providing, services, as applicable.

(xx) “*Stock*” means the Company’s common stock, par value \$0.01 per share, and such other securities as may be substituted for such stock pursuant to Section 11 hereof.

(yy) “*Stock Appreciation Right*” means a conditional right to receive an amount equal to the value of the appreciation in the Stock over a specified period. Except in the event of extraordinary circumstances, as determined in the sole discretion of the Committee, or pursuant to Section 11(b) below, Stock Appreciation Rights shall be settled in Stock.

(zz) “*Surviving Company*” has the meaning set forth in Section 2(g)(3) above.

(aaa) “*Termination*” means the termination of a Participant’s employment or service, as applicable, with the Service Recipient; *provided, however*, that, if so determined by the Committee at the time of any change in status in relation to the Service Recipient (e.g., a Participant ceases to be an employee and begins providing services as a consultant, or vice versa), such change in status will not be deemed a Termination hereunder. Unless otherwise determined by the Committee, in the event that any Service Recipient ceases to be an Affiliate of the Company (by reason of sale, divestiture, spin-off, or other similar transaction), unless a Participant’s employment or service is transferred to another entity that would constitute a Service Recipient immediately following such transaction, such Participant shall be deemed to have suffered a Termination hereunder as of the date of the consummation of such transaction. Notwithstanding anything herein to the contrary, a Participant’s change in status in relation to the Service Recipient (for example, a change from employee to consultant) shall not be deemed a Termination hereunder with respect to any Awards constituting nonqualified deferred compensation subject to Section 409A of the Code that are payable upon a Termination unless such change in status constitutes a “separation from service” within the meaning of Section 409A of the Code. Any payments in respect of an Award constituting nonqualified deferred compensation subject to Section 409A of the Code that are payable upon a Termination shall be delayed for such period as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code. On the first business day following the expiration of such period, the Participant shall be paid, in a single lump sum without interest, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule applicable to such Award.

3. Administration.

(a) *Authority of the Committee.* Except as otherwise provided below, the Plan shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to (1) select Eligible Persons to become Participants, (2) grant Awards, (3) determine the type, number of shares of Stock subject to, other terms and conditions of, and all other matters relating to, Awards, (4) prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, (5) construe and interpret the Plan and Award Agreements and correct defects, supply omissions, and reconcile inconsistencies therein, (6) suspend the right to exercise Awards during any period that the Committee deems appropriate to comply with applicable securities laws, and thereafter extend the exercise period of an Award by an equivalent period of time or such shorter period required by, or necessary to comply with, applicable law, (7) the ability to accelerate the vesting of any outstanding Award at any time and for any reason; and (8) make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. Any action of the Committee shall be final, conclusive, and binding on all persons, including, without limitation, the Company, its stockholders and Affiliates, Eligible Persons, Participants, and beneficiaries of Participants. For the avoidance of doubt, the Board shall have the authority to take all actions under the Plan that the Committee is permitted to take.

(b) *Manner of Exercise of Committee Authority.* At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to a Qualified Performance-Based Award or relating to an Award granted or to be granted to a Participant who is then subject to Section 16 of the Exchange Act in respect of the Company, must be taken by the remaining members of the Committee or a subcommittee of the Board, composed solely of two or more Qualified Members (a "Qualifying Committee"). Any action authorized by such a Qualifying Committee shall be deemed the action of the Committee for purposes of the Plan. The express grant of any specific power to the Qualifying Committee, and the taking of any action by the Qualifying Committee, shall not be construed as limiting any power or authority of the Committee.

(c) *Delegation.* To the extent permitted by applicable law, the Committee may delegate to officers or employees of the Company or any of its Affiliates, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions under the Plan, including, but not limited to, administrative functions, as the Committee may determine appropriate. Any action taken by a delegate pursuant to the immediately preceding sentence shall be deemed the action of the Committee for purposes of the Plan. The Committee may appoint agents to assist it in administering the Plan. Notwithstanding the foregoing or any other provision of the Plan to the contrary, any Award granted under the Plan to any Eligible Person who is not an employee of the Company or any of its Affiliates (including any non-employee director of the Company or any Affiliate) or to any Eligible Person who is subject to Section 16 of the Exchange Act or is to be granted a Qualifying Performance-Based Award must be expressly approved by the Committee or Qualifying Committee in accordance with subsection (b) above.

(d) *Section 409A.* All Awards made under the Plan that are intended to be "deferred compensation" subject to Section 409A shall be interpreted, administered and construed to comply with Section 409A, and all Awards made under the Plan that are intended to be exempt from Section 409A shall be interpreted, administered and construed to comply with and preserve such exemption. The Committee shall have full authority to give effect to the intent of the foregoing sentence. To the extent necessary to give effect to this intent, in the case of any conflict or potential inconsistency between the Plan and a provision of any Award or Award

Agreement with respect to an Award, the Plan shall govern. Notwithstanding the foregoing, neither the Company nor the Committee shall have any liability to any person in the event Section 409A applies to any Award in a manner that results in adverse tax consequences for the Participant or any of his or her beneficiaries or transferees.

4. Shares Available Under the Plan.

(a) *Number of Shares Available for Delivery.* Subject to adjustment as provided in Section 11 hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall equal the sum of (1) 14,000,000, (2) the number of shares of Stock authorized for issuance or transfer under the Prior Plan that are not subject to awards outstanding or previously exercised or settled as of the Effective Date, and (3) to the extent that an award outstanding under the Prior Plan as of the Effective Date expires or is canceled, forfeited, settled in cash, or otherwise terminated without a delivery to the grantee of the full number of shares to which the award related, the number of shares that are undelivered. For the avoidance of doubt, no new awards will be granted pursuant to the Prior Plan or the tw telecom, inc. Amended and Restated 2000 Employee Stock Plan from and after the Effective Date. Shares of Stock delivered under the Plan shall consist of authorized and unissued shares or previously issued shares of Stock reacquired by the Company on the open market or by private purchase. Notwithstanding the foregoing, the number of shares of Stock available for issuance hereunder shall not be reduced by shares issued pursuant to Awards issued or assumed in connection with a merger or acquisition as contemplated by NYSE Listed Company Manual Section 303A.08 or other applicable stock exchange rules, and their respective successor rules and listing exchange promulgations.

(b) *Share Counting Rules.* The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double-counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. To the extent that an Award expires or is canceled, forfeited, settled in cash, or otherwise terminated without a delivery to the Participant of the full number of shares of Stock to which the Award related, the undelivered shares of Stock will again be available for grant. Shares of Stock withheld in payment of the exercise price or taxes relating to an Award and shares equal to the number surrendered in payment of any exercise price or taxes relating to an Award shall be deemed to constitute shares delivered to the Participant and shall not again be available for Awards under the Plan. For the avoidance of doubt, with respect to Stock Appreciation Rights, when a Stock-settled Stock Appreciation Rights is exercised, the shares of Stock subject to a SAR Agreement shall be counted against the shares of Stock available for issuance as one (1) share of Stock for every share of Stock subject thereto, regardless of the number of shares of Stock used to settle the Stock Appreciation Right upon exercise.

(c) *162(m) Limitation; Incentive Stock Options.*

(1) Notwithstanding anything to the contrary herein, during any time that the Company is subject to Section 162(m) of the Code, the maximum number of shares of Stock with respect to which Options, Stock Appreciation Rights, and Performance Awards, in each case and to the extent intended to qualify as a Qualified Performance-Based Award, may be granted to any individual in any one calendar year shall not exceed 3,000,000 (subject to adjustment as provided in Section 11 hereof). The maximum value of the aggregate payment that any individual may receive with respect to a Qualified Performance-Based Award that is valued in dollars in respect of any annual Performance Period is \$10,000,000, and for any Performance Period in excess of one (1) year, such amount multiplied by a fraction, the numerator of which is the number of months in the Performance Period and the

denominator of which is twelve (12). No Qualified Performance-Based Awards may be granted hereunder following the first (1st) meeting of the Company's stockholder that occurs in the fifth (5th) year following the year in which the Company's stockholders most recently approved the terms of the Plan for purposes of satisfying the "qualified performance-based compensation" exemption under Section 162(m)(4)(C) of the Code.

(2) All shares of Stock reserved for issuance hereunder may be issued or transferred upon exercise or settlement of Incentive Stock Options.

5. Options.

(a) *General.* Certain Options granted under the Plan are intended to qualify as Incentive Stock Options. Options may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate; *provided, however,* that Incentive Stock Options may be granted only to Eligible Persons who are employees of the Company or an Affiliate (as such definition is limited pursuant to Section 2(q) above) of the Company. The provisions of separate Options shall be set forth in separate Option Agreements, which agreements need not be identical.

(b) *Term.* The term of each Option shall be set by the Committee at the time of grant; *provided, however,* that no Option granted hereunder shall be exercisable after the expiration of ten (10) years from the date it was granted.

(c) *Exercise Price.* The exercise price per share of Stock for each Option shall be set by the Committee at the time of grant; *provided, however,* the applicable exercise price per share of Stock shall not be less than the Fair Market Value on the date of grant, subject to subsection (g) below in the case of any Incentive Stock Option.

(d) *Payment for Stock.* Payment for shares of Stock acquired pursuant to Options granted hereunder shall be made in full upon exercise of an Option (1) in immediately available funds in United States dollars, or by certified or bank cashier's check, (2) by delivery of shares of Stock having a value equal to the exercise price, (3) by a broker-assisted cashless exercise in accordance with procedures approved by the Committee, whereby payment of the Option exercise price or tax withholding obligations may be satisfied, in whole or in part, with shares of Stock subject to the Option by delivery of an irrevocable direction to a securities broker (on a form prescribed by the Committee) to sell shares of Stock and to deliver all or part of the sale proceeds to the Company in payment of the aggregate exercise price and, if applicable, the amount necessary to satisfy the Company's withholding obligations, or (4) by any other means approved by the Committee (including, by delivery of a notice of "net exercise" to the Company, pursuant to which the Participant shall receive the number of shares of Stock underlying the Option so exercised reduced by the number of shares of Stock equal to the aggregate exercise price of the Option divided by the Fair Market Value on the date of exercise). Anything herein to the contrary notwithstanding, if the Committee determines that any form of payment available hereunder would be in violation of Section 402 of the Sarbanes-Oxley Act of 2002, such form of payment shall not be available.

(e) *Vesting.* Options shall vest and become exercisable in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in an Option Agreement. Unless otherwise specifically determined by the Committee, the vesting of an Option shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. If an Option is exercisable in installments, such installments or portions thereof that become exercisable shall remain exercisable until the Option expires.

(f) *Termination of Employment or Service.* Except as provided by the Committee in an Option Agreement, Participant Agreement or otherwise:

(1) In the event of a Participant's Termination prior to the applicable Expiration Date for any reason other than (i) by the Service Recipient for Cause, or (ii) by reason of the Participant's death or Disability, (A) all vesting with respect to such Participant's outstanding Options shall cease, (B) all of such Participant's outstanding unvested Options shall terminate as of the date of such Termination, and (C) each of such Participant's outstanding vested Options shall terminate on the earlier of the applicable Expiration Date and the date that is ninety (90) days after the date of such Termination.

(2) In the event of a Participant's Termination prior to the applicable Expiration Date by reason of such Participant's death or Disability, (i) all vesting with respect to such Participant's outstanding Options shall cease, (ii) all of such Participant's outstanding unvested Options shall expire as of the date of such Termination, and (iii) each of such Participant's outstanding vested Options shall terminate on the earlier of the applicable Expiration Date and the date that is twelve (12) months after the date of such Termination. In the event of a Participant's death, such Participant's Options shall remain exercisable by the person or persons to whom a Participant's rights under the Options pass by will or by the applicable laws of descent and distribution until their expiration, but only to the extent that the Options were vested by such Participant at the time of such Termination.

(3) In the event of a Participant's Termination prior to the applicable Expiration Date by the Service Recipient for Cause, all of such Participant's outstanding Options (whether or not vested) shall immediately expire as of the date of such Termination.

(g) *Special Provisions Applicable to Incentive Stock Options.*

(1) No Incentive Stock Option may be granted to any Eligible Person who, at the time the Option is granted, owns directly, or indirectly within the meaning of Section 424(d) of the Code, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any parent or subsidiary thereof, unless such Incentive Stock Option (i) has an exercise price of at least one hundred ten percent (110%) of the Fair Market Value on the date of the grant of such Option and (ii) cannot be exercised more than five (5) years after the date it is granted.

(2) To the extent that the aggregate Fair Market Value (determined as of the date of grant) of Stock for which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options.

(3) Each Participant who receives an Incentive Stock Option must agree to notify the Company in writing immediately after the Participant makes a Disqualifying Disposition of any Stock acquired pursuant to the exercise of an Incentive Stock Option.

6. Restricted Stock.

(a) *General.* Restricted Stock may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Awards of Restricted Stock shall be set forth in separate Restricted Stock Agreements, which agreements need not be identical. Subject to the restrictions set forth in Section 6(b), and except as otherwise set forth in the applicable Restricted Stock Agreement, the Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock. Unless otherwise set forth in a Participant's Restricted

Stock Agreement, cash dividends and stock dividends, if any, with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and shall be subject to forfeiture to the same degree as the shares of Restricted Stock to which such dividends relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any cash dividends withheld.

(b) *Vesting and Restrictions on Transfer.* Restricted Stock shall vest in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in a Restricted Stock Agreement. Unless otherwise specifically determined by the Committee, the vesting of an Award of Restricted Stock shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. In addition to any other restrictions set forth in a Participant's Restricted Stock Agreement, until such time as the Restricted Stock has vested pursuant to the terms of the Restricted Stock Agreement, the Participant shall not be permitted to sell, transfer, pledge, or otherwise encumber the Restricted Stock.

(c) *Termination of Employment or Service.* Except as provided by the Committee in a Restricted Stock Agreement, Participant Agreement or otherwise, in the event of a Participant's Termination for any reason prior to the time that such Participant's Restricted Stock has vested, (1) all vesting with respect to such Participant's Restricted Stock shall cease, and (2) as soon as practicable following such Termination, the Company shall repurchase from the Participant, and the Participant shall sell, all of such Participant's unvested shares of Restricted Stock at a purchase price equal to the original purchase price paid for the Restricted Stock, or if the original purchase price is equal to zero dollars (\$0), such unvested shares of Restricted Stock shall be forfeited to the Company by the Participant for no consideration as of the date of such Termination.

7. Restricted Stock Units.

(a) *General.* Restricted Stock Units may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Restricted Stock Units shall be set forth in separate RSU Agreements, which agreements need not be identical.

(b) *Vesting.* Restricted Stock Units shall vest in such manner, on such date or dates, or upon such conditions, in each case as may be determined by the Committee and set forth in an RSU Agreement. Unless otherwise specifically determined by the Committee, the vesting of a Restricted Stock Unit shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason.

(c) *Delivery of Stock.* Restricted Stock Units shall be subject to a deferral period as set forth in the applicable RSU Agreement, which may or may not coincide with the vesting period, as determined by the Committee in its discretion. Delivery of Stock, cash, or property, as determined by the Committee, will occur upon a specified delivery date or dates upon the expiration of the deferral period specified for the Restricted Stock Units in the RSU Agreement. Unless otherwise set forth in a Participant's RSU Agreement, a Participant shall not be entitled to dividends, if any, with respect to Restricted Stock Units prior to the actual delivery of shares of Stock.

(d) *Termination of Employment or Service.* Except as provided by the Committee in an RSU Agreement, Participant Agreement or otherwise, in the event of a Participant's Termination for any reason prior to the time that such Participant's Restricted Stock Units have been settled,

(1) all vesting with respect to such Participant's Restricted Stock Units shall cease, (2) each of such Participant's outstanding unvested Restricted Stock Units shall be forfeited for no consideration as of the date of such Termination, and (3) any shares remaining undelivered with respect to vested Restricted Stock Units then held by such Participant shall be delivered on the delivery date or dates specified in the RSU Agreement.

8. Stock Appreciation Rights.

(a) *General.* Stock Appreciation Rights may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Stock Appreciation Rights shall be set forth in separate SAR Agreements, which agreements need not be identical.

(b) *Term.* The term of each Stock Appreciation Right shall be set by the Committee at the time of grant; *provided, however,* that no Stock Appreciation Right granted hereunder shall be exercisable after the expiration of ten (10) years from the date it was granted.

(c) *Base Price.* The base price per share of Stock for each Stock Appreciation Right shall be set by the Committee at the time of grant; *provided, however,* the applicable base price per share shall not be less than the Fair Market Value on the date of grant.

(d) *Vesting.* Stock Appreciation Rights shall vest and become exercisable in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in a SAR Agreement. Unless otherwise specifically determined by the Committee, the vesting of a Stock Appreciation Right shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. If a Stock Appreciation Right is exercisable in installments, such installments or portions thereof that become exercisable shall remain exercisable until the Stock Appreciation Right expires.

(e) *Payment upon Exercise.* Payment upon exercise of a Stock Appreciation Right may be made in cash, Stock, or property as specified in the SAR Agreement or determined by the Committee, in each case having a value in respect of each share of Stock underlying the portion of the Stock Appreciation Right so exercised, equal to the difference between the base price of such Stock Appreciation Right and the Fair Market Value of one (1) share of Stock on the exercise date. For purposes of clarity, each share of Stock to be issued in settlement of a Stock Appreciation Right is deemed to have a value equal to the Fair Market Value of one (1) share of Stock on the exercise date. In no event shall fractional shares be issuable upon the exercise of a Stock Appreciation Right, and in the event that fractional shares would otherwise be issuable, the number of shares issuable will be rounded down to the next lower whole number of shares, and the Participant will be entitled to receive a cash payment equal to the value of such fractional share.

(f) *Termination of Employment or Service.* Except as provided by the Committee in a SAR Agreement, Participant Agreement or otherwise:

(1) In the event of a Participant's Termination for any reason other than (i) by the Service Recipient for Cause, or (ii) by reason of the Participant's death or Disability, (A) all vesting with respect to such Participant's outstanding Stock Appreciation Rights shall cease, (B) each of such Participant's outstanding unvested Stock Appreciation Rights shall expire as of the date of such Termination, and (C) each of such Participant's outstanding vested Stock Appreciation Rights shall remain exercisable until the earlier of the applicable Expiration Date and the date that is ninety (90) days after the date of such Termination.

(2) In the event of a Participant's Termination by reason of such Participant's death or Disability, (i) all vesting with respect to such Participant's outstanding Stock Appreciation Rights shall cease, (ii) each of such Participant's outstanding unvested Stock Appreciation Rights shall expire as of the date of such Termination, and (iii) each of such Participant's outstanding vested Stock Appreciation Rights shall remain exercisable until the earlier of the applicable Expiration Date and the date that is twelve (12) months after the date of such Termination. In the event of a Participant's death, such Participant's Stock Appreciation Rights shall remain exercisable by the person or persons to whom a Participant's rights under the Stock Appreciation Rights pass by will or by the applicable laws of descent and distribution until their expiration, but only to the extent that the Stock Appreciation Rights were vested by such Participant at the time of such Termination.

(3) In the event of a Participant's Termination by the Service Recipient for Cause, all of such Participant's outstanding Stock Appreciation Rights (whether or not vested) shall immediately expire as of the date of such Termination.

9. Performance Awards.

(a) *General.* Performance Awards may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Performance Awards, including the determination of the Committee with respect to the form of payout of Performance Awards, shall be set forth in separate Performance Award Agreements, which agreements need not be identical.

(b) *Value of Performance Awards.* Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of the Stock on the date of grant. Each Performance Award Agreement in respect of any Cash Award shall specify the dollar amount payable under the Cash Award, which may include a target, threshold or maximum amount payable, and any formula for determining such. In addition to any other non-performance terms included in the Performance Award Agreement, the Committee shall set the applicable Performance Objectives in its discretion, which objectives, depending on the extent to which they are met, will determine the value and number of Performance Units or Performance Shares, or the value of the Cash Award, as the case may be, that will be paid out to the Participant. With respect to Qualified Performance-Based Awards, the Committee shall establish the applicable Performance Objectives in writing not later than ninety (90) days after the commencement of the Performance Period or, if earlier, the date as of which twenty-five percent (25%) of the Performance Period has elapsed.

(c) *Earning of Performance Awards.* Upon the expiration of the applicable Performance Period or other non-performance-based vesting period, if longer, the holder of a Performance Award shall be entitled to receive the following payouts: (1) if the holder holds Performance Units or Performance Shares, payout on the value and number of the applicable Performance Units or Performance Shares earned by the Participant over the Performance Period, or (2) if the holder holds a Cash Award, payout on the value of the Cash Award earned by the Participant over the Performance Period, in any case, to be determined as a function of the extent to which the corresponding Performance Objectives have been achieved and any other non-performance-based terms met. No payment shall be made with respect to a Qualified Performance-Based Award prior to certification by the Committee that the Performance Objectives have been attained.

(d) *Form and Timing of Payment of Performance Awards.* Payment of earned Performance Awards shall be as determined by the Committee and as evidenced in the Performance Award Agreement. Subject to the terms of the Plan, the Committee, in its sole

discretion, may pay earned Performance Units and Performance Shares in the form of cash, Stock, or other Awards (or in a combination thereof) equal to the value of the earned Performance Units or Performance Shares, as the case may be, at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period. Unless otherwise determined by the Committee, earned Cash Awards shall be paid in cash. Any cash, Stock, or other Awards issued in connection with a Performance Award may be issued subject to any restrictions deemed appropriate by the Committee. Notwithstanding the satisfaction of any completion of any Performance Objectives, the number of shares of Stock, cash or other benefits granted, earned, issued, retainable and/or vested under a Performance Award on account of the satisfaction of Performance Objectives thereunder may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, shall determine.

(e) *Termination of Employment or Service.* Except as provided by the Committee in a Performance Award Agreement, Participant Agreement or otherwise, if, prior to the time that the applicable Performance Period has expired, a Participant undergoes a Termination for any reason, all of such Participant's Performance Awards shall be forfeited by the Participant to the Company for no consideration.

(f) *Performance Objectives.*

(1) Each Performance Award shall specify the Performance Objectives that must be achieved before such Award shall become earned. The Company may also specify a minimum acceptable level of achievement below which no payment will be made and may set forth a formula for determining the amount of any payment to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

(2) Performance Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of an individual Participant, the specific Service Recipient, or a division, department, region or function within the Company or the Service Recipient. Performance Objectives may be measured on an absolute or relative basis. Relative performance may be measured by comparison to a group of peer companies or to a financial market index. With respect to Qualified Performance-Based Awards, Performance Objectives shall be limited to specified levels of or increases in one or more of the following (alone or in combination with any other criterion, whether gross or net, before or after taxes, and/or before or after adjustments, as determined by the Committee): (i) earnings, including net earnings, total earnings, operating earnings, earnings growth, operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth, or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, return on equity, financial return ratios, or internal rates of return; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (discounted or otherwise), net cash provided by operations or cash flow in excess of cost of capital, working capital turnover; (xi) implementation or completion of critical projects or processes; (xii) economic value created; (xiii) balance sheet measurements (including, but not limited to, receivable turnover); (xiv) cumulative earnings per share growth; (xv) operating margin, profit margin, or gross margin; (xvi) stock price or total stockholder return; (xvii) cost or expense targets, reductions and savings, productivity and efficiencies; (xviii) sales or sales growth; (xix) economic value added; (xx) earnings measures/ratios;

(xxi) inventory turns; (xxii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, market share, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures, and similar transactions, and budget comparisons; (xxiii) increase in the fair market value per share; and (xxiv) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, the formation of joint ventures, research or development collaborations, and the completion of other corporate transactions. Performance Objectives may be established on a Company-wide basis, project or geographical basis or, as the context permits, with respect to one or more business units, divisions, lines of business, subsidiaries, products, or other operational units or administrative departments of the Company (or in combination thereof) or may be related to the performance of an individual Participant and may be expressed in absolute terms, or relative or comparative to (A) current internal targets or budgets, (B) the past performance of the Company (including the performance of one or more subsidiaries, divisions, or operating units), (C) the performance of one or more similarly situated companies, (D) the performance of an index covering multiple companies, or (E) other external measures of the selected performance criteria. Performance Objectives may be in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies.

(3) The Committee shall adjust Performance Objectives and the related acceptable level of achievement if, in the sole judgment of the Committee, events or transactions have occurred after the applicable date of grant of a Performance Award that are unrelated to the performance of the Company or Participant and result in a distortion of the Performance Objectives or the related acceptable level of achievement. Potential transactions or events giving rise to adjustment include, but are not limited to, (i) restructurings, discontinued operations, extraordinary items or events (including, without limitation, material acquisitions or divestitures), and other unusual or nonrecurring charges or events; (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management; and (iii) a change in tax law or accounting standards required by generally accepted accounting principles. Notwithstanding the foregoing, except as otherwise determined by the Committee, no adjustment shall be made if the effect would be to cause a Qualified Performance-Based Award to fail to qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Code. In addition, with respect to Qualified Performance-Based Awards, the Committee may, in its discretion, reduce or eliminate the amount payable to any Participant pursuant thereto, in each case based upon such factors as the Committee may deem relevant, but shall not increase the amount payable to any Participant pursuant thereto for any Performance Period.

10. Other Stock-Based Awards.

The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based upon or related to Stock, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee may also grant Stock as a bonus (whether or not subject to any vesting requirements or other restrictions on transfer), and may grant other awards in lieu of obligations of the Company or an Affiliate to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee. The terms and conditions applicable to such Awards shall be determined by the Committee and evidenced by Award Agreements, which agreements need not be identical.

11. Adjustment for Recapitalization, Merger, etc.

(a) *Capitalization Adjustments.* The aggregate number of shares of Stock that may be granted or purchased pursuant to Awards (as set forth in Section 4 above), the number of shares of Stock covered by each outstanding Award, and the price per share of Stock underlying each such Award shall be equitably and proportionally adjusted or substituted, as determined by the Committee, in its sole discretion, as to the number, price, or kind of a share of Stock or other consideration subject to such Awards (1) in the event of changes in the outstanding Stock or in the capital structure of the Company by reason of stock dividends, extraordinary cash dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, amalgamations, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the date of grant of any such Award (including any Corporate Event); (2) in connection with any extraordinary dividend declared and paid in respect of shares of Stock, whether payable in the form of cash, stock, or any other form of consideration; or (3) in the event of any change in applicable laws or circumstances that results in or could result in, in either case, as determined by the Committee in its sole discretion, any substantial dilution or enlargement of the rights intended to be granted to, or available for, Participants in the Plan.

(b) *Corporate Events.* No Award Agreement shall provide for acceleration of vesting upon the occurrence of a Corporate Event without a contemporaneous or subsequent Termination. Notwithstanding the foregoing, in connection with (i) a merger, amalgamation, or consolidation involving the Company in which the Company is not the surviving corporation, (ii) a merger, amalgamation, or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Stock receive securities of another corporation or other property or cash, (iii) a Change in Control, or (iv) the reorganization, dissolution or liquidation of the Company (each, a “*Corporate Event*”), the Committee may, in its discretion, provide for any one or more of the following:

(1) The assumption or substitution of any or all Awards in connection with such Corporate Event, in which case the Awards shall be subject to the adjustment set forth in subsection (a) above, and to the extent that such Awards are Performance Awards or other Awards that vest subject to the achievement of Performance Objectives or similar performance criteria, such Performance Objectives or similar performance criteria shall be adjusted appropriately to reflect the Corporate Event;

(2) The acceleration of vesting of any or all Awards, subject to the consummation of such Corporate Event, with any Performance Awards or other Awards that vest subject to the achievement of Performance Objectives or similar performance criteria deemed earned at (i) actual level of performance achieved, pro-rated for the actual Performance Period completed, (ii) the target level, or the (iii) maximum level, in each case, as determined by the Committee in its sole discretion, with respect to all unexpired Performance Periods;

(3) The cancellation of any or all Awards (whether vested or unvested) as of the consummation of such Corporate Event, together with the payment to the Participants holding vested Awards (including any Awards that would vest upon the Corporate Event but for such cancellation) so canceled of an amount in respect of cancellation equal to the amount payable pursuant to any Cash Award or, with respect to other Awards, an amount based upon the per-share consideration being paid for the Stock in connection with such Corporate Event, less, in the case of Options, Stock Appreciation Rights, and other Awards subject to exercise, the applicable exercise or base price; *provided, however*, that holders of Options, Stock Appreciation Rights, and other Awards subject to exercise shall be entitled to consideration in respect of cancellation of such Awards only if the per-share consideration less the applicable exercise or base price is greater than zero dollars (\$0),

and to the extent that the per-share consideration is less than or equal to the applicable exercise or base price, such Awards shall be canceled for no consideration;

(4) The cancellation of any or all Options, Stock Appreciation Rights and other Awards subject to exercise (whether vested or unvested) as of the consummation of such Corporate Event; *provided*, that, all Options, Stock Appreciation Rights and other Awards to be so cancelled pursuant to this paragraph (4) shall first become exercisable for a period of at least ten (10) days prior to such Corporate Event, with any exercise during such period of any unvested Options, Stock Appreciation Rights or other Awards to be (A) contingent upon and subject to the occurrence of the Corporate Event, and (B) effectuated by such means as are approved by the Committee; and

(5) The replacement of any or all Awards (other than Awards that are intended to qualify as “stock rights” that do not provide for a “deferral of compensation” within the meaning of Section 409A of the Code) with a cash incentive program that preserves the value of the Awards so replaced (determined as of the consummation of the Corporate Event), with subsequent payment of cash incentives subject to the same vesting conditions as applicable to the Awards so replaced and payment to be made within thirty (30) days of the applicable vesting date.

Payments to holders pursuant to paragraph (3) above shall be made in cash or, in the sole discretion of the Committee and, to the extent applicable, in the form of such other consideration necessary for a Participant to receive property, cash, or securities (or a combination thereof) as such Participant would have been entitled to receive upon the occurrence of the transaction if the Participant had been, immediately prior to such transaction, the holder of the number of shares of Stock covered by the Award at such time (less any applicable exercise or base price). In addition, in connection with any Corporate Event, prior to any payment or adjustment contemplated under this subsection (b), the Committee may require a Participant to (A) represent and warrant as to the unencumbered title to his or her Awards, (B) bear such Participant’s pro-rata share of any post-closing indemnity obligations, and be subject to the same post-closing purchase price adjustments, escrow terms, offset rights, holdback terms, and similar conditions as the other holders of Stock, and (C) deliver customary transfer documentation as reasonably determined by the Committee.

The Committee need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Committee may take different actions with respect to the vested and unvested portions of an Award.

(c) *Fractional Shares.* Any adjustment provided under this Section 11 may, in the Committee’s discretion, provide for the elimination of any fractional share that might otherwise become subject to an Award.

12. Use of Proceeds.

The proceeds received from the sale of Stock pursuant to the Plan shall be used for general corporate purposes.

13. Rights and Privileges as a Stockholder.

Except as otherwise specifically provided in the Plan, no person shall be entitled to the rights and privileges of Stock ownership in respect of shares of Stock that are subject to Awards hereunder until such shares have been issued to that person.

14. Transferability of Awards.

Awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution, and to the extent subject to exercise, Awards may not be exercised during the lifetime of the grantee other than by the grantee. Notwithstanding the foregoing, except with respect to Incentive Stock Options, Awards and a Participant's rights under the Plan shall be transferable for no value to the extent provided in an Award Agreement or otherwise determined at any time by the Committee.

15. Employment or Service Rights.

No individual shall have any claim or right to be granted an Award under the Plan or, having been selected for the grant of an Award, to be selected for the grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any individual any right to be retained in the employ or service of the Company or an Affiliate of the Company.

16. Compliance with Laws.

The obligation of the Company to deliver Stock upon issuance, vesting, exercise, or settlement of any Award shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell, and shall be prohibited from offering to sell or selling, any shares of Stock pursuant to an Award unless such shares have been properly registered for sale with the Securities and Exchange Commission pursuant to the Securities Act (or with a similar non-United States regulatory agency pursuant to a similar law or regulation) or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale or resale under the Securities Act any of the shares of Stock to be offered or sold under the Plan or any shares of Stock to be issued upon exercise or settlement of Awards. If the shares of Stock offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend the Stock certificates representing such shares in such manner as it deems advisable to ensure the availability of any such exemption.

17. Withholding Obligations.

As a condition to the issuance, vesting, exercise, or settlement of any Award (or upon the making of an election under Section 83(b) of the Code), the Committee may require that a Participant satisfy, through deduction or withholding from any payment of any kind otherwise due to the Participant, or through such other arrangements as are satisfactory to the Committee, the minimum amount of all federal, state, and local income and other taxes of any kind required or permitted to be withheld in connection with such issuance, vesting, exercise, or settlement (or election). The Committee, in its discretion, may permit shares of Stock to be used to satisfy tax withholding requirements, and such shares shall be valued at their Fair Market Value as of the issuance, vesting, exercise, or settlement date of the Award, as applicable; *provided, however*, that the aggregate Fair Market Value of the number of shares of Stock that may be used to satisfy tax withholding requirements may not exceed the minimum statutorily required withholding amount with respect to such Award.

18. Amendment of the Plan or Awards.

(a) *Amendment of Plan.* The Board or the Committee may amend the Plan at any time and from time to time.

(b) *Amendment of Awards.* The Board or the Committee may amend the terms of any one or more Awards at any time and from time to time.

(c) *Addenda.* The Board may approve such addenda to the Plan as it may consider necessary or appropriate for the purpose of granting Awards to Eligible Persons, which Awards may contain such terms and conditions as the Board deems necessary or appropriate to accommodate differences in local law, tax policy or custom, which, if so required under applicable laws, may deviate from the terms and conditions set forth in the Plan. The terms of any such addenda shall supersede the terms of the Plan to the extent necessary to accommodate such differences but shall not otherwise affect the terms of the Plan as in effect for any other purpose.

(d) *Stockholder Approval; No Material Impairment.* Notwithstanding subsection (a) or (b) above, or any other provision of the Plan, no amendment to the Plan or any Award shall be effective without stockholder approval to the extent that such approval is required pursuant to applicable law or the applicable rules of each national securities exchange on which the Stock is listed. Additionally, no amendment to the Plan or any Award shall materially impair a Participant's rights under any Award unless the Participant consents in writing (it being understood that no action taken by the Board or the Committee that is expressly permitted under the Plan, including, without limitation, any actions described in Section 11 hereof, shall constitute an amendment to the Plan or an Award for such purpose). Notwithstanding the foregoing, subject to the limitations of applicable law, if any, and without an affected Participant's consent, the Board or the Committee may amend the terms of the Plan or any one or more Awards from time to time as necessary to bring such Awards into compliance with applicable law, including, without limitation, Section 409A of the Code.

(e) *No Repricing of Awards Without Stockholder Approval.* The repricing of Awards shall not be permitted without stockholder approval. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (1) changing the terms of an Award to lower its exercise or base price (other than on account of capital adjustments resulting from share splits, etc., as described in Section 11 hereof), (2) any other action that is treated as a repricing under generally accepted accounting principles, and (3) repurchasing for cash or canceling an Award in exchange for another Award at a time when its exercise or base price is greater than the Fair Market Value of the underlying Stock, unless the cancellation and exchange occurs in connection with an event set forth in Section 11 hereof.

19. Termination or Suspension of the Plan.

The Board or the Committee may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the Effective Date, or, if later, the tenth (10th) anniversary of any amendment and/or restatement of the Plan that is approved by the Company's stockholders. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated; *provided, however*, that following any suspension or termination of the Plan, the Plan shall remain in effect for the purpose of governing all Awards then outstanding hereunder until such time as all Awards under the Plan have been terminated, forfeited, or otherwise canceled, or earned, exercised, settled, or otherwise paid out, in accordance with their terms.

20. **Effective Date of the Plan.**

The Plan is effective as of the Effective Date.

21. **Miscellaneous.**

(a) *Certificates.* Stock acquired pursuant to Awards granted under the Plan may be evidenced in such a manner as the Committee shall determine. If certificates representing Stock are registered in the name of the Participant, the Committee may require that (1) such certificates bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Stock, (2) the Company retain physical possession of the certificates, and (3) the Participant deliver a stock power to the Company, endorsed in blank, relating to the Stock. Notwithstanding the foregoing, the Committee may determine, in its sole discretion, that the Stock shall be held in book-entry form rather than delivered to the Participant pending the release of any applicable restrictions.

(b) *Corporate Action Constituting Grant of Awards.* Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Committee, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Committee consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares of Stock) that are inconsistent with those in the Award Agreement as a result of a clerical error in connection with the preparation of the Award Agreement, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement.

(c) *Gross-Up Prohibition.* No Award Agreement shall provide for the Company to reimburse (or “gross-up”) any Award to satisfy tax obligations, including, without limitation, any excise tax imposed pursuant to Section 4999 of the Code or any penalty tax imposed by Section 409A of the Code.

(d) *Clawback/Recoupment Policy.* Notwithstanding anything contained herein to the contrary, all Awards granted under the Plan shall be and remain subject to any incentive compensation clawback or recoupment policy currently in effect or as may be adopted by the Board (or a committee or subcommittee of the Board) and, in each case, as may be amended from time to time. No such policy, adoption, or amendment shall in any event require the prior consent of any Participant. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company or any of its Affiliates.

(e) *Data Privacy.* As a condition of receipt of any Award, each Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering, and managing the Plan and Awards and the Participant’s participation in the Plan. In furtherance of such implementation, administration, and management, the Company and its Affiliates may hold certain personal information about a Participant, including, but not limited to, the Participant’s name, home address, telephone number, date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its Affiliates, and details of all Awards (the “Data”). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and Awards and the Participant’s participation in the Plan, the Company and its Affiliates may each transfer the Data to any third parties assisting the

Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan. Recipients of the Data may be located in the Participant's country or elsewhere, and the Participant's country and any given recipient's country may have different data privacy laws and protections. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of Stock. The Data related to a Participant will be held only as long as is necessary to implement, administer, and manage the Plan and Awards and the Participant's participation in the Plan. A Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. The Company may cancel the Participant's eligibility to participate in the Plan, and in the Committee's discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents described herein. For more information on the consequences of refusal to consent or withdrawal of consent, Participants may contact their local human resources representative.

(f) *Participants Outside of the United States.* The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then a resident, or is primarily employed or providing services, outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then a resident or primarily employed or providing services, or so that the value and other benefits of the Award to the Participant, as affected by non-United States tax laws and other restrictions applicable as a result of the Participant's residence, employment, or providing services abroad, shall be comparable to the value of such Award to a Participant who is a resident, or is primarily employed or providing services, in the United States. An Award may be modified under this Section 22(e)21(e) in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) of the Exchange Act for the Participant whose Award is modified. Additionally, the Committee may adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Eligible Persons who are non-United States nationals or are primarily employed or providing services outside the United States.

(g) *Change in Time Commitment.* In the event a Participant's regular level of time commitment in the performance of his or her services for the Company or any member of the Company Group is reduced (for example, and without limitation, if the Participant is an employee of the Company and the employee has a change in status from a full-time employee to a part-time employee) after the date of grant of any Award to the Participant, the Committee has the right in its sole discretion to (i) make a corresponding reduction in the number of shares of Stock subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (ii) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

(h) *No Liability of Committee Members.* Neither any member of the Committee nor any of the Committee's permitted delegates shall be liable personally by reason of any contract or

other instrument executed by such member or on his or her behalf in his or her capacity as a member of the Committee or for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer, or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against all costs and expenses (including counsel fees) and liabilities (including sums paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan, unless arising out of such person's own fraud or willful misconduct; *provided, however*, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate or articles of incorporation or bylaws, each as may be amended from time to time, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(i) *Payments Following Accidents or Illness.* If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his or her estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his or her spouse, child, relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(j) *Governing Law.* The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without reference to the principles of conflicts of laws thereof.

(k) *Electronic Delivery.* Any reference herein to a "written" agreement or document or "writing" will include any agreement or document delivered electronically or posted on the Company's intranet (or other shared electronic medium controlled or authorized by the Company to which the Participant has access).

(l) *Funding.* No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company be required to maintain separate bank accounts, books, records, or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees and service providers under general law.

(m) *Reliance on Reports.* Each member of the Committee and each member of the Board shall be fully justified in relying, acting, or failing to act, and shall not be liable for having so relied, acted, or failed to act in good faith, upon any report made by the independent public accountant of the Company and its Affiliates and upon any other information furnished in connection with the Plan by any Person or Persons other than such member.

(n) *Titles and Headings.* The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

* * *

This Plan was adopted by the Board on March 20, 2015.

This Plan was approved by the Company's stockholders on [●], 2015.

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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,				
	2014	2013	2012	2011	2010
	(dollars in millions, except per share amounts)				
Results of Operations:					
Revenue (1)	\$ 6,777	\$ 6,313	\$ 6,376	\$ 4,333	\$ 3,591
Income (Loss) from Continuing Operations (2)	314	(109)	(422)	(827)	(621)
Income (Loss) from Discontinued Operations, Net (1)	—	—	—	71	(1)
Net Income (Loss)	314	(109)	(422)	(756)	(622)
Per Common Share:					
Income (Loss) from Continuing Operations - Basic	1.23	(0.49)	(1.96)	(6.03)	(5.61)
Income (Loss) from Discontinued Operations, Net - Basic	—	—	—	0.52	(0.01)
Net Income (Loss) - Basic (2)	1.23	(0.49)	(1.96)	(5.51)	(5.62)
Income (Loss) from Continuing Operations - Diluted	1.21	(0.49)	(1.96)	(6.03)	(5.61)
Income (Loss) from Discontinued Operations, Net - Diluted	—	—	—	0.52	(0.01)
Net Income (Loss) - Diluted (2)	1.21	(0.49)	(1.96)	(5.51)	(5.62)
Dividends (3)	—	—	—	—	—
Financial Position:					
Total Assets	\$ 20,947	\$ 12,874	\$ 13,307	\$ 13,188	\$ 8,355
Current portion of long-term debt (4)	349	31	216	65	180
Long-Term Debt, less current portion (4)	10,984	8,331	8,516	8,385	6,268
Stockholders' Equity (Deficit) (5)	6,363	1,411	1,171	1,193	(157)

- (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 and \$60 million in 2010. 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.

On October 31, 2014, the Company completed the acquisition of tw telecom inc. ("tw telecom"). During 2014, the Company recorded revenue attributable to tw telecom of approximately \$285 million.

- (2) 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.

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.

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 5 - 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.

In 2014, the Company issued \$600 million aggregate principal amount of its 5.75% Senior Notes due 2022. The net proceeds from the offering of the notes, together with cash on hand, were used to redeem the \$605 million aggregate principal amount outstanding of the Company's 11.875% Senior Notes due 2019. The company recognized a debt extinguishment loss of \$53 million associated with this transaction during the fourth quarter 2014.

In 2014, the Company also recognized a \$100 million income tax benefit primarily related to the release of a foreign deferred tax valuation allowance.

- (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 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.

In 2014, Level 3 Escrow II, Inc. issued \$1.0 billion in aggregate principal amount of its 5.375% Senior Notes due 2022 (the "5.375% Senior Notes"). The 5.375% Senior Notes due 2022 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 tw telecom. Additionally, the Company entered into a ninth amendment agreement to the Existing Credit Agreement to incur \$2.0 billion in aggregate borrowings under the Existing Credit Agreement through the creation of a new Tranche B 2022 Term Loan (the "Tranche B 2022 Term Loan"). The net proceeds from both the 5.375% Senior Notes and the Tranche B 2022 Term Loan were used to finance the cash portion of the merger consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger. Further, in 2014, the Company issued a total of \$600 million aggregate principal amount of its 5.75% Senior Notes due 2022 (the "5.75% Senior Notes"). The net proceeds from the offering of the 5.75% Senior Notes, together with cash on hand were used to redeem all of the Company's outstanding 11.875% Senior Notes due 2019. In connection with that redemption, the Company recognized a loss on extinguishment of debt of \$53 million.

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.

In 2014, the Company issued approximately 5 million shares of common stock when holders of approximately \$142 million of its 7% Convertible Senior Notes due 2015 converted these notes.

In 2014, as a result of the Merger, the Company issued approximately 96.9 million shares of Level 3 common stock to former holders of tw telecom common shares, stock options, restricted stock unit awards and restricted stock units.

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" of its Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Executive Summary

Disaggregation of Network Related Expenses; Change in Description of Cost of Revenue to Network Access Costs

Historically, the Company has included "network related expenses" including facility rent, utilities, maintenance and other costs, each related to the operation of Level 3's communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services as well as operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excluding depreciation and amortization, within the line item "Selling, General and Administrative Expenses" in its Consolidated Statements of Operations. These network related expenses have been reported under a separate line item, "Network Related Expenses," in the Company's Consolidated Statements of Operations. "Selling General and Administrative Expenses" include the salaries, wages and related benefits (including non-cash, stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising and other administrative expenses.

During the third quarter of 2014, the Company changed the description of "Cost of Revenue" in its Consolidated Statement of Operations to "Network Access Costs." Network Access Costs include leased capacity costs, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from the Level 3 network. Network Access Costs exclude Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

The changes outlined above do not affect the Company's previously reported Consolidated Total Costs and Expenses, Operating Income, Net Income (Loss) or Income (Loss) per Share in the Consolidated Statement of Operations, or any items reported in the Consolidated Balance Sheets, Consolidated Statements of Comprehensive Loss, Cash Flows or Changes in Stockholders' Equity (Deficit).

The following table reflects the change of the description of "Cost of Revenue" to "Network Access Costs" and the disaggregation of "Network Related Expenses" from "Selling, General and Administrative

Expenses" for the years ended December 31, 2013 and 2012 in the Consolidated Statements of Operations, assuming the changes discussed above were in effect for the entire periods reported below:

(dollars in millions)	As Previously Reported	Adjustment	Revised Reporting
Year Ended December 31, 2013			
Cost of Revenue	2,471	\$ (2,471)	\$ —
Network Access Costs.....	—	2,471	2,471
Network Related Expenses	—	1,214	1,214
Selling, General and Administrative Expenses.	2,376	(1,214)	1,162
Total Costs and Expenses	5,647	—	5,647
Year Ended December 31, 2012			
Cost of Revenue	2,602	\$ (2,602)	\$ —
Network Access Costs.....	—	2,602	2,602
Network Related Expenses	—	1,249	1,249
Selling, General and Administrative Expenses.	2,450	(1,249)	1,201
Total Costs and Expenses	5,801	—	5,801

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, 2014, 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 31, 2014, the Company completed the acquisition of tw telecom inc. ("tw telecom") and tw telecom became an indirect, wholly owned subsidiary of the Company through a tax-free, stock and cash reorganization (the "Merger").

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 its Core Network Services;
- focusing on its Enterprise customers, as this customer group has the largest potential for 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 and maintaining 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 its mid-market enterprise customers, including leveraging its 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 profit 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 they 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. See Note 11 - Long-Term Debt in the notes to the Consolidated Financial Statements.

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,	
	2014	2013
Core Network Services:		
North America - Wholesale Channel	\$ 1,462	\$ 1,478
North America - Enterprise Channel.....	2,778	2,471
EMEA - Wholesale Channel	328	354
EMEA - Enterprise Channel.....	563	534
Latin America - Wholesale Channel	165	160
Latin America - Enterprise Channel.....	614	594
tw telecom - Wholesale Channel.....	60	—
tw telecom - Enterprise Channel.....	225	—
Total Core Network Services.....	6,195	5,591
Wholesale Voice Services and Other	582	722
Total Revenue	<u>\$ 6,777</u>	<u>\$ 6,313</u>

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 profit services and Wholesale Voice Services and Other revenue represents lower profit 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 the profitability of 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.

As a result of the Merger on October 31, 2014, Total Revenue also includes two months of revenue from the tw telecom wholesale and enterprise channels. tw telecom does not provide a significant amount of services that are similar to Level 3's wholesale voice services and other.

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 has continued to experience price compression in the high-speed IP and voice services markets.

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. The U.K. government channel is included in the enterprise channel and 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, costs 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 disconnection may also affect the Company's results in a particular quarter, with disconnection early in the quarter generally having a greater effect. The timing of capital and other expenditures may affect our costs 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 profitability and other financial results and may not be indicative of future financial performance.

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 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 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.

Inter-carrier 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.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its Consolidated Financial Statements and related disclosures and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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 and history of billing disputes.

Network Access Costs Reserves

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 network access costs 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.

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 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 2014 and 2013 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 extended the lives associated with IP equipment and certain of its facility equipment in the first quarter of 2014. This change in estimate has been 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 applicable 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 judgment.

In 2013, 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. Subsequent to the Merger and as of December 31, 2014, the Company's reporting units consist of its three regional operating units: North America; EMEA; Latin America; as well as tw telecom. Goodwill assigned to the North America, EMEA, Latin America and tw telecom reporting units at December 31, 2014 totaled \$7.689 billion and was \$1.832 billion, \$0.138 billion, \$0.595 billion and \$5.124 billion, respectively. 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.

In 2014 and 2013, the Company conducted its qualitative 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 and as a result did not complete the two step goodwill impairment evaluation.

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.

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.

At December 31, 2012, as a result of 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.

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 it 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 16 - 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 tw telecom (and the related estimated lives of depreciable and amortizable tangible and identifiable intangible assets), which is incomplete as of the date of this filing, will require 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 will be performed by management, taking into consideration information provided to management by an independent valuation firm.

Income Taxes

The Company recognizes deferred tax assets and liabilities for its domestic and non-U.S. operations, for operating loss and other credit carry forwards and 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 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. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. To date, the Company has provided a valuation allowance to reduce the deferred tax assets of its businesses in North America and certain other jurisdictions to the amount that is more likely than not to be realized as it believes the objective evidence of its historical pretax net losses in those jurisdictions outweighs the positive evidence of its forecasted future results. However, in 2014, the Company released approximately \$100 million of deferred tax valuation allowance primarily related to its business in the UK due to consolidation of legal entities whereby one UK entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets. As a result, management projects future profitability of that business. Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

The Company continues to monitor its cumulative loss position and other evidence each quarter to determine the appropriateness of its valuation allowance for each jurisdiction. If the Company continues to generate income before taxes in future periods, its conclusion about the appropriateness of the valuation allowance could change in a future period and it could record a substantial benefit in its Consolidated Statement of Operations when that occurs.

Results of Operations 2014 vs. 2013 and 2013 vs. 2012

Year Ended December 31, (dollars in millions)				Increase/(Decrease)%	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
		(as revised)	(as revised)		
Revenue.....	\$ 6,777	\$ 6,313	\$ 6,376	7 %	(1)%
Network Access Costs.....	2,529	2,471	2,602	2 %	(5)%
Network Related Expenses.....	1,246	1,214	1,249	3 %	(3)%
Depreciation and Amortization.....	808	800	749	1 %	7 %
Selling, General and Administrative Expenses.....	1,181	1,162	1,201	2 %	(3)%
Total Costs and Expenses.....	5,764	5,647	5,801	2 %	(3)%
Operating Income.....	1,013	666	575	52 %	16 %
Other Income (Expense):					
Interest income.....	1	—	2	NM	NM
Interest expense.....	(654)	(649)	(733)	1 %	(11)%
Loss on modification and extinguishment of debt, net.....	(53)	(84)	(160)	(37)%	(48)%
Other, net.....	(69)	(4)	(58)	NM	NM
Total Other Expense.....	(775)	(737)	(949)	5 %	(22)%
Income (Loss) Before Income Taxes.....	238	(71)	(374)	NM	(81)%
Income Tax (Expense) Benefit.....	76	(38)	(48)	NM	(21)%
Net Income (Loss).....	\$ 314	\$ (109)	\$ (422)	NM	(74)%

NM — Not meaningful

Discussion of all significant variances:

Revenue by Service Offering:

Year Ended December 31, (dollars in millions)				Increase/(Decrease)%	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Core Network Services Revenue:					
Colocation and Datacenter Services	\$ 590	\$ 585	\$ 561	1 %	4 %
Transport and Fiber	2,087	1,935	1,950	8 %	(1)%
IP and Data Services	2,530	2,133	2,002	19 %	7 %
Voice Services (Local and Enterprise).....	988	938	950	5 %	(1)%
Total Core Network Services Revenue	\$ 6,195	\$ 5,591	\$ 5,463	11 %	2 %
Wholesale Voice Services and Other Revenue					
	582	722	913	(19)%	(21)%
Total Revenue.....	\$ 6,777	\$ 6,313	\$ 6,376	7 %	(1)%

Revenue increased 7% in 2014 compared to 2013 and decreased 1% in 2013 compared to 2012. The increase in 2014 compared to 2013 was driven by growth in Core Network Services revenue from enterprise customers and the inclusion of revenue from tw telecom subsequent to the completion of the Merger on October 31, 2014, partially offset by a decline in Wholesale Voice Services and Other revenue. The decrease in 2013 compared to 2012 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, Transport and Fiber and Voice Services during 2014 compared to 2013 driven primarily by end user customer demand for enterprise bandwidth and content delivery over the Internet as well as the acquisition of tw telecom.

The Company's growth in its IP and data services and colocation and data center services during 2013 compared to 2012 was driven primarily by end user customer demand for enterprise bandwidth and content delivery over the Internet. 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 2014 compared to 2013, as a result of growth in services provided to the existing enterprise customer base and the acquisition of new customers in the enterprise channel and the acquisition of tw telecom, which contributed \$285 million to Core Network Services revenue for the period subsequent to the completion of the Merger. Additionally, the Company's revenue from the EMEA region's enterprise channel increased over 2013. These increases were partially offset by (i) a decrease in the EMEA region's wholesale channel revenue and (ii) a decrease in wholesale channel revenue in North America.

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 2014 compared to 2013 and 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 profitability. 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.

Network Access Costs includes leased capacity, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from the Level 3 network, but excludes Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

Network Access Costs as a percentage of total revenue was 37% in 2014 compared to 39% in 2013 and 41% in 2012. The decrease is primarily due to an improving mix of higher profit on-net Core Network Services and a decline in lower profit Wholesale Voice Services and Other Revenue. The increase in total Network Access Costs in 2014 as compared to 2013 is primarily related to the addition of tw telecom's results of operations for November and December 2014. Additionally, the Company continues to implement initiatives to reduce both fixed and variable network access costs.

Network Related Expenses includes certain expenses associated with the delivery of services to customers and the operation and maintenance of the Level 3 network, such as facility rent, utilities, maintenance and other costs, each related to the operation of its communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services, operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excludes depreciation and amortization.

Network Related Expenses increased 3% in 2014 from 2013 and decreased 3% in 2013 from 2012. The increase in 2014 compared to 2013 is primarily attributable to the acquisition of tw telecom. The decrease in 2013 compared to 2012 is primarily attributable to lower employee compensation and other employee related costs as well as lower network maintenance expenses. Professional fees and vendor services also decreased primarily due to the rationalization and renegotiation of vendor services. 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.

Additionally in 2013 and 2014, the Company implemented certain workforce reductions in its operations staff. Restructuring charges in 2014, 2013 and 2012 of \$11 million, \$12 million and \$8 million, respectively, were recorded in Network Related Expenses.

Depreciation and Amortization expense increased 1% in 2014 from 2013 and increased 7% in 2013 from 2012. The increase in 2014 compared to 2013 is primarily related to depreciation and amortization on tangible and intangible assets acquired from tw telecom and additional capital expenditures in 2014, partially offset by a change in useful lives of certain asset categories in the first quarter of 2014. The increase in 2013 compared to 2012 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 Expenses ("SG&A Expenses") includes the salaries, wages and related benefits (including non-cash, stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising, and other administrative expenses.

SG&A Expenses increased 2% in 2014 compared to 2013 and decreased 3% in 2013 compared to 2012. The increase in 2014 compared to 2013 is primarily related to additional employee-related expenses resulting from the acquisition of tw telecom and acquisition-related expenses incurred in connection with the Merger. In 2014, the Company incurred \$81 million in expenses related to the acquisition of tw telecom. The decrease in 2013 compared to 2012 is primarily due to lower employee compensation and other employee related costs, as a result of the Company's continued achievement of cost synergies as a result of the integration of the Global Crossing business and workforce reductions primarily focused on labor cost savings and organizational effectiveness. This was partially offset by other cost increases in 2013 due to a non-cash benefit of \$47 million recognized in 2012 as a result of a revision to the Company's estimated future asset retirement obligations. In addition, the Company incurred approximately \$42 million in 2012 of integration costs in SG&A Expenses related to the Global Crossing business.

From time to time, the Company has implemented certain workforce reductions in its administrative staff. Restructuring charges in 2014, 2013 and 2012 of \$34 million, \$35 million and \$26 million, respectively, were recorded in SG&A Expenses.

Non-cash, stock-based compensation expense of \$73 million, \$151 million and \$135 million was recorded in 2014, 2013 and 2012, respectively, related to grants of outperform stock appreciation rights, 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. Approximately \$64 million, \$115 million and \$108 million of non-cash stock-based compensation expense was recorded in SG&A Expenses in 2014, 2013 and 2012, respectively, and \$9 million, \$36 million and \$27 million was recorded in Network Related Expenses in 2014, 2013 and 2012, respectively. The total decrease in non-cash, stock-based compensation expense in 2014 compared to 2013 is primarily due to the 2014 annual discretionary bonus being accrued for as a cash bonus rather than a partial cash, partial equity bonus as in previous years. In addition, the \$23 million charge recorded in 2013 related to the vesting of long-term incentive awards in connection with the Company's former CEO's departure from the Company, as described below, did not recur in 2014. The total increase in non-cash, stock-based compensation expense in 2013 compared to 2012 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 the former CEO's departure from the Company, as described below.

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

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 and network related expenses, (4) depreciation and amortization expense and (5) non-cash stock-based compensation expense included within selling, general and administrative expenses and network related 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-based 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-based 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 Income (Loss) to Adjusted EBITDA as defined by the Company:

(dollars in millions)	Year Ended December 31,		
	2014	2013	2012
Net Income (Loss)	\$ 314	\$ (109)	\$ (422)
Income Tax Expense (Benefit)	(76)	38	48
Total Other Expense	775	737	949
Depreciation and Amortization Expense	808	800	749
Non-Cash Compensation Expense	73	151	135
Non-Cash Impairment	1	7	—
Adjusted EBITDA	<u>\$ 1,895</u>	<u>\$ 1,624</u>	<u>\$ 1,459</u>

Consolidated Adjusted EBITDA was \$1.895 billion in 2014 compared with \$1.624 billion in 2013 and \$1.459 billion in 2012. The increase in Adjusted EBITDA is primarily attributable to growth in the Company's higher incremental profit Core Network Services revenue, continued improvements in Network Access Costs and the acquisition of tw telecom.

Adjusted EBITDA increased in North America and Latin America in 2014 compared to 2013 primarily resulting from (i) growth in core network services revenue and (2) initiatives resulting in reduced fixed and variable network access costs. The results of operations from acquisition of tw telecom contributed \$105 million to Adjusted EBITDA in 2014. These increases were partially offset by a decrease in wholesale channel revenue, primarily in North America and EMEA. See Note 15 - Segment Information in the notes to Consolidated Financial Statements for additional information on Adjusted EBITDA by region.

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 15 - 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 accrued the entire bonus compensation within SG&A Expenses and Network Related Expenses as cash compensation, which will be paid in 2015.

Interest Expense increased 1% in 2014 from 2013 and decreased 11% in 2013 from 2012. Interest expense increased in 2014 compared to 2013 as a result of additional borrowings to finance the Merger, partially offset by a lower cost of borrowing. Interest expense decreased in 2013 compared to 2012 as a result of lower cost of borrowing on refinanced debt.

The Company expects annual interest expense in 2015 to approximate \$680 million based on current interest rates on the Company's debt outstanding as of December 31, 2014. See Note 11 - 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 \$53 million in 2014 compared to a loss of \$84 million in 2013 and a loss of \$160 million in 2012. The loss recorded during 2014 was related to the refinancing of the 11.875% Senior Notes due 2019. 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 the 10% Senior Notes due 2018 in December 2013, \$10 million related to the refinancing of the \$1.2 billion Tranche B-II 2019 Term Loan in October 2013, \$8 million related to the refinancing of the \$595.5 million Tranche B 2016 Term Loan in August 2013 and \$9 million related to 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 11 - Long-Term Debt in the notes to the Consolidated Financial Statements for more details regarding the Company's financing activities.

Other, net was \$69 million of expense in 2014 compared to \$4 million of expense in 2013 and \$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 2014 and 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, and the partial impairment of the Company's indefinite-lived intangible asset, 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.

During the first quarter 2014, the Venezuelan government enacted additional changes to the country's foreign exchange system. The government expanded the types of transactions that may be allowed via the weekly auctions under the Complementary System of Foreign Currency Acquirement

("SICAD 1"). The Venezuelan government also announced the replacement of its existing foreign currency administration with the National Center for Foreign Commerce ("CENCOEX"). Entities may seek approval to transact through CENCOEX at the official rate of 6.30 Venezuelan bolivares to the U.S. dollar; however, certain transactions may be approved at the latest SICAD 1 rate, depending on the entity's facts and circumstances.

During the second quarter of 2014, based on additional experience with the new foreign exchange mechanisms, the Company concluded that the most appropriate rate is currently SICAD 1. Accordingly, the Company recognized a loss of approximately \$34 million in 2014, resulting from the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate. Based upon the further deterioration of the SICAD rate from 10.6 as of June 30, 2014 to 12.0 as of September 30, 2014, the Company recognized an additional loss of approximately \$7 million in the third quarter of 2014. As of December 31, 2014, SICAD 1 was 12.0 Venezuelan bolivares to the U.S. dollar. The Company continues to monitor closely its foreign currency risk in Venezuela.

Income Tax (Expense) Benefit was \$76 million of benefit in 2014 compared to \$38 million of expense in 2013 and \$48 million of expense in 2012. Income tax expense in all periods is primarily related to taxes in foreign jurisdictions. During the fourth quarter of 2014, the Company released approximately \$100 million of deferred tax valuation allowance primarily related to its business in the UK due to consolidation of legal entities whereby one UK entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets. As a result, management projects future profitability of that business. The release is reflected as an income tax benefit in 2014.

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, our valuation allowance, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

Financial Condition—December 31, 2014

Cash flows provided by operating activities, investing activities and financing activities for the years ended December 31, 2014 and 2013, respectively, are summarized as follows:

(dollars in millions)	Year Ended December 31,		
	2014	2013	Change
Net Cash Provided by Operating Activities	\$ 1,161	\$ 713	\$ 448
Net Cash Used in Investing Activities	(1,086)	(745)	(341)
Net Cash Used in Financing Activities.....	(82)	(294)	212
Effect of Exchange Rates on Cash and Cash Equivalents	(44)	(22)	(22)
Net Change in Cash and Cash Equivalents	\$ (51)	\$ (348)	\$ 297

Operating Activities

Cash provided by operating activities increased to \$1.161 billion in 2014 compared to \$713 million in 2013. The increase in cash provided by operating activities was primarily due to growth in earnings.

Investing Activities

Cash used in investing activities increased to \$1.086 billion in 2014 compared to \$745 million in 2013, primarily as a result of additional capital expenditures, which totaled \$910 million in 2014 and \$760 million in 2013, and the cash portion of the acquisition of tw telecom. The increase in capital expenditures is primarily due to additional investment in the network and the inclusion of tw telecom-related capital expenditures.

Financing Activities

Cash used in financing activities of \$82 million in 2014 compared to cash used in financing activities of \$294 million in 2013 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 2014. See Note 11 - 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 2014 and 2013 was primarily due to the devaluation of Venezuelan bolivar denominated monetary assets and liabilities. The Company recognized a loss of approximately \$41 million in 2014, resulting from the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate. In 2013, the devaluation of the Venezuelan bolivar reduced the Company's unrestricted cash and cash equivalents by \$21 million.

Liquidity and Capital Resources

The Company had net income of \$314 million in 2014 and a net loss of \$109 million in 2013. In connection with its continuing operations, the Company utilized cash of \$910 million for capital expenditures and \$82 million for financing activities in 2014. This compares to \$760 million of cash used for capital expenditures and \$294 million of cash used in financing activities in 2013.

Net cash interest payments are expected to increase to approximately \$640 million in 2015 from \$598 million in 2014 based on forecasted interest rates on the Company's variable rate debt outstanding as of December 31, 2014 and assuming the conversion into equity of the Company's 7% convertible notes.

Capital expenditures for 2015 are expected to be approximately 15% of revenue up from 13% of revenue in 2014, 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, 2014, the Company had contractual debt obligations, including capital lease obligations, and excluding interest, discounts on debt issuance and fair value adjustments, of \$349 million that mature in 2015, which includes the Company's remaining \$333 million of 7% Convertible Senior Notes due 2015 that are convertible at a price of approximately \$27 per share, \$9 million in 2016, and \$8 million in 2017.

The Company had \$580 million of cash and cash equivalents on hand at December 31, 2014. The Company also had \$27 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, 2014. In addition, \$63 million of the Company's total cash and cash equivalents as of December 31, 2014 was held in Venezuelan bolivares by a Venezuelan subsidiary. In light of the Venezuelan exchange control regime, none of such \$63 million may be

transferred to the Company in the form of loans, advances or cash dividends without the consent of the Venezuelan government. The \$63 million value of the Company's bolivar balance reflects the devaluation of Venezuelan bolivar denominated monetary assets and liabilities to the SICAD 1 rate of 12.0 Venezuelan bolivares to the U.S. dollar as of December 31, 2014.

On February 10, 2015 the Venezuelan government launched a new foreign exchange platform called Marginal Currency System ("SIMADI"), which will be implemented as the third system in the Venezuelan three-tier exchange control mechanism and will allow for legal trading of foreign currency based on supply and demand. According to public announcements, the SICAD I auction system will continue to hold periodic auctions for specific sectors of the economy, while the new SIMADI market will replace the SICAD II rate. While it is still unclear what the new SIMADI exchange rate will be, the new mechanism will likely devalue the bolivar heavily and will impact the rate at which companies measure their assets and liabilities in Venezuela. The Company continues to monitor closely its foreign currency risk in Venezuela.

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 to the U.S. any of its foreign cash and cash equivalents from operating 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 and Argentina, as needed to fund operations in the United States, including debt service.

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, 2014, as further described in the Notes to Consolidated Financial Statements.

Payments Due by Period

	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
(dollars in millions)					
Contractual Obligations					
Long-Term Debt, including current portion.....	\$ 11,366	\$ 349	\$ 17	\$ 3,131	\$ 7,869
Interest Obligations	3,778	641	1,274	1,214	649
Asset Retirement Obligations	85	9	13	5	58
Operating Leases	1,724	302	451	316	655
Right of Way Agreements	637	118	111	93	315
Purchase and Other Obligations	1,428	832	319	102	175
Other Commercial Commitments					
Letters of Credit	28	5	5	3	15

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 revenue. These types of covenants are commonly referred to as "maintenance covenants."

Long-term debt obligations exclude issue discounts.

Interest obligations assume interest rates on \$4.9 billion of variable rate debt do not change from December 31, 2014. In addition, interest is calculated based on debt outstanding as of December 31, 2014.

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.

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, 2015, 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, 2014 (\$389 million), contractual commitments with third parties to purchase network access services (\$710 million) and fixed maintenance payments for portions of the Company's network (\$329 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.

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 14 - Income Taxes in the notes to Consolidated Financial Statements for additional information regarding the Company's uncertain tax positions.

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, 2014, the Company had borrowed a total of approximately \$4.9 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, 2014, was approximately 4.2%.

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 of 1.0% for both the \$815 million Tranche B-III 2019 and the \$1.796 billion Tranche B 2020 Term Loans and the interest rate is based on a fixed rate of 3.5% plus LIBOR, with a minimum fixed LIBOR of 1% for the \$2 billion Tranche B 2022 Term Loan. The market LIBOR for the Company's senior secured credit facility was approximately 0.25% at December 31, 2014, 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 LIBOR rate by 1.0% would increase the Company's annual interest expense on all of its variable rate instruments by approximately \$14 million as of December 31, 2014.

At December 31, 2014, the Company had \$6.5 billion (excluding discounts) of fixed rate debt bearing a weighted average interest rate of 7.2%. 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.

During the first quarter 2014, the Venezuelan government enacted additional changes to the country's foreign exchange system. The government expanded the types of transactions that may be allowed via the weekly auctions under SICAD 1. The Venezuelan government also announced the replacement of its existing foreign currency administration with the CENCOEX. Entities may seek approval to transact through CENCOEX at the official rate of 6.3 Venezuelan bolivares to the U.S. dollar; however, certain transactions may be approved at the latest SICAD 1 rate, depending on the entity's facts and circumstances. Participation in SICAD is controlled by the Venezuela government, and Exchange Agreement No. 25 ("EA25") issued in January 2014 stated that the rate of exchange established in the most recent SICAD 1 auction will be used for payments related to international investments, royalties, and the use and exploitation of patents, trademarks, licenses, franchises and technology. In addition, the Venezuelan government approved a new Law on Fair Prices, which provides that the maximum profit for all of the activities related to the production, manufacturing, import, storage, transportation, distribution and marketing of all goods and services in the territory of the Bolivarian Republic of Venezuela shall not exceed 30% per year. Specific regulations regarding the application of the Law on Fair Prices to the telecommunication industry and, more specifically, the Company's business activities in Venezuela have not been released. The Venezuela government also announced the plans for a third currency exchange mechanism ("SICAD 2"), which is intended to more closely resemble a market-driven exchange rate than the rates provided by Venezuela's other mechanisms. At December 31, 2014, the CENCOEX official exchange rate was 6.3, the SICAD 1 exchange rate was 12.0 and the SICAD 2 exchange rate was 49.9 Venezuelan bolivares to the U.S. dollar.

The \$63 million value of the Company's bolivar denominated cash balance at December 31, 2014 reflects the foreign exchange loss that resulted from devaluing the Company's assets and liabilities from the official CENCOEX rate of 6.3 to the SICAD 1 exchange rate of 12 Venezuelan bolivares to the U.S. dollar during the year of 2014.

On February 10, 2015 the Venezuelan government launched a new foreign exchange platform called Marginal Currency System ("SIMADI"), which will be implemented as the third system in the Venezuelan three-tier exchange control mechanism and will allow for legal trading of foreign currency based on supply and demand. According to public announcements, the SICAD I auction system will continue to hold periodic auctions for specific sectors of the economy, while the new SIMADI market will replace the SICAD II rate. While it is still unclear what the new SIMADI exchange rate will be, the new mechanism will likely devalue the bolivar heavily and will impact the rate at which companies measure their assets and liabilities in Venezuela.

The Company continues to monitor activity in Venezuela with respect to exchange rates as the resolution of the uncertainty created with these developments along with any future developments could ultimately result in a negative effect to the Company's results of operations and cash flows in Venezuela

for any amounts held in bolivares. Given the insignificant volume of bolivar denominated transactions, the effect to the Company's operations is not expected to be material other than a likely charge for the Company's cash and cash equivalents held in bolivares.

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 to the U.S. any of its foreign cash and cash equivalents from operating 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 and Argentina, as needed to fund operations in the United States, including debt service.

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, 2014. 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

As a result of the Merger in the fourth quarter of 2014, Level 3 has expanded its internal controls over financial reporting to include consolidation of the tw telecom results of operations as well as acquisition related accounting and disclosures. There were no other 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 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company completed the Merger on October 31, 2014. As permitted by the SEC, management's assessment did not include the internal controls over financial reporting of the acquired operations of tw telecom, which are included in the Company's consolidated financial statements as of December 31, 2014 and for the period from the acquisition date through December 31, 2014. The Company is currently integrating policies, processes, people, technology, and operations of historical Level 3 and tw telecom. tw telecom represents approximately 39% of total assets and 4% of total revenue of Level 3 Communications, Inc. as of and for the year ended December 31, 2014. Management will continue to evaluate the Company's internal controls over financial reporting as it continues its integration of tw telecom.

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, 2014 based on the guidelines established in *Internal Control—Integrated Framework* (2013) 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, 2014.

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, 2014. 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 and 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 furnish 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 "LVL.T." As of February 26, 2015, there were approximately 5,874 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 closing sales prices of our common stock as reported by the NYSE Composite Tape for the quarters and the years indicated.

Year Ended December 31, 2014	High	Low
First Quarter	\$ 39.21	\$ 31.01
Second Quarter	45.60	36.37
Third Quarter	47.50	41.17
Fourth Quarter	50.05	38.05

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

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 2000 tw telecom inc. Employee Stock Plan. We assumed the 2000 tw telecom inc. Employee Stock Plan in connection with the acquisition of tw telecom. Awards outstanding under the 2000 tw telecom inc. Employee Stock Plan at the acquisition date were cancelled and converted into the right to receive merger consideration. In addition, in connection with our acquisition of Global Crossing, we assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan. 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. Since this plan's term has expired, no shares remain for future issuances under this plan, but shares do remain for awards outstanding as of the expiration of the term. 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 2000 tw telecom inc. Employee Stock Plan and the 2003 Global Crossing Limited Stock Incentive Plan (in the "Equity compensation plans not approved by stockholders" category) as of December 31, 2014.

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 ...	4,220,739 (1) \$	22.33 (2)	9,906,032
Equity compensation plans not approved by stockholders.....	783,748 (3) \$	23.29 (2)	8,290,270 (4)

- (1) Includes, among other awards, awards of outperform stock appreciation units (“OSOs”), and performance restricted stock units (“PRSUs”). For purposes of this table, each OSO was considered to use a single share of our common stock and each PRSU was also assumed to use a single share of our common stock (which would be target performance) 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.
- (2) At December 31, 2014, the only type of award outstanding 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.
- (3) The 2003 Global Crossing Limited Stock Incentive Plan provided 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. Amounts shown indicate the number of awards outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at December 31, 2014. Includes 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 even though the actual payout multiplier may range from zero to four, as described below. The 2000 tw telecom Employee Stock Plan provides for the granting of (i) stock options, (ii) restricted stock, (iii) common stock, (iv) stock appreciation rights, (v) restricted stock units and (vi) performance awards to eligible participants. No awards were outstanding at December 31, 2014.
- (4) Represents only shares available under the 2000 tw telecom Employee Stock Plan. The Company does not currently intend to grant any future awards under this plan.

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 exercise 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 exercise 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, were no longer awarded. Instead, we awarded performance-based restricted stock unit awards, which 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 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.

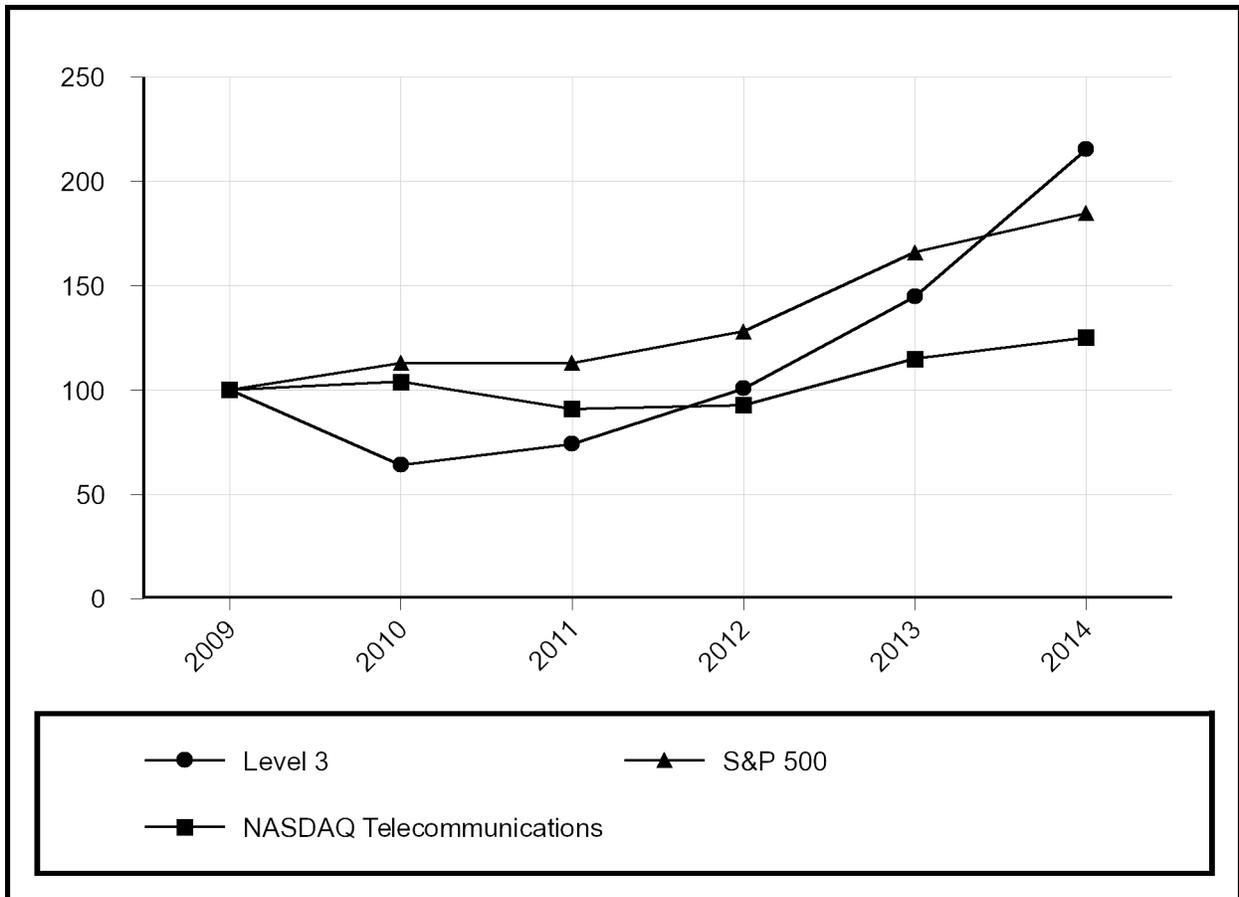
Our current dividend policy, in effect since April 1, 1998, is to retain future earnings for use in our business. As a result, our directors and management do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. In addition, under certain of our debt covenants 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 performance graph compares the cumulative total return of our common stock for the five year period from 2010 through 2014 with the S&P® 500 Index and the Nasdaq Telecommunications Index. The performance graph assumes that the value of the investment was \$100 on December 31, 2009, 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**



	12/09	12/10	12/11	12/12	12/13	12/14
Level 3 common stock.....	\$ 100.00	\$ 64.05	\$ 74.03	\$ 100.70	\$ 144.53	\$ 215.16
S&P 500® Index.....	100.00	112.78	112.78	127.90	165.76	184.64
NASDAQ Telecommunications	100.00	103.92	90.81	92.63	114.88	125.11

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, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), cash flows and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company'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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado

February 27, 2015

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, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 the Company'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 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, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Level 3 Communications, Inc. completed the acquisition of tw telecom inc. on October 31, 2014, and management excluded from its assessment of the effectiveness of Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2014, tw telecom inc.'s internal control over financial reporting associated with total assets and revenue of \$8.160 billion (which includes goodwill of \$5.124 billion included within the scope of the assessment) and \$285 million, respectively, included in the consolidated financial statements of Level 3 Communications, Inc. and subsidiaries as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of Level 3 Communications, Inc. also excluded an evaluation of the internal control over financial reporting of tw telecom inc.

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, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado
February 27, 2015

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)	2014	2013	2012
		(as revised)	(as revised).
Revenue.....	\$ 6,777	\$ 6,313	\$ 6,376
Costs and Expenses:			
Network Access Costs.....	2,529	2,471	2,602
Network Related Expenses.....	1,246	1,214	1,249
Depreciation and Amortization.....	808	800	749
Selling, General and Administrative Expenses.....	1,181	1,162	1,201
Total Costs and Expenses.....	<u>5,764</u>	<u>5,647</u>	<u>5,801</u>
Operating Income.....	1,013	666	575
Other Income (Expense):			
Interest income.....	1	—	2
Interest expense.....	(654)	(649)	(733)
Loss on modification and extinguishment of debt, net.....	(53)	(84)	(160)
Other, net.....	(69)	(4)	(58)
Total Other Expense.....	<u>(775)</u>	<u>(737)</u>	<u>(949)</u>
Income (Loss) Before Income Taxes.....	238	(71)	(374)
Income Tax Benefit (Expense).....	76	(38)	(48)
Net Income (Loss).....	<u>\$ 314</u>	<u>\$ (109)</u>	<u>\$ (422)</u>
Basic Earnings per Common Share			
Net Income (Loss) Per Share.....	\$ 1.23	\$ (0.49)	\$ (1.96)
Shares Used to Compute Basic Net Income (Loss) per Share (in thousands).....	254,428	222,368	215,356
Diluted Earnings per Common Share			
Net Income (Loss) Per Share.....	\$ 1.21	\$ (0.49)	\$ (1.96)
Shares Used to Compute Diluted Net Income (Loss) per Share (in thousands).....	258,483	222,368	215,356

See accompanying notes to Consolidated Financial Statements.

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

<u>(dollars in millions)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Income (Loss)	\$ 314	\$ (109)	\$ (422)
Other Comprehensive Income (Loss) Before Income Taxes:			
Foreign Currency Translation Adjustments	(178)	11	17
Unrealized Gain on Interest Rate Swaps	—	—	25
Reclassification of Derivative Gain to Income	—	—	65
Defined Benefit Pension Plan Adjustments	(5)	(1)	(1)
Other Comprehensive Income (Loss), Before Income Taxes	(183)	10	106
Income Tax Related to Items of Other Comprehensive Income (Loss).....	—	—	—
Other Comprehensive Income (Loss), Net of Income Taxes	(183)	10	106
Comprehensive Income (Loss).....	<u>\$ 131</u>	<u>\$ (99)</u>	<u>\$ (316)</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)	2014	2013
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 580	\$ 631
Restricted cash and securities	7	7
Receivables, less allowances for doubtful accounts of \$30 and \$32, respectively	737	673
Other	165	143
Total Current Assets	1,489	1,454
Property, plant and equipment, net of accumulated depreciation of \$9,629 and \$9,089, respectively	9,860	8,240
Restricted cash and securities	20	23
Goodwill	7,689	2,577
Other intangibles, net	1,414	205
Other assets, net	475	375
Total Assets	\$ 20,947	\$ 12,874
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 664	\$ 625
Current portion of long-term debt	349	31
Accrued payroll and employee benefits	273	209
Accrued interest	174	160
Current portion of deferred revenue	287	253
Other	167	168
Total Current Liabilities	1,914	1,446
Long-term debt, less current portion	10,984	8,331
Deferred revenue, less current portion	921	906
Other liabilities	765	780
Total Liabilities	14,584	11,463
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 433,333,333 shares at December 31, 2014 and 343,333,333 shares at December 31, 2013; 341,361,420 shares issued and outstanding at December 31, 2014 and 234,688,063 shares issued and outstanding at December 31, 2013	3	2
Additional paid-in capital	19,159	14,339
Accumulated other comprehensive income (loss)	(147)	36
Accumulated deficit	(12,652)	(12,966)
Total Stockholders' Equity	6,363	1,411
Total Liabilities and Stockholders' Equity	\$ 20,947	\$ 12,874

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)	2014	2013	2012
Cash Flows from Operating Activities:			
Net income (loss)	\$ 314	\$ (109)	\$ (422)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	808	800	749
Asset retirement obligation adjustment	—	—	(47)
Loss on impairment	18	7	—
Non-cash compensation expense attributable to stock awards	73	151	135
Loss on modification and extinguishment of debt, net	53	84	160
Loss on interest rate swaps	—	—	60
Accretion of debt discount and amortization of debt issuance costs	36	36	46
Accrued interest on long-term debt, net	12	(49)	(5)
Non-cash tax adjustments	(7)	(42)	(14)
Deferred income taxes	(116)	(29)	21
Gain on sale of property, plant, and equipment and other assets	(3)	(2)	(1)
Other, net	(8)	(41)	(23)
Changes in working capital items:			
Receivables	9	30	(86)
Other current assets	2	3	(5)
Payables	(77)	(162)	18
Deferred revenue	6	28	(10)
Other current liabilities	41	8	2
Net Cash Provided by Operating Activities	1,161	713	578
Cash Flows from Investing Activities:			
Capital expenditures	(910)	(760)	(743)
Decrease (increase) in restricted cash and securities, net	(10)	13	20
Proceeds from sale of property, plant and equipment and other assets	3	—	—
Investment in tw telecom, net of cash acquired	(167)	—	—
Other	(2)	2	(2)
Net Cash Used in Investing Activities	(1,086)	(745)	(725)
Cash Flows from Financing Activities:			
Long-term debt borrowings, net of issuance costs	589	1,502	4,504
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(671)	(1,796)	(4,302)
Proceeds from stock options exercised	—	—	5
Net Cash Provided by (Used in) Financing Activities	(82)	(294)	207
Effect of Exchange Rates on Cash and Cash Equivalents	(44)	(22)	1
Net Change in Cash and Cash Equivalents	(51)	(348)	61
Cash and Cash Equivalents at Beginning of Year	631	979	918
Cash and Cash Equivalents at End of Year	\$ 580	\$ 631	\$ 979
Supplemental Disclosure of Cash Flow Information:			
Cash interest paid	\$ 598	\$ 674	\$ 695
Income taxes paid, net of refunds	\$ 44	\$ 33	\$ 32
Non-cash Investing and Financing Activities:			
Capital lease obligations incurred	\$ 2	\$ 13	\$ —
Note issued for property	\$ —	\$ 12	\$ —
Long-term debt conversion into equity	\$ 142	\$ 200	\$ 100
Premium on long-term debt conversion into equity	\$ —	\$ —	\$ 39
Accrued interest conversion into equity	\$ 2	\$ 3	\$ 2
Long-term debt issued and proceeds placed in escrow	\$ 3,000	\$ —	\$ —
Escrowed securities used in the acquisition of tw telecom	\$ 3,014	\$ —	\$ —

See accompanying notes to Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
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, 2012	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
Common stock:						
Common stock issued under employee stock benefit plans and other	4,528,559	—	78	—	—	78
Stock-based compensation	—	—	55	—	—	55
tw telecom acquisition equity consideration	96,868,883	1	4,543	—	—	4,544
Conversion of debt to equity	5,275,915	—	144	—	—	144
Net Income	—	—	—	—	314	314
Other Comprehensive Loss	—	—	—	(183)	—	(183)
Balance at December 31, 2014	341,361,420	\$ 3	\$ 19,159	\$ (147)	\$ (12,652)	\$ 6,363

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.

On October 31, 2014, the Company completed the acquisition of tw telecom inc. ("tw telecom") and tw telecom became an indirect, wholly owned subsidiary of the Company through a tax-free, stock and cash reorganization (the "Merger"). See Note 2 - Events Associated with the Merger of tw telecom.

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 United States 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 non-United States 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 2014, 2013 and 2012. Foreign currency translation gains and losses are recognized as a component of accumulated other comprehensive income (loss) in stockholders' equity and in the Consolidated Statements of Comprehensive Income (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 non-United States exchange transaction gains (losses), including where transactions with its non-United States subsidiaries are not considered to be long-term in nature, are included within other income (expense) in Other, net on the Consolidated Statements 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, network access costs, network access cost 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, and valuation allowance for deferred tax assets. Actual results could differ from these estimates under different assumptions or conditions and such differences could be material.

Revenue

Revenue 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 these 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.

Network Access Costs

Network Access Costs for the communications business include leased capacity, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from the Level 3 network, but excludes Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

The Company recognizes the network access costs 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 network access costs reserves for disputed supplier billings based on an analysis of historical experience in resolving disputes with its suppliers.

In determining the amount of the network access costs 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 these differences could be material.

Network Related Expenses

Network Related Expenses includes certain expenses associated with the delivery of services to customers and the operation and maintenance of the Level 3 network, such as facility rent, utilities, maintenance and other costs, each related to the operation of its communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services, operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excludes depreciation and amortization.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses includes the salaries, wages and related benefits (including non-cash, stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising, and other administrative expenses.

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. Total revenue and network access cost on the Consolidated Statements of Operations includes USF contributions totaling \$234 million, \$194 million and \$191 million for the years ended December 31, 2014, 2013 and 2012, 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 and 2012 discretionary bonus in restricted stock unit 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 non-U.S. operations, for operating loss and other credit carry forwards and 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. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

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, 2014, 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, 2014 and 2013.

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 \$22 million in 2014, \$17 million in 2013 and \$15 million in 2012.

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	15	-	40	years
Network Infrastructure (including fiber and conduit)	25	-	50	years
Operating Equipment.....	5	-	15	years
Furniture, Fixtures, Office Equipment and Other.....	3	-	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 periodic review of the estimated useful lives of property, plant and equipment, the Company may determine that the period it expects to use certain assets is different than the remaining previously estimated useful lives. The Company completed an evaluation in the first quarter 2014 and revised its estimated useful lives for: IP equipment from its historical estimate of four years to a revised estimate of seven years; racks and cabinets from its historical estimate of seven years to a revised estimate of 15 years; and facility equipment from its historical estimate of 10 years to its revised estimate of 15 years. In determining the change in estimated useful lives, the Company, with input from its engineering team, considered its historical usage patterns and retirements, estimates of technological obsolescence and expected usage and maintenance. The change in the estimated useful lives of the Company's property, plant and equipment was accounted for as a change in accounting estimate on a prospective basis effective January 1, 2014 under the accounting standard related to changes in accounting estimates.

The carrying values of assets subject to these revisions were (in millions):

	January 1, 2014	
IP Equipment.....	\$	222
Racks and Cabinets		114
Facility Equipment.....		151
	<u>\$</u>	<u>487</u>

The change in estimated useful lives of the Company's property, plant and equipment resulted in less depreciation expense than would have otherwise been recorded and in the following increase in net income and net income per share for the year ended December 31, 2014 (in millions, except per share amounts):

Net Income	\$	90
Basic Net Income per Share.....	\$	0.35
Diluted Net Income per Share	\$	0.35

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 \$187 million, \$164 million and \$146 million for the years ended December 31, 2014, 2013 and 2012, 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 network related expenses. 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 network related expenses.

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 as of October 1st 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. 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.

At the time of each impairment assessment date in 2014, 2013 and 2012, the Company's reporting units consisted of its three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America.

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 applicable 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 not required to complete the two step indefinite-lived intangible assets impairment evaluation.

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 2014, 2013 and 2012 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 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 17% of Level 3's revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its Consolidated Financial Statements and related disclosures and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Disaggregation of Network Related Expenses; Change in Description of Cost of Revenue to Network Access Costs

Historically, the Company has included "network related expenses" including facility rent, utilities, maintenance and other costs, each related to the operation of Level 3's communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services as well as operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excluding depreciation and amortization, within the line item "Selling, General and Administrative Expenses" in its Consolidated Statements of Operations. Beginning with the third quarter 2014, these network related expenses have been reported under a separate line item, "Network Related Expenses," in the Company's Consolidated Statements of Operations. Beginning with the third quarter 2014, "Selling, General and Administrative Expenses" include the salaries, wages and related benefits (including non-cash, stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising and other administrative expenses.

In addition, the Company has changed the description of "Cost of Revenue" in its Consolidated Statements of Operations to "Network Access Costs." Network Access Costs include leased capacity costs, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from the Level 3 network. Network Access Costs exclude Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

The changes outlined above do not affect the Company's previously reported Consolidated Total Costs and Expenses, Operating Income, Net Income (Loss) or Income (Loss) per Share in the Consolidated Statements of Operations, or any items reported in the Consolidated Balance Sheets,

Consolidated Statements of Comprehensive Income (Loss), Cash Flows or Changes in Stockholders' Equity.

The following table reflects the change of the description of "Cost of Revenue" to "Network Access Costs" and the disaggregation of "Network Related Expenses" from "Selling, General and Administrative Expenses" for the years ended December 31, 2013 and 2012 in the Consolidated Statements of Operations, assuming the changes discussed above were in effect for the entire period reported below.

(dollars in millions)	As Previously Reported	Adjustment	Revised Reporting (1)
Year Ended December 31, 2013			
Cost of Revenue.....	\$ 2,471	\$(2,471)	—
Network Access Costs.....	—	2,471	2,471
Network Related Expenses	—	1,214	1,214
Selling, General and Administrative Expenses..	2,376	(1,214)	1,162
Total Costs and Expenses	5,647	—	5,647
Year Ended December 31, 2012			
Cost of Revenue.....	2,602	(2,602)	—
Network Access Costs.....	—	2,602	2,602
Network Related Expenses	—	1,249	1,249
Selling, General and Administrative Expenses..	2,450	(1,249)	1,201
Total Costs and Expenses	5,801	—	5,801

(1) The description of "Cost of Revenue" has been changed to "Network Access Costs" and the presentation of "Network Related Expenses" has been disaggregated from "Selling, General and Administrative Expenses" in the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012.

As a result of the above, the Company also revised the Condensed Consolidating Statements of Operations for the years ended December 31, 2013 and 2012 in Note 17 Condensed Consolidating Financial Information, and the presentation for all periods within 2013 and 2012 included in Note 18 Unaudited Quarterly Financial Data.

(2) Events Associated with the Merger of tw telecom inc.

On October 31, 2014, the Company completed its acquisition of tw telecom and tw telecom became an indirect, wholly owned subsidiary of the Company through a tax-free, stock and cash reorganization (the "Merger"). As a result of the Merger, (1) each issued and outstanding share of common stock of tw telecom was exchanged for 0.7 shares of Level 3 common stock and \$10 in cash (together the "merger consideration"); (2) the outstanding stock options of tw telecom were canceled and the holders received the merger consideration, net of aggregate per share exercise price; (3) each restricted stock unit award of tw telecom was immediately vested and canceled and the holders received the merger consideration; and (4) each restricted stock unit of tw telecom was immediately vested and canceled and holders received the merger consideration.

In connection with the closing of the Merger, Level 3 Financing, Inc., a wholly owned subsidiary, amended its existing credit agreement to incur an additional \$2 billion of borrowings through an additional Tranche (the "Tranche B 2022 Term Loan"). The aggregate net proceeds of the Tranche B 2022 Term Loan were used to finance the cash portion of the merger consideration payable to tw telecom's stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums,

in connection with the closing of the Merger (see Note 11 — Long-Term Debt for additional information). In addition, the net proceeds from the issuance of \$1 billion of 5.375% Senior Notes due 2022 raised in August 2014 (see Note 11 — Long-Term Debt) were used to finance the cash portion of the merger consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger.

On October 30, 2014, the Company increased the number of authorized shares of common stock to 433,333,333. As a result of the Merger, the Company issued approximately 96.9 million shares of Level 3 common stock to former holders of tw telecom common shares, stock options, restricted stock awards and restricted stock units. In addition, Level 3 called for redemption and discharged or repaid approximately \$1.793 billion of tw telecom's outstanding consolidated debt including premiums of \$154 million.

Based on the number of Level 3 shares issued, Level 3's closing stock price of \$46.91 on October 31, 2014, the cash paid to the former holders of tw telecom common stock and the \$2.1 billion of debt of tw telecom called for redemption and discharged or repaid, the aggregate consideration for acquisition accounting, including assumed capital leases of \$152 million, approximated \$8.1 billion.

The premium paid by Level 3 in this transaction is attributable to strategic benefits, as the transaction further solidifies Level 3's position as a premier global communications provider to the enterprise, government and carrier market, combining tw telecom's extensive local operations and assets in North America with Level 3's global assets and capabilities. tw telecom's business model is directly aligned with Level 3's initiatives for growth, which include building managed solutions to meet customer needs through an advanced IP/optical network.

The goodwill associated with this transaction is not expected to be deductible for income tax purposes except that certain deductible goodwill of tw telecom will continue to be deductible following the Merger.

The combined results of operations of Level 3 and tw telecom are included in the Company's consolidated results of operations beginning in November 2014. Included in the combined financial results is \$285 million in revenue attributable to tw telecom since the completion of the Merger. The assets acquired and liabilities assumed of tw telecom 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, will require extensive analysis and is expected to be completed no later than October 31, 2015. The following is a preliminary allocation of purchase price based on information currently available. The final identification of all the intangible assets acquired and determination of the purchase price allocation may be significantly different from the preliminary allocation reflected below.

	Initial Purchase Price Allocation
	(dollars in millions)
Assets:	
Cash, Cash Equivalents and Restricted Cash.....	\$ 309
Property, Plant and Equipment	1,555
Goodwill.....	5,124
Identifiable Intangible Assets.....	1,323
Other Assets	138
Total Assets	8,449
Liabilities:	
Long-Term Debt.....	(2,099)
Deferred Revenue.....	(60)
Other Liabilities.....	(279)
Total Liabilities.....	(2,438)
Total Consideration to be Allocated	\$ 6,011

The following unaudited pro forma financial information presents the combined results of Level 3 and tw telecom as if the completion of the Merger had occurred as of January 1, 2013 (dollars in millions, except per share data).

	Year Ended December 31,	
	2014	2013
Total Revenue	\$ 8,123	\$ 7,825
Net Income (Loss)	\$ 141	\$ (165)
Net Income (Loss) per Share- Basic.....	\$ 0.42	\$ (0.52)
Net Income (Loss) per Share - Diluted.....	\$ 0.42	\$ (0.52)

These pro forma results include certain adjustments, primarily due to increases in depreciation and amortization expense due to fair value adjustments of tangible and intangible assets, increases in interest expense due to Level 3's issuance of incremental debt to finance cash consideration partially offset by the refinancing of tw telecom debt that had higher interest rates than the incremental financing, and to eliminate historical transactions between Level 3 and tw telecom. The unaudited pro forma 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 Merger been completed on January 1, 2013, nor is it representative of future operating results of the Company. The 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 Network Related Expenses and Selling, General and Administrative Expenses in the Company's Consolidated Statements of Operations. Level 3 incurred total acquisition related transaction and integration costs of approximately \$81 million through December 31, 2014.

(3) Earnings (Loss) Per Share

The Company computes basic net earnings (loss) per share by dividing net income or loss for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net earnings (loss) per share is computed by dividing net income or 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 earnings per share in the years ended 2013 and 2012 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 17 million, 18 million and 35 million shares issuable pursuant to the various series of convertible notes outstanding at December 31, 2014, 2013 and 2012, respectively, have not been included in the computation of diluted earnings (loss) per share because their inclusion would have been anti-dilutive to the computation. In addition, the effect of the approximately 6 million and 7 million stock options, outperform stock appreciation rights ("OSOs"), restricted stock units ("RSUs") and warrants outstanding at December 31, 2013 and 2012, respectively, have not been included in the computation of diluted earnings (loss) per share because their inclusion would have been anti-dilutive to the computation.

(4) Property, Plant and Equipment

The components of the Company's property, plant and equipment as of December 31, 2014 and 2013 are as follows (dollars in millions):

	Cost	Accumulated Depreciation	Net
December 31, 2014			
Land	\$ 192	\$ —	\$ 192
Land Improvements	73	(50)	23
Facility and Leasehold Improvements.....	2,489	(1,265)	1,224
Network Infrastructure	8,941	(3,447)	5,494
Operating Equipment.....	7,217	(4,669)	2,548
Furniture, Fixtures and Office Equipment.....	255	(177)	78
Other	29	(21)	8
Construction-in-Progress	293	—	293
	<u>\$ 19,489</u>	<u>\$ (9,629)</u>	<u>\$ 9,860</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>

Depreciation expense was \$713 million in 2014, \$727 million in 2013 and \$659 million in 2012.

(5) 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 network related expenses, 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 network related expenses, 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, network related 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, 2014 and 2013 (dollars in millions):

	<u>2014</u>	<u>2013</u>
Asset retirement obligation at January 1	\$ 56	\$ 55
Accretion expense	8	7
Liabilities assumed in tw telecom acquisition	22	—
Liabilities settled	(7)	(6)
Revision in estimated cash flows	7	—
Effect of foreign currency rate change	(1)	—
Asset retirement obligation at December 31	<u>\$ 85</u>	<u>\$ 56</u>

(6) Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2014 and 2013 are as follows (dollars in millions):

	Total
Balance as of January 1, 2013	\$ 2,565
Goodwill adjustments	<u>12</u>
Balance as of December 31, 2013	2,577
Goodwill adjustments	(12)
Goodwill acquired in tw telecom acquisition	<u>5,124</u>
Balance as of December 31, 2014	<u>\$ 7,689</u>

The Company conducted its annual goodwill impairment analysis as of October 1, 2014 and 2013. As a result of the Company's annual assessment, Level 3 concluded that its goodwill was not impaired in 2014 or 2013.

(7) Acquired Intangible Assets

Identifiable acquisition-related intangible assets as of December 31, 2014 and 2013 were as follows (dollars in millions):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
December 31, 2014			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships.....	\$ 1,977	\$ (741)	\$ 1,236
Trademarks.....	115	(47)	68
Patents and Developed Technology.....	228	(133)	95
	<u>2,320</u>	<u>(921)</u>	<u>1,399</u>
<i>Indefinite-Lived Intangible Assets:</i>			
Trade Name.....	15	—	15
	<u>\$ 2,335</u>	<u>\$ (921)</u>	<u>\$ 1,414</u>
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>			
Trade Name.....	32	—	32
	<u>\$ 1,031</u>	<u>\$ (826)</u>	<u>\$ 205</u>

During the fourth quarter of 2014 and 2013, the Company conducted its long-lived assets and indefinite-lived intangible assets impairment analysis and for 2014 concluded that there was impairment of \$17 million in its trade name indefinite-lived intangible asset in 2014 and there was no impairment in 2013.

Acquired finite-lived intangible assets amortization expense was \$95 million in 2014, \$73 million in 2013 and \$90 million in 2012.

At December 31, 2014, the weighted average remaining useful lives of the Company's acquired finite-lived intangible assets was 6.8 years for customer contracts and relationships, 4.2 years for trademarks and 4.0 years for patents and developed technology.

As of December 31, 2014, 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):

2015.....	\$	242
2016.....		223
2017.....		208
2018.....		205
2019.....		188
Thereafter		333
	\$	<u>1,399</u>

(8) 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 2014, as part of the Merger and organizational effectiveness, the Company initiated workforce reductions. During 2013 and 2012, the Company initiated workforce reductions primarily focused on labor cost savings and organizational effectiveness. Restructuring charges totaled \$45 million, \$47 million and \$34 million in 2014, 2013 and 2012, respectively, of which \$11 million, \$12 million and \$8 million in 2014, 2013 and 2012, respectively, were recorded in Network Related Expenses and \$34 million, \$35 million and \$26 million in 2014, 2013 and 2012, respectively, were recorded in Selling, General and Administrative Expenses.

As of December 31, 2014 and 2013, the Company had \$37 million and \$8 million, respectively, of employee termination liabilities.

Facility Closings

The Company also has accrued contract termination costs of \$20 million and \$31 million as of December 31, 2014 and 2013, 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 less than \$1 million, a charge of approximately \$7 million and a benefit of \$2 million in 2014, 2013 and 2012, 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.

(9) 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, 2014 and 2013.

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, 2014 and 2013.

The table below presents the fair values for the Company's long-term debt as well as the input levels used to determine these fair values as of December 31, 2014 and 2013:

(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, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<i>Liabilities Not Recorded at Fair Value in the Financial Statements:</i>						
Long-term Debt, including the current portion:						
Term Loans.....	\$ 4,590	\$ 2,604	\$ 4,593	\$ 2,633	\$ —	\$ —
Senior Notes.....	6,203	5,198	6,481	5,673	—	—
Convertible Notes.....	333	474	—	—	868	647
Capital Leases and Other ...	207	86	—	—	207	86
Total Long-term Debt, including the current portion:.....	\$ 11,333	\$ 8,362	\$ 11,074	\$ 8,306	\$ 1,075	\$ 733

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

Term Loans

The fair value of the Term Loans referenced above was approximately \$4.6 billion and \$2.6 billion at December 31, 2014 and 2013, respectively. 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 \$6.5 billion and \$5.7 billion at December 31, 2014 and 2013, respectively, based on quoted prices for identical terms and maturities. Each series of notes is actively traded.

Convertible Notes

The fair value of the Company's Convertible Notes that are not actively traded, which includes the 7% Convertible Senior Notes due 2015 and the 7% Convertible Senior Notes due 2015, Series B, was approximately \$868 million and \$647 million at December 31, 2014 and 2013, respectively. In the fourth quarter of 2014, the Company issued approximately 5 million shares of common stock when holders of approximately \$142 million in the aggregate of its 7% Convertible Senior Notes due 2015 and 7% convertible Senior Notes due 2015, Series B converted these notes.

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 (7%), convertible optionality, corporate and security credit ratings, maturity date, 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.

(10) Derivative Financial Instruments

The Company has floating rate long-term debt (see Note 11 - Long-Term Debt). This type of 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 has used 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 was 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 hedge designation was terminated in 2012 in connection with certain refinancing activities, and the instruments were settled upon maturity in 2014. Prior to the redesignation of the hedging relationship in 2012, 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.

Upon redesignation, 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 11 - Long-Term Debt). After August 6, 2012, the Company 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 zero, \$2 million and \$4 million for the years ended December 31, 2014, 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	
	Balance Sheet Location	Fair Value
Interest rate swap agreements.	Other current liabilities	\$ 12

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

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

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):

Derivatives not designated as hedging instruments	Statement of Operations Location	Year Ended December 31,		
		2014	2013	2012
Interest rate swaps	Other Expense - Other, net	\$ —	\$ (2)	\$ (64)

(11) Long-Term Debt

As of December 31, 2014 and December 31, 2013, long-term debt was as follows:

(dollars in millions)	December 31, 2014	December 31, 2013
Senior Secured Term Loan*	\$ 4,611	\$ 2,611
Floating Rate Senior Notes due 2018 (3.826% as of December 31, 2014)	300	300
11.875% Senior Notes due 2019	—	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	640
5.375% Senior Notes due 2022	1,000	—
5.75% Senior Notes due 2022	600	—
7% Convertible Senior Notes due 2015	58	200
7% Convertible Senior Notes due 2015 Series B	275	275
Capital Leases	207	73
Other	—	13
Total Debt Obligations	<u>11,366</u>	<u>8,392</u>
Unamortized Discount:		
Discount on Senior Secured Term Loan	(21)	(7)
Discount on 11.875% Senior Notes due 2019	—	(8)
Discount on 9.375% Senior Notes due 2019	(6)	(7)
Discount on 8.125% Senior Notes due 2019	(6)	(7)
Discount on 7% Convertible Senior Notes due 2015	—	(1)
Total Unamortized Discount	<u>(33)</u>	<u>(30)</u>
Carrying Value of Debt	11,333	8,362
Less current portion	(349)	(31)
Long-term Debt, less current portion	<u>\$ 10,984</u>	<u>\$ 8,331</u>

*The \$2 billion Tranche B Term Loan due 2022 had an interest rate of 4.5% as of December 31, 2014. 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, 2014.

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 acquisition of Global Crossing Limited ("Global Crossing") (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 Limited 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 \$8 million and \$17 million for the Tranche B-III 2019 and Tranche B 2020 Term Loans, respectively, at December 31, 2014.

On October 31, 2014, Level 3 Financing entered into a ninth amendment agreement to the Existing Credit Agreement to incur \$2 billion in aggregate borrowings under the Existing Credit Agreement through the creation of a new Tranche B 2022 Term Loan (the "Tranche B 2022 Term Loan"). The Tranche B 2022 Term Loan included an upfront payment to the lenders of 0.75% of par and will bear interest equal to LIBOR plus 3.50% with LIBOR set at a minimum of 1.00% percent. The Tranche B 2022 Term Loan will mature on January 31, 2022. Debt issuance costs of approximately \$27 million were capitalized and are amortized over the term of the Tranche B 2022 Term Loan using the effective interest method.

As of December 31, 2014, the debt issuance discount for the Tranche B 2022 Term Loan remaining was \$15 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$26 million at December 31, 2014.

Upon closing of the Tranche B 2022 Term Loan, Level 3 Financing, Inc. used the gross proceeds to finance the cash portion of the merger consideration payable to tw telecom's stockholders in the Merger and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of that acquisition. See Note 2 - Events Associated with the Merger of tw telecom for additional information.

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 Limited'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 is 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 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 \$3 million at December 31, 2014.

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 was not originally registered under the Securities Act of 1933, as amended. During the fourth quarter of 2014, all of the originally placed notes were exchanged for a new issue of Floating Rate Senior Notes due 2018 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

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 were 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 amortized as interest expense over the term of the 11.875% Senior Notes using the effective interest method. The 11.875% Senior Notes were due to mature on February 1, 2019.

In December 2014, the Company issued \$600 million aggregate principal amount of its 5.75% Senior Notes due 2022. The net proceeds from the offering of the notes, together with cash on hand, were used to redeem the \$605 million aggregate principal amount outstanding of the Company's 11.875% Senior Notes due 2019. The company recognized a debt extinguishment loss of \$53 million associated with this transaction during the fourth quarter 2014.

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 is payable on April 1 and October 1 of each year, beginning on October 1, 2011.

As of December 31, 2014, debt issuance discount remaining was \$6 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$7 million at December 31, 2014.

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:

Year	Redemption Price
2015	104.688%
2016	102.344%
2017	100.000%

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.

On January 29, 2015, Level 3 Financing issued \$500 million aggregate principal amount of its 5.625% Senior Notes due 2023. The 5.625% Senior Notes were priced at par and mature February 1, 2023. The 5.625% Senior Notes will pay interest on June 15 and December 15 of each year beginning on June 15, 2015.

The net proceeds from the offering of the 5.625% Senior Notes, together with cash on hand, will be used to redeem all \$500 million aggregate principal amount of Level 3 Financing, Inc.'s 9.375% Senior Notes due 2019.

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. 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 on 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.

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, 2014, debt issuance discount remaining was \$6 million. As a result of amortization, the capitalized debt issuance costs have been reduced to \$22 million at December 31, 2014.

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%

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 is 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 \$5 million at December 31, 2014.

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 is 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 \$14 million at December 31, 2014.

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%

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.

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 is 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 \$11 million at December 31, 2014.

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 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 6.125% Senior Notes were priced at 100% of their principal amount and will mature on January 15, 2021. Interest on the Notes is 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 \$11 million at December 31, 2014.

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 was not originally registered under the Securities Act of 1933, as amended. During the fourth quarter of 2014, all of the originally placed notes were exchanged for a new issue of 6.125% Senior Notes due 2021 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

5.375% Senior Notes due 2022

On August 12, 2014, Level 3 Escrow II, Inc. (“Level 3 Escrow”), an indirect, wholly owned subsidiary of Level 3 Communications, Inc., issued \$1.0 billion in aggregate principal amount of its 5.375% Senior Notes due 2022 (the “5.375% Senior Notes”). The 5.375% Senior Notes will mature on August 15, 2022. Interest on the 5.375% Senior Notes is payable on May 15 and November 15 of each year, beginning on November 15, 2014. Debt issuance costs of approximately \$17 million were capitalized and are amortized over the term of the 5.375% Notes as interest expense using the effective interest method.

As a result of amortization, the capitalized debt issuance costs have been reduced to \$12 million at December 31, 2014.

The gross proceeds from the offering of the 5.375% 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 acquisition by Level 3 of tw telecom pursuant to the Merger and the assumption of the 5.375% Senior Notes by Level 3 Financing, Inc. (the “Notes Assumption”). In conjunction with the completion of the Merger on October 31, 2014 (see Note 2 — Events Associated with the Merger of tw telecom), the escrow conditions were satisfied. Following the Notes Assumption, Level 3 and Level 3 Communications, LLC guaranteed the 5.375% Senior Notes on an unsecured basis. Following the Notes Assumption, Level 3 and Level 3 Communications, LLC guaranteed the 5.375% Senior Notes on an unsecured basis. Following the release of the escrowed funds in connection with the Notes Assumption, the escrowed funds were used to finance the cash portion of the merger consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger.

The 5.375% Senior Notes are 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 August 15, 2017, at 100% of the principal amount of 5.375% 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 (ii) on and after August 15, 2017, 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 August 15, of the years indicated below:

Year	Redemption Price
2017.....	102.688%
2018.....	101.344%
2019.....	100.000%

At any time or from time to time on or prior to August 15, 2017, Level 3 Financing may redeem up to 40% of the original aggregate principal amount of the 5.375% Senior Notes at a redemption price equal to 105.375% of the principal amount of the 5.375% 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 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 the aggregate. However, at least 60% of the original aggregate principal amount of the 5.375% 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 days nor more than 60 days' prior notice.

The offering of the 5.375% Senior Notes were not originally registered under the Securities Act of 1933, as amended, and the 5.375% Senior Notes may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 5.375% Senior 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. The registration rights agreement became effective as of October 31, 2014. During the first quarter of 2015, all of the originally placed notes were exchanged for a new issue of 5.375% Senior Notes with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

5.75% Senior Notes due 2022

On December 1, 2014, Level 3 issued a total of \$600 million aggregate principal amount of its 5.75% Senior Notes due 2022 (the "5.75% Senior Notes"). Debt issuance costs of approximately \$10 million were capitalized and are being amortized over the term of the 5.75% Senior Notes as interest expense using the effective interest method. The net proceeds from the offering of the notes, together with cash on hand were used to redeem all of the outstanding 11.875% Senior Notes due 2019 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 11.875% Senior Notes due 2019 was discharged on December 31, 2014. Level 3 Financing redeemed its 11.875% Senior Notes due 2017 at a price of 106.859% of the principal amount and recognized a loss on extinguishment of debt of \$53 million.

The 5.75% Senior Notes will mature on December 1, 2022. Interest on the 5.75% Senior Notes accrues at 5.75% per year and is payable on March 1 and September 1 of each year, beginning on March 1, 2015.

The capitalized debt issuance costs were not reduced significantly as a result of amortization and remain at \$10 million at December 31, 2014.

The 5.75% Senior Notes will be subject to redemption at the option of Level 3, 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 December 1, 2017 at 100% of the principal amount of 5.75% 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 (ii) on and after December 1, 2017, 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 5.75% Senior Notes if redeemed during the twelve months beginning December 1, of years indicated below:

Year	Redemption Price
2017	102.8750%
2018	101.4375%
2019 and thereafter	100.0000%

At any time or from time to time on or prior to December 1, 2017, Level 3 may redeem up to 40% of the original aggregate principal amount of the 5.75% Senior Notes at a redemption price equal to 105.75% of the principal amount of the 5.75% 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 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 the aggregate. However, at least 60% of the original aggregate principal amount of the 5.75% 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 5.75% Senior Notes was not registered under the Securities Act of 1933, as amended, and the 5.75% Senior Notes may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 5.75% 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. The registration rights agreement became effective as of December 1, 2014. During the first quarter of 2015, all of the originally placed notes were exchanged for a new issue of 5.75% Senior Notes with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable.

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 commenced 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.

During the fourth quarter of 2014, certain holders converted approximately \$142 million of the 7% 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.

As of December 31, 2014, the debt issuance discount remaining was nil. Debt issuance costs of \$4 million were originally capitalized and were 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 also nil at December 31, 2014.

Capital Leases

As of December 31, 2014, the Company had \$207 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 6.2% on average as of December 31, 2014.

Other Debt

As of December 31, 2014, the Company had less than \$1 million of other debt with an average interest rate of 5.0%.

Covenant Compliance

At December 31, 2014 and 2013, 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, 2014 (dollars in millions):

2015.....	\$	349
2016.....		9
2017.....		8
2018.....		308
2019.....		2,823
Thereafter ...		7,869
	\$	<u>11,366</u>

(12) Accumulated Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss) 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, 2012.....	\$ 39	\$ (90)	\$ (29)	\$ (80)
Other comprehensive income (loss) before reclassifications	17	25	(4)	38
Amounts reclassified from accumulated other comprehensive loss.....	—	65	3	68
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
Other comprehensive income (loss) before reclassifications.....	(178)	—	(9)	(187)
Amounts reclassified from accumulated other comprehensive loss.....	—	—	4	4
Balance at December 31, 2014.....	\$ (111)	\$ —	\$ (36)	\$ (147)

(13) Employee Benefits and Stock-Based Compensation

The Company records non-cash compensation expense for its outperform stock appreciation rights, performance restricted stock units, restricted stock units, 401(k) matching contributions, and, prior to 2014, other stock-based compensation expense associated with the Company's discretionary bonus grants. Total non-cash compensation expense related to these equity awards was \$73 million in 2014, \$151 million in 2013 and \$135 million in 2012.

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for each of the three years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	2014	2013	2012
OSOs.....	\$ 8	\$ 21	\$ 14
Restricted Stock Units	34	38	40
Performance Restricted Stock Units.....	14	—	—
401(k) Match Expense.....	23	24	23
Restricted Stock Unit Bonus Grant.....	(5)	59	46
Management Incentive and Retention Plan	—	10	13
	<u>74</u>	<u>152</u>	<u>136</u>
Capitalized Non-Cash Compensation	(1)	(1)	(1)
	<u>\$ 73</u>	<u>\$ 151</u>	<u>\$ 135</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.

OSO and restricted stock units 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 \$4 million, \$5 million and \$9 million in 2014, 2013 and 2012, 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, 2014, there was \$7 million of unamortized compensation expense related to granted OSO units. The weighted average period over which this cost will be recognized is 1.26 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
S&P 500 Expected Dividend Yield Rate	2.24%	2.05%
Expected Life	3 years	3 years
S&P 500 Expected Volatility Rate	19%	23%
Level 3 Common Stock Expected Volatility Rate	39%	39%
Expected S&P 500 Correlation Factor	0.44	0.32
Calculated Theoretical Value	101%	110%
Estimated Forfeiture Rate	15%	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 and 2012 was approximately \$17 million and \$29 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.

	Units	Initial Strike Price Per Unit		Weighted Average Initial Strike Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Contractual Term (years)
Balance January 1, 2012.....	1,288,712	\$ 10.50	-\$ 36.60	\$ 20.51	\$ 1.8	1.53
OSOs granted	1,195,452	\$ 16.99	-\$ 27.53	\$ 24.65		
OSOs forfeited	(72,335)	\$ 12.00	-\$ 36.60	\$ 21.80		
OSOs expired.....	(278,111)	\$ 15.00	-\$ 22.65	\$ 18.45		
OSOs 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
OSOs granted	748,481	\$ 20.29	-\$ 26.69	\$ 22.64		
OSOs forfeited	(271,883)	\$ 14.10	-\$ 36.60	\$ 22.33		
OSOs expired.....	(286,924)	\$ 16.35	-\$ 24.30	\$ 21.48		
OSOs 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
OSOs granted	—	\$ —	-\$ —	\$ —		
OSOs forfeited	(52,901)	\$ 16.99	-\$ 27.53	\$ 22.99		
OSOs expired.....	(106,844)	\$ 36.60	-\$ 36.60	\$ 36.60		
OSOs exercised.....	(771,251)	\$ 14.70	-\$ 27.53	\$ 24.26		
Balance December 31, 2014.....	1,217,869	\$ 16.99	-\$ 27.53	\$ 22.76	\$ 88.0	0.90

Range of Exercise Prices	OSO Units Outstanding at December 31, 2014		OSO units Exercisable at December 31, 2014	
	Number Outstanding	Weighted Average Remaining Life (years)	Number Exercisable	Weighted Average Initial Strike Price
\$ 16.99 - \$ 27.53	1,217,869	0.90	—	\$ —

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, 2014, 2013 and 2012, respectively. As noted above, all of the outstanding OSO units granted have an expected life at the grant date of three years.

The total realized value of OSO units settled was \$18.7 million, \$1.5 million and \$0.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company issued 732,593, 90,879 and zero shares of Level 3 common stock upon the exercise of OSO units for the years ended December 31, 2014, 2013 and 2012, 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 and Performance Restricted Stock Units

Restricted stock units 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.

Effective April 2014, the Company's Board of Directors approved the Restricted Stock Unit and Performance Restricted Stock Unit ("PRSUs") Master Award Agreement ("the Agreement"), which provides for the ability to award participants PRSUs instead of the historical award of OSOs. PRSUs are designed to provide participants with a long-term stake in the Company's success with both retention and performance components. Under the Agreement, a participant becomes vested in a number of PRSUs based on the Company's achievement of specified levels of financial performance during the performance period set forth in the applicable award letter issued pursuant to the Agreement, so long as the participant remains continuously employed by the Company until the applicable scheduled vesting date, subject to certain change in control provisions as outlined in the Agreement. The performance objective is based on the Company's financial performance measures. Participants will be entitled to an award within a range of 50% at a minimum achievement level and 200% at a maximum achievement level.

The fair value of restricted stock units awarded totaled \$96 million, \$34 million and \$69 million for the years ended December 31, 2014, 2013 and 2012, respectively. The fair value of these awards was calculated using the value of Level 3 common stock on the grant date and are being amortized over the periods in which the restrictions lapse. As of December 31, 2014, unamortized compensation cost related to nonvested restricted stock and restricted stock units was \$85 million and the weighted average period over which this cost will be recognized is 3.18 years.

The changes in nonvested restricted stock, restricted stock units and nonvested performance restricted stock units are shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	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
Stock and units granted	2,255,883	\$ 42.36
Lapse of restrictions	(1,151,830)	\$ 22.94
Stock and units forfeited	(241,785)	\$ 28.90
Nonvested at December 31, 2014.....	3,786,618	\$ 33.91

The total fair value of restricted stock and restricted stock units and PRSUs whose restrictions lapsed in the years ended December 31, 2014, 2013 and 2012 was \$27 million, \$46 million and \$27 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 provided an opportunity to receive two types of awards: a retention award and an incentive award. Participants' retention and incentive awards had a cash component only or a cash component and an equity component. The equity component was granted in the form of restricted stock units under the Stock Plan. The MIRP has terminated pursuant to its terms and there are no remaining unamortized compensation costs related to MIRP.

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.....	195,000	\$ 25.92
Stock and units granted.....	—	
Lapse of restrictions.....	(195,000)	\$ 25.92
Stock and units forfeited.....	—	
Nonvested at December 31, 2014.....	—	

No retention restricted stock units were awarded during the year ended December 31, 2014 under the MIRP, and all prior awards were vested as of December 31, 2014.

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 2014 and \$18,000 in 2015. Effective January 1, 2012, the Company matches 100% of employee contributions up to 4% 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 \$23 million, \$24 million and \$23 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company's matching contributions are recorded as non-cash compensation and included in network related expenses of \$4 million, \$4 million and \$4 million for the years ended December 31, 2014, 2013 and 2012, respectively, and in selling, general and administrative expenses of \$19 million, \$20 million and \$19 million for the years ended December 31, 2014, 2013 and 2012, respectively. Former U.S.-based Global Crossing employees became eligible to participate in the Level 3 401(k) Plan starting January 1, 2012 and former tw telecom employees became eligible to participate in the Level 3 401(k) Plan starting January 1, 2015.

The tw telecom 401(k) Plan ("tw telecom 401(k) Plan") provided 100% matching cash contributions up to a maximum 5% of eligible compensation. The Company's contributions to the tw telecom 401(k) Plan vest immediately. Expenses recorded by the Company relating to the tw telecom 401(k) Plan for the two months in 2014 subsequent to the completion of the Merger were approximately \$2 million. Former tw telecom employees are eligible to participate in the Level 3 401(k) Plan starting January 1, 2015.

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 \$6 million, \$5 million and \$7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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 \$151 million and \$148 million as of December 31, 2014 and 2013, respectively. The total benefit obligation was \$176 million and \$165 million as of December 31, 2014 and 2013, respectively. Therefore, the total funded status was an obligation of \$25 million as of December 31, 2014. The total funded status was an obligation of \$17 million as of December 31, 2013.

Annual Discretionary Bonus Grant

The Company's annual discretionary bonus program is intended to 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, 2014, \$167 million had been accrued in current liabilities for this bonus plan, including employer liability for payroll taxes and charges. The Company generally expects to pay out 100% in cash in the first quarter of 2015.

As of December 31, 2013, \$124 million was accrued in current liabilities for this bonus plan, including employer liability for payroll taxes and charges. The Company paid out \$57 million cash and 1.4 million immediately-vested restricted stock units in 2014 for this plan.

As of December 31, 2012, \$103 million was accrued in 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.

(14) Income Taxes

The following table summarizes the income tax benefit (provision) attributable to the income (loss) before income taxes for each of the three years ended December 31, 2014, 2013 and 2012:

	<u>2014..</u>	<u>2013 ..</u>	<u>2012..</u>
(dollars in millions)			
Current:			
United States federal	\$ —	\$ 9	\$ —
State	(1)	(1)	(2)
Foreign	(40)	(37)	(36)
	<u>(41)</u>	<u>(29)</u>	<u>(38)</u>
Deferred, net of changes in valuation allowances:			
United States federal	6	(3)	(3)
State	15	—	—
Foreign	96	(6)	(7)
Income tax benefit (provision)	<u>\$ 76</u>	<u>\$ (38)</u>	<u>\$ (48)</u>

The United States and Foreign components of income (loss) before income taxes for each of the three years ended December 31, 2014, 2013 and 2012 are as follows (some of the income (loss) is subject to taxation in multiple jurisdictions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
(dollars in millions)			
United States	\$ 207	\$ (122)	\$ (434)
Foreign	31	51	60
	<u>\$ 238</u>	<u>\$ (71)</u>	<u>\$ (374)</u>

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the income (loss) before income taxes for each of the three years ended December 31, 2014, 2013 and 2012 is shown in the following table:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
(dollars in millions)			
Computed tax (provision) benefit at statutory rate	\$ (83)	\$ 25	\$ 131
Effect of earnings in jurisdictions outside of US	13	12	25
Change in valuation allowance	197	(27)	(145)
Permanent items	(44)	(44)	(48)
Indefinite-lived assets	2	(3)	(3)
Uncertain tax positions	3	9	(3)
Changes in tax rates	(7)	(7)	(4)
Other, net	(5)	(3)	(1)
Income tax benefit (provision)	<u>\$ 76</u>	<u>\$ (38)</u>	<u>\$ (48)</u>

The components of the net deferred tax assets (liabilities) as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
	(dollars in millions)	
Deferred Tax Assets:		
Accrued payroll and related benefits	\$ 113	\$ 132
Deferred revenue	322	336
Unutilized tax net operating loss carry forwards	5,218	4,791
Fixed assets and intangible assets	90	102
Intercompany loss	128	139
Other	174	144
Total Deferred Tax Assets	<u>6,045</u>	<u>5,644</u>
Deferred Tax Liabilities:		
Fixed assets and intangible assets	(1,371)	(790)
Deferred revenue	(73)	(76)
Other	(59)	(33)
Foreign branch income	(130)	(163)
Total Deferred Tax Liabilities	<u>(1,633)</u>	<u>(1,062)</u>
Net Deferred Tax Assets before valuation allowance	4,412	4,582
Valuation Allowance	(4,437)	(4,698)
Net Deferred Tax Liability after Valuation Allowance	<u>\$ (25)</u>	<u>\$ (116)</u>
Balance sheet classification of deferred taxes:		
Net current deferred income tax asset	\$ 8	\$ 9
Net current deferred income tax liability	—	(2)
Net non-current deferred income tax asset	292	211
Net non-current deferred income tax liability	(325)	(334)
Net Deferred Tax Liability after Valuation Allowance	<u>\$ (25)</u>	<u>\$ (116)</u>

On October 31, 2014, the Company completed its acquisition of tw telecom. The Merger qualified as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and therefore the Company assumed the carryover tax basis of the acquired assets and liabilities of tw telecom. As a result, the Company recorded a net deferred tax liability of \$15 million as the acquired deferred tax assets, net of valuation allowance, were offset by the deferred tax liabilities created by the additional financial reporting basis of the identifiable intangible assets. Simultaneously, the Company released \$15 million of valuation allowance against its deferred tax assets as the acquired deferred tax liabilities serve as a source of taxable income to support such release. The final identification of tw telecom's deferred taxes and the final determination of the purchase price allocation may be significantly different from the preliminary amounts reflected herein.

As of December 31, 2014, the Company had net operating loss carry forwards of approximately \$10.3 billion (net of IRC Section 382 limitation) for U.S. federal income tax purposes, including \$1 billion from the tw telecom acquisition. Although the tw telecom acquisition triggered an ownership change under Section 382 of the Internal Revenue Code, the Company has determined that its loss carryforwards should not be mathematically limited based on its value at the time of the ownership change and the expiration dates of its net operating losses.

The Company's loss carry forwards expire in future years through 2034 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
2022	\$ 186
2023	380
2024	1,456
2025	1,299
2026	1,244
2027	1,615
2028	482
2029	694
2030	664
2031	827
2032	730
2033	289
2034	438
	<u>\$ 10,304</u>

Under the rules prescribed by Internal Revenue Code 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 three-year 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. Level 3 extended the term of its Stockholder Rights Plan, which was adopted to protect its U.S. federal net operating loss carry forwards from these limitations. This plan was designed to deter trading that would result in a change of control (as defined in Section 382) without the limitations imposed by Section 382, and therefore protect the Company's ability to use its historical U.S. federal net operating loss carry forwards in the future.

As of December 31, 2014, the Company had state net operating loss carry forwards of approximately \$7.9 billion that are subject to limitations on their utilization and have various expiration periods through 2034. The Company had approximately \$6.1 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 Company recognizes deferred tax assets and liabilities for its domestic and non-U.S. operations, for operating loss and other credit carry forwards and 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 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. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. To date, the Company has provided a valuation allowance to reduce the deferred tax assets of most of its businesses in North America and certain other jurisdictions to the amount that is more likely than not to be realized as it believes the objective evidence of its historical

pretax net losses in those jurisdictions outweighs the positive evidence of its forecasted future results. However, in 2014, the Company released approximately \$100 million of deferred tax valuation allowance primarily related to its business in the UK due to consolidation of legal entities whereby one UK entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets. As a result, management projects future profitability of that business. Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

The Company monitors its cumulative loss position and other evidence each quarter to determine the appropriateness of its valuation allowance. If the Company continues to generate income before taxes in future periods, the conclusion about the appropriateness of the valuation allowance could change in a future period, and the Company could record a substantial benefit in its consolidated statement of operations when that occurs.

The valuation allowance for deferred tax assets was approximately \$4.4 billion as of December 31, 2014 and \$4.7 billion as of December 31, 2013. The change in valuation allowance is primarily due to the income before taxes in the United States and a valuation allowance release in the United Kingdom. In making the determination to release the valuation allowance, the Company analyzed, among other things, the tax-paying entity's recent history of earnings, its cumulative earnings for the last 12 quarters, and forecasts of future earnings.

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 income tax positions totaled \$17 million at December 31, 2014 and \$13 million at December 31, 2013. If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of \$14 million (\$13 million as of December 31, 2013) and a reduction in the effective tax rate. The Company does not expect that the liability for uncertain tax positions will materially increase or decrease during the twelve months ended December 31, 2015. A reconciliation of the beginning and ending balance of unrecognized income tax benefits follows (dollars in millions):

	<u>Amount</u>
Balance as of January 1, 2012	\$ 15
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>
Tax positions of prior years netted against deferred tax assets	5
Gross increases - tax positions of prior years	1
Gross increases - tax positions during 2014.....	—
Gross decreases - lapse of statute of limitations	(2)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2014	<u>\$ 17</u>

The unrecognized tax benefits in the table above do not include accrued interest and penalties of \$17 million, \$18 million and \$22 million as of December 31, 2014, 2013 and 2012, 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 \$1 million, a benefit of approximately \$4 million and charges of approximately \$3 million for the years ended December 31, 2014, 2013 and 2012, 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.

Income Tax Expense/(Benefit) was (\$76) million in 2014 compared to \$38 million in 2013 and \$48 million in 2012. Income tax (benefit) or 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.

(15) 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. The Company's CODM is Jeff K. Storey, President and Chief Executive Officer. Historically, Mr. Storey has monitored performance and allocated resources based on the three separate geographic regions in which the Company operates. Accordingly, the Company's reportable segments have consisted of 1) North America, 2) Europe, the Middle East and Africa (EMEA), 3) and Latin America. As a result of the Merger (see Note 2 - Events Associated with the Merger of tw telecom), Mr. Storey also monitors performance of the former tw telecom business. Therefore, the Company is now comprised of the following four reportable segments for financial reporting purposes until the tw telecom segment can be fully integrated into North America, 1) North America, 2) EMEA, 3) Latin America, 4) and tw telecom, which represents the standalone operations of the former tw telecom business. 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 and network related expenses, (4) depreciation and amortization expense, and (5) non-cash stock-based compensation expense included within selling, general and administrative expenses and network related 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-based 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-based 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 revenue. 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 (managed modem was discontinued after 2012).

Core Network Services revenue represents higher profit services and Wholesale Voice Services and Other revenue represents lower profit 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 the profitability of 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 revenue by segment for each of the years ended December 31,

<u>(dollars in millions)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Core Network Services Revenue:			
North America.....	\$ 4,240	\$ 3,949	\$ 3,840
EMEA	891	888	911
Latin America.....	779	754	712
tw telecom.....	285	—	—
Total Core Network Services Revenue	\$ 6,195	\$ 5,591	\$ 5,463
Wholesale Voice Services and Other Revenue:			
North America.....	\$ 530	\$ 681	\$ 863
EMEA	19	31	40
Latin America.....	33	10	10
Total Wholesale Voice Services and Other Revenue	\$ 582	\$ 722	\$ 913
Total Consolidated Revenue	\$ 6,777	\$ 6,313	\$ 6,376

The following table presents Adjusted EBITDA by segment and reconciles Adjusted EBITDA to net income (loss) for each of the years ended December 31,

<u>(dollars in millions)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Adjusted EBITDA:			
North America.....	\$ 1,960	\$ 1,799	\$ 1,708
EMEA.....	214	226	195
Latin America.....	348	313	278
tw telecom.....	105	—	—
Unallocated Corporate Expenses.....	(732)	(714)	(722)
Consolidated Adjusted EBITDA.....	<u>\$ 1,895</u>	<u>\$ 1,624</u>	<u>\$ 1,459</u>
Income Tax Benefit (Expense).....	76	(38)	(48)
Total Other Expense.....	(775)	(737)	(949)
Depreciation and Amortization.....	(808)	(800)	(749)
Non-Cash Stock Compensation.....	(73)	(151)	(135)
Non-Cash Impairment.....	(1)	(7)	—
Total Consolidated Net Income (Loss).....	<u>\$ 314</u>	<u>\$ (109)</u>	<u>\$ (422)</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:

<u>(dollars in millions)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital Expenditures:			
North America.....	\$ 432	\$ 398	\$ 407
EMEA.....	117	128	115
Latin America.....	153	134	122
tw telecom.....	63	—	—
Unallocated Corporate Capital Expenditures ...	145	100	99
Consolidated Capital Expenditures.....	<u>\$ 910</u>	<u>\$ 760</u>	<u>\$ 743</u>

The following table presents total assets by segment:

<u>(dollars in millions)</u>	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
North America.....	\$ 8,082	\$ 8,133
EMEA.....	1,970	2,030
Latin America.....	2,451	2,445
tw telecom.....	8,160	—
Other.....	284	266
Total Consolidated Assets.....	<u>\$ 20,947</u>	<u>\$ 12,874</u>

(16) 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 \$171 million and are included in "Other" current liabilities and "Other liabilities" in the Company's Consolidated Balance Sheet at December 31, 2014. 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, 2014. 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 is \$55 million at December 31, 2014.

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"). The 2001 and 2002 assessed withholding tax assessments were resolved in favor of the Company in separate administrative resolutions; however, the penalties with respect to withholding tax remain at issue in the administrative appeals.

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, deciding 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. The Company appealed the Tribunal's October 2011 administrative resolutions to the judicial court in Peru. 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 September 2014, the first judicial court rendered a decision largely in the Company's favor on the central issue underlying the assessments. SUNAT has appealed the court's decision to the next judicial level.

In October 2013, the Tribunal notified the Company of its July 2013 administrative resolution with respect to the calendar year 2001 tax period regarding VAT, associated penalties and penalties associated with withholding taxes, 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. The Company has appealed the Tribunal's July 2013 administrative resolutions to the judicial court in Peru.

In December 2013, SUNAT initiated an audit of calendar year 2001. In June 2014, the Company was served with SUNAT's assessments of the 2001 amounts declared null by the Tribunal. In July 2014, the Company appealed these assessments with SUNAT.

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 \$44 million at December 31, 2014.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, 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, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. During the third quarter of 2014, the Company released a reserve of \$6 million for tax, penalty and associated interest corresponding to the ICMS applicable on the provision of Internet access services due to the expiration of the statute of limitations for the January 2008 to June 2009 tax periods. 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 September 2002, December 2004 and March 2009 assessments were rejected by the respective state administrative courts, and the Company has appealed those decisions to the judicial courts. In October 2012 and June 2014, the Company received favorable rulings from the lower court on the December 2004 and March 2009 assessments regarding equipment leasing, but those rulings are subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the April and July 2009 and May 2012 assessments are still pending final administrative decisions. The July 2014 assessment was confirmed during the fourth quarter of 2014 at the first administrative level and the Company appealed this decision to the second administrative level. During the fourth quarter of 2014, the Company entered into an amnesty with the Rio de Janeiro state tax authorities with respect to potential ICMS liability for the 2008 tax period. As a result, the Company paid \$5 million and released a reserve of \$3 million of tax corresponding to the ICMS applicable on the provision of Internet access services.

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 \$57 million at December 31, 2014 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, 2014 and December 31, 2013, the Company had outstanding letters of credit or other similar obligations of approximately \$28 million and \$29 million, respectively, of which \$23 million and \$25 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 2050. Payments under these right-of-way agreements were \$173 million in 2014, \$161 million in 2013 and \$172 million in 2012.

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 \$318 million in 2014, \$311 million in 2013 and \$308 million in 2012.

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, 2014 (dollars in millions):

	Right-of-Way Agreements	Facilities and Other Assets	Total	Future Minimum Sublease Receipts
2015.....	\$ 118	\$ 302	\$ 420	\$ 5
2016.....	58	244	302	4
2017.....	53	207	260	4
2018.....	51	174	225	1
2019.....	42	142	184	1
Thereafter ..	315	655	970	—
	<u>\$ 637</u>	<u>\$ 1,724</u>	<u>\$ 2,361</u>	<u>\$ 15</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, 2015, 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, 2014 (dollars in millions):

	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Cost of Access Services	\$ 710	\$ 378	\$ 262	\$ 51	\$ 19
Third-Party Maintenance Services ...	329	67	55	51	156
	<u>\$ 1,039</u>	<u>\$ 445</u>	<u>\$ 317</u>	<u>\$ 102</u>	<u>\$ 175</u>

(17) Condensed Consolidating Financial Information (as revised)

Level 3 Financing 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, 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, 2014

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	—	—	3,073	3,918	(214)	\$ 6,777
Costs and Expenses:						
Network Access Costs	—	—	1,177	1,566	(214)	2,529
Network Related Expenses	—	—	762	484	—	1,246
Depreciation and Amortization	—	—	277	531	—	808
Selling, General and Administrative Expenses	21	2	735	423	—	1,181
Total Costs and Expenses	21	2	2,951	3,004	(214)	5,764
Operating Income (Loss)	(21)	(2)	122	914	—	1,013
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(143)	(492)	(2)	(17)	—	(654)
Interest income (expense) affiliates, net	1,227	1,827	(2,890)	(164)	—	—
Equity in net earnings (losses) of subsidiaries	(710)	(2,047)	663	—	2,094	—
Other, net	(53)	—	7	(76)	—	(122)
Total Other Expense	321	(712)	(2,222)	(256)	2,094	(775)
Income (Loss) before Income Taxes	300	(714)	(2,100)	658	2,094	238
Income Tax Expense	14	4	(1)	59	—	76
Net Income (Loss)	314	(710)	(2,101)	717	2,094	314
Other Comprehensive Loss, Net of Income Taxes	(183)	—	—	(183)	183	(183)
Comprehensive Income (Loss)	\$ 131	\$ (710)	\$ (2,101)	\$ 534	\$ 2,277	\$ 131

Condensed Consolidating Statements of Operations
For the year ended December 31, 2013 (as revised)

(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:						
Network Access Costs	—	—	1,068	1,649	(246)	2,471
Network Related Expenses	—	—	753	461	—	1,214
Depreciation and Amortization	—	—	289	511	—	800
Selling, General and Administrative Expenses	3	1	791	367	—	1,162
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 Income, 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 (as revised)

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 2,657	\$ 3,975	\$ (256)	\$ 6,376
Costs and Expenses:						
Network Access Costs	—	—	996	1,854	(248)	2,602
Network Related Expenses	—	—	741	508	—	1,249
Depreciation and Amortization	—	—	260	489	—	749
Selling, General and Administrative Expenses	2	1	818	388	(8)	1,201
Total Costs and Expenses	2	1	2,815	3,239	(256)	5,801
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	(419)	(1,187)	(2,137)	(368)	3,162	(949)
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 (Loss), Net of Income Taxes	106	106	—	16	(122)	106
Comprehensive Income (Loss)	\$ (316)	\$ (1,082)	\$ (2,299)	\$ 341	\$ 3,040	\$ (316)

Condensed Consolidating Balance Sheets
December 31, 2014

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Assets						
Current Assets:						
Cash and cash equivalents . \$	7	\$ 5	\$ 307	\$ 261	\$ —	\$ 580
Restricted cash and securities	—	—	1	6	—	7
Receivables, less allowances for doubtful accounts	—	—	34	703	—	737
Due from affiliates	14,522	21,270	—	—	(35,792)	—
Other	2	21	45	97	—	165
Total Current Assets	14,531	21,296	387	1,067	(35,792)	1,489
Property, plant, and equipment, net	—	—	3,152	6,708	—	9,860
Restricted cash and securities	3	—	16	1	—	20
Goodwill and other intangibles, net	—	—	373	8,730	—	9,103
Investment in subsidiaries	16,686	14,777	3,729	—	(35,192)	—
Other assets, net	28	129	9	309	—	475
Total Assets	\$ 31,248	\$ 36,202	\$ 7,666	\$ 16,815	\$ (70,984)	\$ 20,947
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	—	\$ —	\$ 215	\$ 449	\$ —	\$ 664
Current portion of long-term debt	333	—	3	13	—	349
Accrued payroll and employee benefits	—	—	174	99	—	273
Accrued interest	12	158	—	4	—	174
Current portion of deferred revenue	—	—	118	169	—	287
Due to affiliates	—	—	34,401	1,391	(35,792)	—
Other	—	2	62	103	—	167
Total Current Liabilities	345	160	34,973	2,228	(35,792)	1,914
Long-term debt, less current portion	900	9,893	16	175	—	10,984
Deferred revenue, less current portion	—	—	617	304	—	921
Other liabilities	16	24	125	600	—	765
Commitments and Contingencies						
Stockholders' Equity (Deficit) .	29,987	26,125	(28,065)	13,508	(35,192)	6,363
Total Liabilities and Stockholders' Equity (Deficit) . \$	31,248	\$ 36,202	\$ 7,666	\$ 16,815	\$ (70,984)	\$ 20,947

Condensed Consolidating Balance Sheets
December 31, 2013

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
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 Statements of Cash Flows
For the year ended December 31, 2014

	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.....\$	(178)	\$ (458)	\$ 625	\$ 1,172	\$ —	\$ 1,161
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(362)	(548)	—	(910)
Change in restricted cash and securities, net.....	—	—	2	(12)	—	(10)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	3	—	3
Investment in tw telecom, net of cash acquired	(474)	—	—	307	—	(167)
Other	—	—	—	(2)	—	(2)
Net Cash Provided by (Used in) Investing Activities	(474)	—	(360)	(252)	—	(1,086)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	590	—	—	(1)	—	589
Payments on and repurchases of long-term debt, including current portion and refinancing costs.....	(647)	—	—	(24)	—	(671)
Increase (decrease) due from/to affiliates, net	708	457	(305)	(860)	—	—
Net Cash Provided by (Used in) Financing Activities	651	457	(305)	(885)	—	(82)
Effect of Exchange Rates on Cash and Cash Equivalents ..	—	—	—	(44)	—	(44)
Net Change in Cash and Cash Equivalents	(1)	(1)	(40)	(9)	—	(51)
Cash and Cash Equivalents at Beginning of Year	8	6	347	270	—	631
Cash and Cash Equivalents at End of Year	\$ 7	\$ 5	\$ 307	\$ 261	\$ —	\$ 580

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

	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 of Continuing Operations	(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 Used in Investing Activities of Continuing Operations	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 of Continuing Operations	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

(18) Unaudited Quarterly Financial Data (as revised)

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
	(as revised)		(as revised)		(as revised)		(as revised)	
(dollars in millions except per share data)								
Revenue.....	\$ 1,609	\$ 1,577	\$ 1,625	\$ 1,565	\$ 1,629	\$ 1,569	\$ 1,914	\$ 1,602
Costs and Expenses:								
Network Access Costs.....	614	629	613	616	607	608	695	618
Network Related Expenses.....	292	302	302	300	307	314	345	298
Depreciation and Amortization.....	184	194	187	199	187	203	250	204
Selling, General and Administrative Expenses.....	255	297	267	310	266	292	393	263
Total Costs and Expenses.....	<u>1,345</u>	<u>1,422</u>	<u>1,369</u>	<u>1,425</u>	<u>1,367</u>	<u>1,417</u>	<u>1,683</u>	<u>1,383</u>
Operating Income.....	264	155	256	140	262	152	231	219
Other Income (Expense):								
Interest Income.....	—	—	—	—	1	—	—	—
Interest expense.....	(151)	(169)	(149)	(167)	(159)	(165)	(195)	(148)
Gain (Loss) on extinguishments of debt, net.....	—	—	—	—	—	(17)	(53)	(67)
Other, net.....	6	(50)	(44)	14	(11)	23	(20)	9
Total Other Expense.....	<u>(145)</u>	<u>(219)</u>	<u>(193)</u>	<u>(153)</u>	<u>(169)</u>	<u>(159)</u>	<u>(268)</u>	<u>(206)</u>
Income (Loss) Before Income Taxes.....	119	(64)	63	(13)	93	(7)	(37)	13
Income Tax (Expense) Benefit.....	(7)	(14)	(12)	(11)	(8)	(14)	103	1
Net Income (Loss).....	<u>\$ 112</u>	<u>\$ (78)</u>	<u>\$ 51</u>	<u>\$ (24)</u>	<u>\$ 85</u>	<u>\$ (21)</u>	<u>\$ 66</u>	<u>\$ 14</u>
Net Income (Loss) Per Share - Basic.....	\$ 0.48	\$ (0.36)	\$ 0.21	\$ (0.11)	\$ 0.36	\$ (0.09)	\$ 0.22	\$ 0.06
Net Income (Loss) Per Share - Diluted.....	\$ 0.47	\$ (0.36)	\$ 0.21	\$ (0.11)	\$ 0.35	\$ (0.09)	\$ 0.21	\$ 0.06

Net income (loss) per share for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while net income (loss) per share for the year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the income (loss) per share for each of the four quarters may not equal the net income (loss) per share for the year.

During the fourth quarter of 2014, the Company recognized a loss on extinguishment of debt of \$53 million, related to the refinancing of the 11.875% Senior Notes due 2019.

During the fourth quarter of 2014, the Company completed its acquisition of tw telecom and therefore the results of operations for the fourth quarter of 2014 include the results of tw telecom for November and December. Additionally, the Company incurred \$70 million in expenses related to the acquisition of tw telecom.

During the fourth quarter of 2014, the Company increased its senior secured credit facility by adding a \$2 billion Tranche B 2022 Term Loan. The proceeds were used for the tw telecom acquisition.

During the fourth quarter of 2014, the Company also recognized a \$100 million income tax benefit primarily related to the release of a foreign deferred tax valuation allowance.

During the third quarter of 2014, the Company entered into an indenture totaling \$1 billion for 5.375% Senior Notes due 2022. The proceeds were used for the tw telecom acquisition.

During the second quarter of 2014, the Company recognized a loss of approximately \$34 million resulting from the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate of 10.6.

During the fourth quarter of 2013, the Company recognized a loss on 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 extinguishment of debt of \$17 million, related to the refinancing of the \$596 million Tranche B 2016 and the \$815 million Tranche B 2019 Term Loans.

During the first quarter of 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. The devaluation of the Company's net monetary assets resulted in a charge of \$22 million.

(19) Subsequent Events

On January 29, 2015, Level 3 Financing issued \$500 million aggregate principal amount of its 5.625% Senior Notes due 2023. The 5.625% Senior Notes were priced at par and mature February 1, 2023. The 5.625% Senior Notes will pay interest on June 15 and December 15 of each year beginning on June 15, 2015.

The net proceeds from the offering of the 5.625% Senior Notes due 2023 together with cash on hand, will be used to redeem all \$500 million aggregate principal amount of Level 3 Financing, Inc.'s 9.375% Senior Notes due 2019. In the second quarter 2015, the Company expects to recognize a loss of approximately \$40 million on the extinguishment of debt associated with this transaction that will be recognized in Other Expense.

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INVESTOR RELATIONS

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Broomfield, CO 80021
General Information: 720-888-1000

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Shareowner Services
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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
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1-800-468-9716

E-mail Address:
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AUDITORS

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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, Form 10-K, 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, 2015, there were 354,151,027 shares of Common Stock issued and outstanding. There were 6,482 stockholders of record.



www.Level3.com

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