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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2015

or

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

For the transition period from to

Commission file number 001-35134

LEVEL 3 COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

47-0210602

(I.R.S. Employer
Identification No.)

1025 Eldorado Blvd., Broomfield, CO

(Address of principal executive offices)

80021-8869

(Zip Code)

(720) 888-1000

(Registrant's telephone number,
including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each class of the issuer's common stock, as of November 4, 2015 :

Common Stock: 356,267,100 shares.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

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Part I - Financial Information
ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
(dollars in millions, except per share data)				
Revenue	\$ 2,062	\$ 1,629	\$ 6,176	\$ 4,863
Costs and Expenses:				
Network Access Costs	706	607	2,125	1,834
Network Related Expenses	369	307	1,088	901
Depreciation and Amortization	296	187	872	558
Selling, General and Administrative Expenses	364	266	1,098	788
Total Costs and Expenses	1,735	1,367	5,183	4,081
Operating Income	327	262	993	782
Other Income (Expense):				
Interest Income	—	1	1	1
Interest Expense	(145)	(159)	(490)	(459)
Loss on Modification and Extinguishment of Debt	—	—	(163)	—
Venezuela Deconsolidation Charge	(171)	—	(171)	—
Other, net	6	(11)	(21)	(49)
Total Other Expense	(310)	(169)	(844)	(507)
Income Before Income Taxes	17	93	149	275
Income Tax Expense	(16)	(8)	(39)	(27)
Net Income	\$ 1	\$ 85	\$ 110	\$ 248
Basic Earnings per Common Share				
Net Income Per Share	\$ —	\$ 0.36	\$ 0.31	\$ 1.05
Shares Used to Compute Basic Net Income per Share (in thousands)	355,791	238,265	352,411	237,102
Diluted Earnings per Common Share				
Net Income Per Share	\$ —	\$ 0.35	\$ 0.31	\$ 1.03
Shares Used to Compute Diluted Net Income per Share (in thousands)	358,714	242,464	355,453	241,458

See accompanying notes to unaudited Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
(unaudited)

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net Income	\$ 1	\$ 85	\$ 110	\$ 248
Other Comprehensive Income (Loss) Before Income Taxes:				
Foreign Currency Translation Adjustment	(73)	(138)	(130)	(120)
Other, net	1	1	2	2
Other Comprehensive Loss, Before Income Taxes	(72)	(137)	(128)	(118)
Income Tax Related to Items of Other Comprehensive Income (Loss)	—	—	—	—
Other Comprehensive Loss, Net of Income Taxes	(72)	(137)	(128)	(118)
Comprehensive Income (Loss)	\$ (71)	\$ (52)	\$ (18)	\$ 130

See accompanying notes to unaudited Consolidated Financial Statements.

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

(dollars in millions, except per share data)	September 30,	December 31,
	2015	2014
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 691	\$ 580
Restricted cash and securities	7	7
Receivables, less allowances for doubtful accounts of \$31 and \$30, respectively	810	737
Other	155	165
Total Current Assets	1,663	1,489
Property, Plant and Equipment, net of accumulated depreciation of \$10,160 and \$9,629, respectively	9,812	9,860
Restricted Cash and Securities	44	20
Goodwill	7,753	7,689
Other Intangibles, net	1,182	1,414
Other Assets, net	429	475
Total Assets	\$ 20,883	\$ 20,947
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 630	\$ 664
Current portion of long-term debt	16	349
Accrued payroll and employee benefits	230	273
Accrued interest	137	174
Current portion of deferred revenue	273	287
Other	184	167
Total Current Liabilities	1,470	1,914
Long-Term Debt, less current portion	10,997	10,984
Deferred Revenue, less current portion	942	921
Other Liabilities	694	765
Total Liabilities	14,103	14,584
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 in both periods; 355,932,791 issued and outstanding at September 30, 2015 and 341,361,420 issued and outstanding at December 31, 2014	4	3
Additional paid-in capital	19,593	19,159
Accumulated other comprehensive loss	(275)	(147)
Accumulated deficit	(12,542)	(12,652)
Total Stockholders' Equity	6,780	6,363
Total Liabilities and Stockholders' Equity	\$ 20,883	\$ 20,947

See accompanying notes to unaudited Consolidated Financial Statements.

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

(dollars in millions)	Nine Months Ended	
	September 30, 2015	September 30, 2014
Cash Flows from Operating Activities:		
Net income	\$ 110	\$ 248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	872	558
Non-cash compensation expense attributable to stock awards	92	48
Loss on modification and extinguishment of debt	163	—
Venezuela deconsolidation charge	171	—
Accretion of debt discount and amortization of debt issuance costs	18	27
Accrued interest on long-term debt, net	(28)	24
Non-cash tax adjustments	—	(9)
Deferred income taxes	5	2
Loss (gain) on sale of property, plant and equipment and other assets	1	(3)
Other, net	32	(19)
Changes in working capital items:		
Receivables	(130)	(25)
Other current assets	(21)	(31)
Accounts payable	(1)	(35)
Deferred revenue	59	(29)
Other current liabilities	(44)	9
Net Cash Provided by Operating Activities	1,299	765
Cash Flows from Investing Activities:		
Capital expenditures	(899)	(608)
Cash related to deconsolidated Venezuela operations	(83)	—
Increase in restricted cash and securities, net	(24)	(10)
Proceeds from sale of property, plant and equipment and other assets	3	3
Other	(14)	(2)
Net Cash Used in Investing Activities	(1,017)	(617)
Cash Flows from Financing Activities:		
Long-term debt borrowings, net of issuance costs	3,947	(1)
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(4,102)	(8)
Net Cash Used in Financing Activities	(155)	(9)
Effect of Exchange Rates on Cash and Cash Equivalents	(16)	(41)
Net Change in Cash and Cash Equivalents	111	98
Cash and Cash Equivalents at Beginning of Period	580	631
Cash and Cash Equivalents at End of Period	\$ 691	\$ 729
Supplemental Disclosure of Cash Flow Information:		
Cash interest paid	\$ 495	\$ 408
Income taxes paid, net of refunds	\$ 40	\$ 34
Non-cash Financing Activities:		
Long-term debt issued and proceeds placed into escrow	\$ —	\$ 1,000
Capital lease obligations incurred	\$ 6	\$ 2
Long-term debt conversion into equity	\$ 333	\$ —

Accrued interest conversion into equity

\$

10 \$

—

See accompanying notes to unaudited Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Unaudited 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 an international 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. 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 inc.

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.

Prior to October 1, 2015, the Company included the results of its wholly owned Venezuelan subsidiary in its Consolidated Financial Statements using the consolidation method of accounting. The Company's Venezuelan subsidiary's earnings and cash flows are reflected in the Consolidated Financial Statements at the SICAD I exchange rate for the three and nine months ended September 30, 2015 and 2014, respectively. The consolidated results of operations include a \$5 million charge related to the devaluation of the SICAD I exchange rate from 12.8 bolivars per U.S. dollar to 13.5 bolivars per U.S. dollar, which was effective September 1, 2015.

Venezuelan exchange control regulations have resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted the Company's Venezuelan operations' ability to pay dividends in U.S. dollars and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of the Company's Venezuelan operations and access the resulting liquidity provided by those earnings in U.S. dollars. The Company expects that this condition will continue for the foreseeable future. Additionally, government regulations affecting the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an acute degradation in the Company's ability to make key operational decisions for its Venezuelan operations. This lack of exchangeability into U.S. dollars and the degradation in the

Company's ability to control key operational decisions has resulted in a lack of control over the Company's Venezuelan subsidiary for U.S. accounting purposes. Therefore, while continuing to wholly own its Venezuelan subsidiary, in accordance with Accounting Standards Codification 810 -- Consolidation, the Company deconsolidated its Venezuelan subsidiary on September 30, 2015, and will begin accounting for its investment in its Venezuelan operations using the cost method of accounting.

As a result of deconsolidating of its Venezuelan subsidiary, the Company recorded a one-time charge of \$171 million in the third quarter of 2015, which had no accompanying tax benefit. This charge included the write-off of both the Company's investment in its Venezuelan subsidiary and \$40 million of intercompany receivables from its Venezuelan subsidiary. The Company's Venezuelan operations' bolivar-denominated cash balance of \$83 million (at the SICAD I exchange rate of 13.5 bolivars per U.S. dollar) at September 30, 2015 is no longer reported in Cash and Cash Equivalents on the Consolidated Balance Sheet. In future periods, the Company's financial results will not include the operating results of its Venezuelan operations. Any dividends from the Company's Venezuelan subsidiaries will be recorded as other income upon receipt of the cash. Prior period results have not been adjusted to reflect the deconsolidation of the Company's Venezuelan subsidiary. As a result of the deconsolidation of the Company's Venezuelan subsidiary, the Company completed an assessment of the Latin American reporting unit goodwill as of September 30, 2015 and concluded there was no impairment.

The accompanying Consolidated Balance Sheet as of December 31, 2014, which was derived from audited Consolidated Financial Statements, and the unaudited interim Consolidated Financial Statements as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP for complete financial statements. These financial statements should be read in conjunction with the Company's audited Consolidated Financial Statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2014. In the opinion of the Company's management, these financial statements contain all adjustments necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the interim periods presented herein. The results of operations for an interim period are not necessarily indicative of the results of operations expected for a full fiscal year.

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, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates under different assumptions or conditions and such differences could be material.

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new guidance is effective retrospectively for public companies for fiscal years beginning after December 15, 2015, and interim periods within those years. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial condition or have any effect on the Company's consolidated results of operations.

In May 2014, the FASB issued ASU 2014-9, *Revenue from Contracts with Customers*, which amended the existing accounting standards for revenue recognition and 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. In July 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017, and interim reporting periods within those periods. Early adoption is permitted using the original effective date of annual reporting periods beginning after December 15, 2016, and interim

reporting periods within those periods. The new guidance may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of initial application. The Company does not expect to adopt the ASU early, has not yet selected a transition method and is currently evaluating the effect of adopting this ASU on its consolidated financial statements and related disclosures.

In September, the the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement- Period Adjustments* , which requires an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and record, in the financial statements for the same period, the effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of the change to the provisional amounts, calculated as though the accounting had been completed as of the acquisition date. The new guidance is effective prospectively for public companies for fiscal years beginning after December 15, 2015, and interim periods within those years. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial condition.

(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. 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.

The combined results of operations of Level 3 and tw telecom were included in the Company's consolidated results of operations beginning in November 2014. 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, requires extensive analysis and is expected to be completed in the fourth quarter of 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 differ from the preliminary allocation reflected below, however the Company does not expect that any subsequent modifications to the preliminary purchase price allocation will be material.

	Purchase Price Allocation	
	(dollars in millions)	
Assets:		
Cash, Cash Equivalents and Restricted Cash	\$	309
Property, Plant and Equipment		1,554
Goodwill		5,178
Identifiable Intangible Assets		1,263
Other Assets		142
Total Assets		8,446
Liabilities:		
Long-Term Debt		(2,099)
Deferred Revenue		(57)
Other Liabilities		(279)
Total Liabilities		(2,435)
Total Consideration to be Allocated	\$	6,011

As a result of new information available since the acquisition date, the Company made certain immaterial adjustments to the preliminary purchase price allocation during the first quarter of 2015, which have been reflected in the above table. The primary adjustment was a result of a single change in the purchase price allocation of \$60 million related to the estimated value associated with the identifiable intangible assets and goodwill.

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).

	Three Months Ended September 30,		Nine Months Ended September 30, 2014	
	2014			
Total Revenue	\$	2,038	\$	6,071
Net Income	\$	81	\$	229
Net Income per Share - Basic	\$	0.24	\$	0.69
Net Income per Share- Diluted	\$	0.24	\$	0.68

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 financial information is not intended to represent or be indicative of the actual results of operations of Level 3 that would have been reported had the Merger been completed on January 1, 2013, nor is it representative of future operating results of the Company. The unaudited pro forma financial 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 Income. Since the acquisition date, Level 3 incurred total acquisition related transaction and integration costs of approximately \$109 million through September 30, 2015 . In addition, Level 3 expects to incur additional integration related costs through the remainder of 2015.

(3) Earnings Per Share

The Company computes basic earnings per share by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing the net income (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.

The effect of approximately 18 million shares issuable pursuant to the various series of convertible notes outstanding at September 30, 2014 has not been included in the computation of diluted earnings per share for the three and nine months ended September 30, 2014 because their inclusion would have been anti-dilutive to the computation. The effect of approximately 4 million and 5 million stock options, outperform stock appreciation rights ("OSOs"), and restricted stock units ("RSUs") outstanding at September 30, 2015 and 2014 , respectively, have been included in the computation of diluted earnings per share.

(4) Acquired Intangible Assets

Identifiable acquisition-related intangible assets as of September 30, 2015 and December 31, 2014 were as follows (dollars in millions):

	Gross Carrying Amount	Accumulated Amortization	Net
September 30, 2015			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 1,975	\$ (884)	\$ 1,091
Trademarks	55	(55)	—
Patents and Developed Technology	230	(154)	76
	<u>2,260</u>	<u>(1,093)</u>	<u>1,167</u>
<i>Indefinite-Lived Intangible Assets:</i>			
Trade Name	15	—	15
	<u>\$ 2,275</u>	<u>\$ (1,093)</u>	<u>\$ 1,182</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>

Acquired finite-lived intangible asset amortization expense was \$58 million and \$172 million for the three and nine months ended September 30, 2015 and \$14 million and \$50 million for the three and nine months ended September 30, 2014 .

At September 30, 2015 , the weighted average remaining useful lives of the Company's acquired finite-lived intangible assets was 6.1 years for customer contracts and relationships and 3.4 years for patents and developed technology.

As of September 30, 2015 , estimated amortization expense for the Company's finite-lived acquisition-related intangible assets over the next five years is as follows (dollars in millions):

2015 (remaining three months)	\$ 54
2016	212
2017	196
2018	193
2019	182
2020	166
Thereafter	164
	<u>\$ 1,167</u>

(5) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash and securities, receivables, accounts payable, capital leases, other liabilities and long-term debt (including the current portion). The carrying values of cash and cash equivalents, restricted cash and securities,

receivables, accounts payable, capital leases and other liabilities approximated their fair values at September 30, 2015 and December 31, 2014 .

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 non-performance.

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 at the end of the reporting period. There were no transfers within the fair value hierarchy during each of the nine months ended September 30, 2015 and September 30, 2014 .

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 September 30, 2015 and December 31, 2014 :

(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)	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
<i>Liabilities Not Recorded at Fair Value in the Financial Statements:</i>						
Long-term Debt, including the current portion:						
Term Loans	\$ 4,594	\$ 4,590	\$ 4,589	\$ 4,593	\$ —	\$ —
Senior Notes	6,215	6,203	6,158	6,481	—	—
Convertible Notes	—	333	—	—	—	868
Capital Leases and Other	204	207	—	—	204	207
Total Long-term Debt, including the current portion	<u>\$ 11,013</u>	<u>\$ 11,333</u>	<u>\$ 10,747</u>	<u>\$ 11,074</u>	<u>\$ 204</u>	<u>\$ 1,075</u>

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 at both September 30, 2015 and December 31, 2014 . 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 \$6.2 billion at September 30, 2015 and \$6.5 billion at December 31, 2014 , 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 was approximately \$868 million at December 31, 2014 . As of March 31, 2015, all of the Company's Convertible Notes had converted to common equity. The estimated fair value of the Convertible Notes 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, 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 were unsecured obligations of Level 3 Communications, Inc. No subsidiary of Level 3 Communications, Inc. provided a guarantee of the Convertible Notes.

Capital Leases

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

(6) Long-Term Debt

As of September 30, 2015 and December 31, 2014 , long-term debt was as follows:

(dollars in millions)	September 30, 2015	December 31, 2014
Senior Secured Term Loan*	\$ 4,611	\$ 4,611
Floating Rate Senior Notes due 2018 (3.914% as of September 30, 2015 and 3.826% as of December 31, 2014)	300	300
9.375% Senior Notes due 2019	—	500
8.125% Senior Notes due 2019	—	1,200
8.875% Senior Notes due 2019	—	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	1,000
5.75% Senior Notes due 2022	600	600
5.625% Senior Notes due 2023	500	—
5.125% Senior Notes due 2023	700	—
5.375% Senior Notes due 2025	800	—
7% Convertible Senior Notes due 2015	—	58
7% Convertible Senior Notes due 2015 Series B	—	275
Capital Leases	204	207
Total Debt Obligations	11,030	11,366
Unamortized Discount:		
Discount on Senior Secured Term Loan	(17)	(21)
Discount on 9.375% Senior Notes due 2019	—	(6)
Discount on 8.125% Senior Notes due 2019	—	(6)
Total Unamortized Discount	(17)	(33)
Carrying Value of Debt	11,013	11,333
Less current portion	(16)	(349)
Long-term Debt, less current portion	\$ 10,997	\$ 10,984

* The \$2 billion Tranche B Term Loan due 2022 had an interest rate of 4.5% as of December 31, 2014 and the \$2 billion Tranche B-II Term Loan due 2022, which refinanced the Tranche B Term Loan due 2022 in full, had an interest rate of 3.5% as of September 30, 2015. The \$815 million Tranche B-III Term Loan due 2019 and the \$1.796 billion Tranche B Term Loan due 2020 each had an interest rate of 4.0% as of September 30, 2015 and December 31, 2014.

2015 Debt Issuances, Redemptions and Registrations

5.625% Senior Notes due 2023

In January 2015, the Company's wholly owned subsidiary, Level 3 Financing, Inc. ("Level 3 Financing") issued \$500 million in aggregate principal amount of its 5.625% Senior Notes due 2023 (the "5.625% Senior Notes"). The net proceeds from the offering of the 5.625% Senior Notes, together with cash on hand, were used to redeem, on April 1, 2015, all of Level 3 Financing's approximately \$500 million aggregate principal amount of 9.375% Senior Notes due 2019, including accrued interest, applicable premiums and expenses. Total loss on extinguishment of debt related to the 9.375% Senior Notes due 2019 was \$36 million.

The 5.625% Senior Notes will mature on February 1, 2023. Interest on the 5.625% Senior Notes is payable on June 15 and December 15 of each year, beginning on June 15, 2015.

Debt issuance costs of approximately \$9 million were capitalized and are being amortized over the term of the notes.

The 5.625% 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 February 1, 2018, at 100% of the principal amount of 5.625% 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 February 1, 2018, 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 February 1, of the years indicated below:

Year	Redemption Price
2018	102.8125%
2019	101.4063%
2020 and thereafter	100.0000%

At any time or from time to time on or prior to February 1, 2018, the Company may redeem up to 40% of the original aggregate principal amount of the 5.625% Senior Notes at a redemption price equal to 105.625% of the principal amount of the 5.625% 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 5.625% 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 notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC.

7% Convertible Senior Notes due 2015

During the first quarter of 2015, holders converted the remaining \$333 million aggregate principal amount of the Level 3's 7% Convertible Senior Notes due 2015 to common equity. Upon conversion, the Company issued an aggregate of approximately 12 million shares of Level 3 common stock, representing the approximately 37 shares per \$1,000 note into which the notes were then convertible.

5.125% Senior Notes due 2023 and 5.375% Senior Notes due 2025

In April 2015, Level 3 Financing issued \$700 million in aggregate principal amount of its 5.125% Senior Notes due 2023 (the "5.125% Senior Notes") and \$800 million in aggregate principal amount of its 5.375% Senior Notes due 2025 (the "5.375% Senior Notes"). The net proceeds from the offering of the 5.125% Senior Notes and 5.375% Senior Notes, together with cash on hand, were used to redeem all \$1.2 billion aggregate principal amount of Level 3 Financing's 8.125% Senior Notes due 2019 and all \$300 million aggregate principal amount of the Company's 8.875% Senior Notes due 2019, including accrued interest, applicable premiums and expenses. Total loss on extinguishment of debt related to the

8.125% Senior Notes due 2019 was \$82 million and total loss on extinguishment of debt related to the 8.875% Senior Notes due 2019 was \$18 million .

The 5.125% Senior Notes will mature on May 1, 2023. Interest on the 5.125% Senior Notes is payable on March 1 and September 1 of each year, beginning on September 1, 2015. The 5.375% Senior Notes will mature on May 1, 2025. Interest on the 5.375% Senior Notes is payable on March 1 and September 1 of each year, beginning on September 1, 2015.

Debt issuance costs of approximately \$25 million were capitalized and are being amortized over the respective term of the notes.

The 5.125% 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 May 1, 2018, at 100% of the principal amount of 5.125% 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 (ii) on and after May 1, 2018, 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 May 1, of the years indicated below:

Year	Redemption Price
2018	102.5625%
2019	101.2813%
2020 and thereafter	100.0000%

At any time or from time to time on or prior to May 1, 2018, the Company may redeem up to 40% of the original aggregate principal amount of the 5.125% Senior Notes at a redemption price equal to 105.125% of the principal amount of the 5.125% 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 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 5.125% Senior Notes must remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days following such private placement or public offering upon not less than 30 nor more than 60 days' prior notice.

The 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 May 1, 2020, 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 May 1, 2020, 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 May 1, of the years indicated below:

Year	Redemption Price
2020	102.6875%
2021	101.7917%
2022	101.8958%
2023 and thereafter	100.0000%

At any time or from time to time on or prior to May 1, 2018, the Company 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 nor more than 60 days' prior notice.

The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and Level 3 Communications, LLC.

Senior Secured Tranche B-II Term Loan due 2022

On May 8, 2015, Level 3 Financing, Inc. refinanced its existing \$2 billion senior secured Tranche B Term Loan under its existing senior credit facility through the creation of a new senior secured Tranche B-II 2022 term loan in the aggregate principal amount of \$2 billion (the "Tranche B-II 2022 Term Loan"). The Tranche B-II 2022 Term Loan was borrowed pursuant to an amended and restated credit agreement. The Tranche B-II 2022 Term Loan has an interest rate of LIBOR plus 2.75% , with a minimum LIBOR of 0.75% , and will mature on May 31, 2022. The Tranche B-II 2022 Term Loan was priced to lenders at par, with the payment to the lenders of an upfront fee of 25 basis points at closing.

The \$2 billion Tranche B 2022 Term Loan had an interest rate of LIBOR plus 3.50% , with a minimum LIBOR of 1.00% , and matured on January 31, 2022. The Company expensed debt issuance costs of approximately \$20 million for the portion of the transaction considered to be an extinguishment.

Debt issuance costs related to the Tranche B 2022 Term Loan of approximately \$16 million continue to be amortized as interest expense using the new effective interest rate over its term for the portion of the transaction considered to be a modification.

Total loss on modification and extinguishment of debt related to the Tranche B 2022 Term Loan was \$27 million .

Long-Term Debt Maturities

Aggregate future contractual maturities of long-term debt and capital leases (excluding discounts) were as follows as of September 30, 2015 (dollars in millions):

2015 (remaining three months)	\$	10
2016		8
2017		7
2018		307
2019		822
2020		3,479
Thereafter		6,397
	<u>\$</u>	<u>11,030</u>

(7) Accumulated Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss) were as follows:

(dollars in millions)	Net Foreign Currency Translation Adjustment	Defined Benefit Pension Plans	Total
Balance at December 31, 2013	\$ 67	\$ (31)	\$ 36
Other comprehensive loss before reclassifications	(120)	(2)	(122)
Amounts reclassified from accumulated other comprehensive income (loss)	—	4	4
Balance at September 30, 2014	<u>\$ (53)</u>	<u>\$ (29)</u>	<u>\$ (82)</u>
Balance at December 31, 2014	\$ (111)	\$ (36)	\$ (147)
Other comprehensive loss before reclassifications	(130)	—	(130)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2	2
Balance at September 30, 2015	<u>\$ (241)</u>	<u>\$ (34)</u>	<u>\$ (275)</u>

(8) Stock-Based Compensation

The following table summarizes non-cash compensation expense attributable to stock awards for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Outperform Stock Options	\$ 1	\$ 2	\$ 4	\$ 6
Restricted Stock Units	15	10	37	22
Performance Restricted Stock Units	10	4	23	7
401(k) Match Expense	8	6	29	18
Restricted Stock Unit Bonus Grant	—	—	—	(5)
	<u>34</u>	<u>22</u>	<u>93</u>	<u>48</u>
Capitalized Non-Cash Compensation	—	—	(1)	—
	<u>\$ 34</u>	<u>\$ 22</u>	<u>\$ 92</u>	<u>\$ 48</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.

As of September 30, 2015, there were approximately 1 million OSOs outstanding. As of September 30, 2015, there were approximately 4 million restricted stock units and performance restricted

stock units outstanding. The Company's Management Incentive and Retention Plan was completed in the first quarter 2014.

(9) 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. As a result of the integration of tw telecom (see Note 2 - Events Associated with the Merger of tw telecom), the Company reorganized its management reporting structure to reflect the way in which it allocates resources and assesses performance. Effective the first quarter of 2015, tw telecom has been integrated into North America. As a result of the change, the Company's reportable segments now consist of 1) North America, 2) Europe, the Middle East and Africa (EMEA) and 3) Latin America. Other separate business interests that are not segments include interest, certain corporate assets and overhead costs, and certain other general and administrative costs that are not allocated to any of the operating segments.

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 Income 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.

The following table presents revenue by segment:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Core Network Services Revenue:				
North America	\$ 1,551	\$ 1,063	\$ 4,637	\$ 3,157
EMEA	212	219	623	673
Latin America	183	200	554	588
Total Core Network Services Revenue	1,946	1,482	5,814	4,418
Wholesale Voice Services and Other Revenue:				
North America	110	128	343	410
EMEA	3	4	10	14
Latin America	3	15	9	21
Total Wholesale Voice Services and Other Revenue	116	147	362	445
Total Consolidated Revenue	\$ 2,062	\$ 1,629	\$ 6,176	\$ 4,863

The following table presents Adjusted EBITDA by segment and reconciles Adjusted EBITDA to consolidated net income:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Adjusted EBITDA:				
North America	\$ 760	\$ 492	\$ 2,267	\$ 1,460
EMEA	63	57	176	167
Latin America	78	92	237	264
Unallocated Corporate Expenses	(244)	(170)	(723)	(503)
Consolidated Adjusted EBITDA	657	471	1,957	1,388
Income Tax Expense	(16)	(8)	(39)	(27)
Total Other Expense	(310)	(169)	(844)	(507)
Depreciation and Amortization	(296)	(187)	(872)	(558)
Non-Cash Stock Compensation Attributable to Stock Awards	(34)	(22)	(92)	(48)
Total Consolidated Net Income	\$ 1	\$ 85	\$ 110	\$ 248

The following table presents capital expenditures by segment and reconciles capital expenditures to consolidated capital expenditures:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Capital Expenditures:				
North America	\$ 202	\$ 116	\$ 560	\$ 318
EMEA	41	34	114	82
Latin America	48	35	122	106
Unallocated Corporate Capital Expenditures	37	19	103	102
Consolidated Capital Expenditures	\$ 328	\$ 204	\$ 899	\$ 608

The following table presents total consolidated assets by segment:

(dollars in millions)	September 30, 2015	December 31, 2014
Assets:		
North America	\$ 16,615	\$ 16,242
EMEA	1,859	1,970
Latin America	2,147	2,451
Other	262	284
Total Consolidated Assets	<u>\$ 20,883</u>	<u>\$ 20,947</u>

(10) Commitments, Contingencies and Other Items

The Company is subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect its financial condition, future results of operations or cash flows. Amounts accrued for such contingencies aggregate to \$136 million and are included in "Other" current liabilities and "Other Liabilities" in the Company's Consolidated Balance Sheet at September 30, 2015. 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 would have no effect on the Company's results of operations but could materially adversely affect its cash flows for the affected period.

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 September 30, 2015. 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, including payments of claims. 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 \$49 million at September 30, 2015.

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. In September 2014, the first judicial court rendered a decision largely in the Company's favor on the central issue underlying the assessments. SUNAT appealed the court's decision to the next judicial level. The court of appeal remanded the case to the first judicial court for further development of the facts and legal analysis supporting its decision.

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 appealed the Tribunal's July 2013 administrative resolutions to the judicial court in Peru. In April 2015, the first judicial court rendered a decision largely in SUNAT's favor on the central issue underlying the assessments. The Company has appealed the court's decision to the next judicial level.

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 VAT credits declared null by the Tribunal and the corresponding fine. In July 2014, the Company challenged these assessments by filing administrative claims before SUNAT. In January 2015, SUNAT rejected the administrative claims, thereby confirming the assessments. The Company filed an appeal with the Tribunal in February 2015. In May 2015, the Tribunal notified the Company of its administrative resolution declaring the assessments and corresponding fines null. The time for SUNAT to appeal this resolution has closed. While the Company is not yet aware of any appeal filed by SUNAT, under local practice, notification of an appeal can take several months. Nevertheless, SUNAT retains the right to reissue the assessments declared null or start a new audit.

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 September 30, 2015 .

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 \$39 million at September 30, 2015 in excess of the accruals established for these matters.

Letters of Credit

It is customary for Level 3 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 Level 3 in accordance with specified terms and conditions. As of September 30, 2015 and December 31, 2014, Level 3 had outstanding letters of credit or other similar obligations of approximately \$46 million and \$28 million, respectively, of which \$43 million and \$23 million are collateralized by cash that is reflected on the Consolidated Balance Sheets as restricted cash and securities. The Company does not believe exposure to loss related to its letters of credit is material.

(11) Condensed Consolidating Financial Information

Level 3 Financing, Inc., a wholly owned subsidiary of the Company, has issued senior notes that are unsecured obligations of Level 3 Financing, Inc.; however, they are also fully and unconditionally and jointly and severally guaranteed on an unsecured senior basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

In conjunction with the registration of the 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 results of operations, financial position and 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 Comprehensive Income (Loss)
Three Months Ended September 30, 2015

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 830	\$ 1,271	\$ (39)	\$ 2,062
Costs and Expense:						
Network Access Costs	—	—	300	445	(39)	706
Network Related Expenses	—	—	252	117	—	369
Depreciation and Amortization	—	—	78	218	—	296
Selling, General and Administrative Expenses	1	—	274	89	—	364
Total Costs and Expenses	1	—	904	869	(39)	1,735
Operating Income (Loss)	(1)	—	(74)	402	—	327
Other Income (Expense):						
Interest expense	(9)	(135)	—	(1)	—	(145)
Interest income (expense) affiliates, net	320	498	(763)	(55)	—	—
Equity in net earnings (losses) of subsidiaries	(309)	(671)	—	—	980	—
Other, net	—	—	3	(168)	—	(165)
Total Other Income (Expense)	2	(308)	(760)	(224)	980	(310)
Income (Loss) before Income Taxes	1	(308)	(834)	178	980	17
Income Tax Expense	—	(1)	—	(15)	—	(16)
Net Income (Loss)	1	(309)	(834)	163	980	1
Other Comprehensive Income (Loss), Net of Income Taxes	(72)	—	—	72	(72)	(72)
Comprehensive Income (Loss)	\$ (71)	\$ (309)	\$ (834)	\$ 235	\$ 908	\$ (71)

Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine Months Ended September 30, 2015

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 2,478	\$ 3,834	\$ (136)	\$ 6,176
Costs and Expense:						
Network Access Costs	—	—	919	1,342	(136)	2,125
Network Related Expenses	—	—	713	375	—	1,088
Depreciation and Amortization	—	—	227	645	—	872
Selling, General and Administrative Expenses	3	—	789	306	—	1,098
Total Costs and Expenses	3	—	2,648	2,668	(136)	5,183
Operating Income (Loss)	(3)	—	(170)	1,166	—	993
Other Income (Expense):						
Interest Income	—	—	—	1	—	1
Interest expense	(42)	(436)	(2)	(10)	—	(490)
Interest income (expense) affiliates, net	984	1,495	(2,298)	(181)	—	—
Equity in net earnings (losses) of subsidiaries	(811)	(1,723)	177	—	2,357	—
Other, net	(18)	(145)	2	(194)	—	(355)
Total Other Income (Expense)	113	(809)	(2,121)	(384)	2,357	(844)
Income (Loss) before Income Taxes	110	(809)	(2,291)	782	2,357	149
Income Tax Expense	—	(2)	—	(37)	—	(39)
Net Income (Loss)	110	(811)	(2,291)	745	2,357	110
Other Comprehensive Income (Loss), Net of Income Taxes	(128)	—	—	128	(128)	(128)
Comprehensive Income (Loss)	\$ (18)	\$ (811)	\$ (2,291)	\$ 873	\$ 2,229	\$ (18)

Condensed Consolidating Statements of Comprehensive Income (Loss)
Three Months Ended September 30, 2014

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 781	\$ 901	\$ (53)	\$ 1,629
Costs and Expense:						
Network Access Costs	—	—	291	369	(53)	607
Network Related Expenses	—	—	195	112	—	307
Depreciation and Amortization	—	—	70	117	—	187
Selling, General and Administrative Expenses	6	—	181	79	—	266
Total Costs and Expenses	6	—	737	677	(53)	1,367
Operating Income	(6)	—	44	224	—	262
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(34)	(112)	(1)	(12)	—	(159)
Interest income (expense) affiliates, net	314	452	(730)	(36)	—	—
Equity in net earnings (losses) of subsidiaries	(189)	(528)	162	—	555	—
Other, net	—	—	2	(13)	—	(11)
Total Other Expense	91	(188)	(567)	(60)	555	(169)
Income (Loss) before Income Taxes	85	(188)	(523)	164	555	93
Income Tax Expense	—	(1)	—	(7)	—	(8)
Net Income (Loss)	85	(189)	(523)	157	555	85
Other Comprehensive Income (Loss), Net of Income Taxes	(137)	—	—	(137)	137	(137)
Comprehensive Income (Loss)	\$ (52)	\$ (189)	\$ (523)	\$ 20	\$ 692	\$ (52)

Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine Months Ended September 30, 2014

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 2,278	\$ 2,750	\$ (165)	\$ 4,863
Costs and Expense:						
Network Access Costs	—	—	869	1,130	(165)	1,834
Network Related Expenses	—	—	567	334	—	901
Depreciation and Amortization	—	—	209	349	—	558
Selling, General and Administrative Expenses	7	1	505	275	—	788
Total Costs and Expenses	7	1	2,150	2,088	(165)	4,081
Operating Income	(7)	(1)	128	662	—	782
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(102)	(337)	(1)	(19)	—	(459)
Interest income (expense) affiliates, net	905	1,370	(2,169)	(106)	—	—
Equity in net earnings (losses) of subsidiaries	(548)	(1,577)	502	—	1,623	—
Other, net	—	—	6	(55)	—	(49)
Total Other Expense	255	(544)	(1,662)	(179)	1,623	(507)
Income (Loss) before Income Taxes	248	(545)	(1,534)	483	1,623	275
Income Tax Expense	—	(3)	(1)	(23)	—	(27)
Net Income (Loss)	248	(548)	(1,535)	460	1,623	248
Other Comprehensive Income (Loss), Net of Income Taxes	(118)	—	—	(118)	118	(118)
Comprehensive Income (Loss)	\$ 130	\$ (548)	\$ (1,535)	\$ 342	\$ 1,741	\$ 130

Condensed Consolidating Balance Sheets
September 30, 2015

	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	\$ 13	\$ 6	\$ 559	\$ 113	\$ —	\$ 691
Restricted cash and securities	—	—	1	6	—	7
Receivables, less allowances for doubtful accounts	—	—	68	742	—	810
Due from affiliates	15,304	22,482	—	—	(37,786)	—
Other	1	19	67	68	—	155
Total Current Assets	15,318	22,507	695	929	(37,786)	1,663
Property, Plant, and Equipment, net	—	—	3,320	6,492	—	9,812
Restricted Cash and Securities	27	—	15	2	—	44
Goodwill and Other Intangibles, net	—	—	365	8,570	—	8,935
Investment in Subsidiaries	16,737	14,542	3,737	—	(35,016)	—
Other Assets, net	20	119	11	279	—	429
Total Assets	\$ 32,102	\$ 37,168	\$ 8,143	\$ 16,272	\$ (72,802)	\$ 20,883
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	\$ —	\$ 1	\$ 194	\$ 435	\$ —	\$ 630
Current portion of long-term debt	—	—	3	13	—	16
Accrued payroll and employee benefits	—	—	198	32	—	230
Accrued interest	3	128	—	6	—	137
Current portion of deferred revenue	—	—	113	160	—	273
Due to affiliates	—	—	36,981	805	(37,786)	—
Other	—	—	94	90	—	184
Total Current Liabilities	3	129	37,583	1,541	(37,786)	1,470
Long-Term Debt, less current portion	600	10,209	15	173	—	10,997
Deferred Revenue, less current portion	—	—	648	294	—	942
Other Liabilities	15	27	132	520	—	694
Commitments and Contingencies						
Stockholders' Equity (Deficit)	31,484	26,803	(30,235)	13,744	(35,016)	6,780
Total Liabilities and Stockholders' Equity (Deficit)	\$ 32,102	\$ 37,168	\$ 8,143	\$ 16,272	\$ (72,802)	\$ 20,883

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 Statements of Cash Flows
Nine Months Ended September 30, 2015

	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	\$ (39)	\$ (447)	\$ 57	\$ 1,728	\$ —	\$ 1,299
Cash Flows from Investing Activities:						
Capital Expenditures	—	—	(307)	(592)	—	(899)
Cash related to deconsolidated Venezuela operations	—	—	—	(83)	—	(83)
(Increase) decrease in restricted cash and securities, net	(25)	—	1	—	—	(24)
Proceeds from the sale of property, plant and equipment and other assets	—	—	—	3	—	3
Other	—	—	(14)	—	—	(14)
Net Cash Used in Investing Activities	(25)	—	(320)	(672)	—	(1,017)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	3,947	—	—	—	3,947
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(313)	(3,780)	(1)	(8)	—	(4,102)
Increase (decrease) due from/to affiliates, net	383	281	516	(1,180)	—	—
Net Cash Provided by (Used in) Financing Activities	70	448	515	(1,188)	—	(155)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(16)	—	(16)
Net Change in Cash and Cash Equivalents	6	1	252	(148)	—	111
Cash and Cash Equivalents at Beginning of Period	7	5	307	261	—	580
Cash and Cash Equivalents at End of Period	\$ 13	\$ 6	\$ 559	\$ 113	\$ —	\$ 691

Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 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	\$ (91)	\$ (336)	\$ 443	\$ 749	\$ —	\$ 765
Cash Flows from Investing Activities:						
Capital Expenditures	—	—	(261)	(347)	—	(608)
Decrease in restricted cash and securities, net	—	—	1	(11)	—	(10)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	3	—	3
Other	—	—	—	(2)	—	(2)
Net Cash Used in Investing Activities	—	—	(260)	(357)	—	(617)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	—	—	(1)	—	(1)
Payments on and repurchases of long-term debt, including current portion and refinancing costs	—	—	—	(8)	—	(8)
Increase (decrease) due from/to affiliates, net	90	335	(6)	(419)	—	—
Net Cash Provided by (Used in) Financing Activities	90	335	(6)	(428)	—	(9)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(41)	—	(41)
Net Change in Cash and Cash Equivalents	(1)	(1)	177	(77)	—	98
Cash and Cash Equivalents at Beginning of Period	8	6	347	270	—	631
Cash and Cash Equivalents at End of Period	\$ 7	\$ 5	\$ 524	\$ 193	\$ —	\$ 729

(12) Subsequent Events

On October 29, 2015, Level 3 Financing agreed to sell \$900 million aggregate principal amount of 5.375% Senior Notes due 2024 (the "5.375% Senior Notes") in a private offering. The offering is expected to be completed on November 13, 2015, subject to the satisfaction or waiver of customary closing conditions. The 5.375% Senior Notes were priced at par and mature on January 15, 2024. The 5.375% Senior Notes will pay interest on January 15 and July 15 of each year beginning on January 15, 2016.

The net proceeds from the offering of the 5.375% Senior Notes due 2024, together with cash on hand, will be used to redeem all \$900 million aggregate principal amount of Level 3 Financing, Inc.'s 8.625% Senior Notes due 2020. In the fourth quarter 2015, the Company expects to recognize a loss on modification and extinguishment of debt of approximately \$55 million as a result of this transaction that will be recognized in Other Expense.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Level 3 Communications, Inc. and its subsidiaries ("Level 3" or the "Company") Consolidated Financial Statements (including the notes thereto), included elsewhere herein and the Company's Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "plan", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. For a more detailed description of these risks and factors, please see the Company's Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission and Item 1A in Part II of this Form 10-Q.

Executive Summary

Overview

The Company is a facilities-based provider of a broad range of communications services. Revenue for communications services is generally recognized on a monthly basis as these services are provided. For contracts involving private line, wavelength and dark fiber services, Level 3 may receive upfront payments for services to be delivered for a period of generally up to 25 years. In these situations, Level 3 defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract.

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

As of September 30, 2015, the Company deconsolidated its Venezuelan subsidiary and will begin accounting for its investment in that subsidiary using the cost method of accounting in future periods. This change resulted in a one-time charge of \$171 million. In future periods, the Company's financial results will not include the operating results of its Venezuelan subsidiary. Any dividends from the Company's Venezuelan subsidiary will be recorded as other income upon receipt of the cash. Please see Note 1 to the accompanying unaudited interim Consolidated Financial Statements and additional discussion in this MD&A under "Venezuela Effects" in Results of Operations.

Business Strategy and Objectives

The Company pursues the strategies discussed in Item 1. Business, "Business Overview and Strategy" as discussed in its Form 10-K for the year ended December 31, 2014. 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 our 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 interactions with its mid-market enterprise customers, including leveraging our existing network assets;
- concentrating its capital expenditures on those technologies and assets that enable the Company to develop its Core Network Services;
- managing Wholesale Voice Services for 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.

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

As a result of the integration of tw telecom in North America in the first quarter of 2015 (see Note 2 - Events Associated with the Merger of tw telecom), the Company reorganized its management reporting structure to reflect the way in which it allocates resources and assesses performance. As a result of the change, the Company's reportable segments consist of 1) North America, 2) Europe, the Middle East and Africa (EMEA) and 3) Latin America. Effective the first quarter of 2015, tw telecom has been integrated into North America.

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.

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 and Other revenue component. The Company believes that performance in its communications business is best gauged by analyzing revenue changes in Core Network Services.

Core Network Services

Colocation and data center services allow customers to place their network equipment and servers in suitable environments maintained by the Company with high-speed links providing on-net access to more than 60 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 wavelenghts) 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, regional service providers as well as government markets, 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 wholesale channel includes revenue from incumbent and alternative carriers in each of the regions, global carriers, wireless carriers, cable companies, satellite companies 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. The Company expects ongoing declines in 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 receives intercarrier compensation from its voice services that is reported within Core Network Services revenue.

For a detailed description of the Company's broad range of communications services, please see Item 1. "Business - Our Service Offerings" of the Company's Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

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 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 also be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar. 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

Refer to Item 7 of the Company's Form 10-K for the year ended December 31, 2014 for a description of the Company's critical accounting policies.

Results of Operations for the Three and Nine Months Ended September 30, 2015 vs. 2014

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change %	2015	2014	Change %
Revenue	\$ 2,062	\$ 1,629	27 %	\$ 6,176	\$ 4,863	27 %
Network Access Costs	706	607	16 %	2,125	1,834	16 %
Network Related Expenses	369	307	20 %	1,088	901	21 %
Depreciation and Amortization	296	187	58 %	872	558	56 %
Selling, General and Administrative Expenses	364	266	37 %	1,098	788	39 %
Total Costs and Expenses	1,735	1,367	27 %	5,183	4,081	27 %
Operating Income	327	262	25 %	993	782	27 %
Other Income (Expense):						
Interest Income	—	1	NM	1	1	NM
Interest expense	(145)	(159)	(9)%	(490)	(459)	7 %
Loss on Modification and Extinguishment of Debt	—	—	NM	(163)	—	NM
Venezuela Deconsolidation Charge	(171)	—	NM	(171)	—	NM
Other, net	6	(11)	NM	(21)	(49)	(57)%
Total Other Expense	(310)	(169)	83 %	(844)	(507)	66 %
Income Before Income Taxes	17	93	(82)%	149	275	(46)%
Income Tax Expense	(16)	(8)	100 %	(39)	(27)	44 %
Net Income	\$ 1	\$ 85	NM	\$ 110	\$ 248	(56)%

NM — Not meaningful

Discussion of all significant variances:

Revenue by Channel:

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change %	2015	2014	Change %
Core Network Services:						
North America - Wholesale Channel	\$ 421	\$ 368	14 %	\$ 1,309	\$ 1,103	19 %
North America - Enterprise Channel	1,130	695	63 %	3,328	2,054	62 %
EMEA - Wholesale Channel	69	80	(14)%	206	253	(19)%
EMEA - Enterprise Channel	143	139	3 %	417	420	(1)%
Latin America - Wholesale Channel	39	42	(7)%	119	124	(4)%
Latin America - Enterprise Channel	144	158	(9)%	435	464	(6)%
Total Core Network Services	1,946	1,482	31 %	5,814	4,418	32 %
Wholesale Voice Services and Other	116	147	(21)%	362	445	(19)%
Total Revenue	\$ 2,062	\$ 1,629	27 %	\$ 6,176	\$ 4,863	27 %

Revenue by Service and Product Offering:

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change %	2015	2014	Change %
Core Network Services Revenue:						
Colocation and Datacenter Services	\$ 152	\$ 147	3 %	\$ 456	\$ 438	4 %
Transport and Fiber	590	511	15 %	1,755	1,521	15 %
IP and Data Services	906	590	54 %	2,680	1,751	53 %
Voice Services (Local and Enterprise)	298	234	27 %	923	708	30 %
Total Core Network Service Revenue	1,946	1,482	31 %	5,814	4,418	32 %
Wholesale Voice Services and Other Revenue	116	147	(21)%	362	445	(19)%
Total Revenue	\$ 2,062	\$ 1,629	27 %	\$ 6,176	\$ 4,863	27 %

Revenue increased 27% to \$2.062 billion in the three months ended September 30, 2015 compared to \$1.629 billion in the same period of 2014 and increased 27% to \$6.176 billion in the nine months ended September 30, 2015 compared to \$4.863 billion in the same period of 2014. The increase was primarily driven by the additional revenue associated with acquisition of tw telecom in the fourth quarter of 2014. Excluding revenue from the tw telecom acquisition of \$441 million and \$1,320 million in the three and nine months ended September 30, 2015, respectively, revenue remained generally consistent with the comparable periods in 2014 and included growth in Core Network Services revenue from enterprise customers primarily in North America offset by declines in Wholesale Voice Services and Other Revenue.

The Company experienced continued growth in its IP and data services, transport and fiber services and voice services during the three and nine months ended September 30, 2015 compared to the same periods of 2014 driven primarily by the acquisition of tw telecom, end user customer demand for content delivery over the Internet, VPN and bandwidth in the enterprise channel as well as increases in professional services fees. The increase in IP and Data Services was predominantly driven by the Company's VPN services and revenue from the tw telecom acquisition. Revenue from the tw telecom acquisition for the three months ended September 30, 2015 of \$11 million, \$60 million, \$299 million and \$71 million were attributable to Colocation and Datacenter Services, Transport and Fiber, IP and Data

Services and Voice Services, respectively. Revenue from the tw telecom acquisition for the nine months ended September 30, 2015 attributable to \$34 million of Colocation and Datacenter Services, \$194 million of Transport and Fiber, \$885 million of IP and Data Services and \$207 million of Voice Services. Excluding the revenues from the tw telecom acquisition, the Company experienced a modest decline in colocation and datacenter services during the three and nine months ended September 30, 2015 and Voice Services during the three months ended September 30, 2015, primarily resulting from the adverse affect of the weakening of currencies in EMEA and Latin America against the U.S. dollar.

Core Network Services revenue increased in the North America region during the three and nine months ended September 30, 2015 compared to the same periods of 2014 primarily as a result of the tw telecom acquisition. Excluding the revenue from the tw telecom acquisition, Core Network Services revenue increased in the North America region during the three and nine months ended September 30, 2015 compared to the same periods of 2014 as a result of growth in services provided to the existing enterprise customer base. These increases were partially offset by decreases of \$16 million and \$55 million in EMEA and \$36 million and \$77 million in Latin America for the three and nine months ended September 30, 2015, respectively, due to the appreciation of the U.S. dollar against currencies in EMEA and Latin America.

Wholesale Voice Services and Other revenue decreased in the three and nine months ended September 30, 2015 compared to the same periods of 2014 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.

Wholesale Voice Services revenue decreased in North America, EMEA and Latin America in the three months ended September 30, 2015 compared to the same period in 2014. In the nine months ended September 30, 2015 compared to the same periods of 2014, Wholesales Voice Services revenue decreased in North American and EMEA and remained flat in Latin America. The changes during the periods are primarily due to competitive pressures and the Company's focus on maintaining or growing the Wholesale Voice Services profitability. Wholesale Voice Services and Other revenue in EMEA and Latin America were primarily negatively effected by the appreciation of the U.S. dollar against currencies in EMEA and Latin America.

Network Access Costs 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.

Network Access Costs as a percentage of total revenue was 34% in the three months ended September 30, 2015 compared to 37% in the same period of 2014 and 34% in the nine months ended September 30, 2015 compared to 38% in the same period of 2014 . The decrease is primarily due to an improving mix of higher profit on-net Core Network Services and a decrease in lower profit Wholesale Voice Services and Other Revenue. Additionally, the Company continues to implement initiatives to reduce both fixed and variable network access costs, which resulted in a decrease in Network Access Costs excluding the tw telecom transaction.

Network Related Expenses include 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 as well as operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excludes depreciation and amortization.

Network Related Expenses increased to \$369 million from \$307 million in the three months ended September 30, 2015 and 2014 and to \$1,088 million from \$901 million in the nine months ended September 30, 2015 and 2014, respectively. The increase was primarily related to an increase in employee related expense of \$43 million and \$117 million and an increase in facilities and rent expense of \$16 million and \$60 million for the three and nine months ended September 30, 2015, respectively, primarily due to the acquisition of tw telecom. Additionally, in the third quarter of 2015, the Company implemented certain workforce reductions, resulting in approximately \$8 million of restructuring charges recorded in Network Related Expenses.

Depreciation and Amortization increased 58% to \$296 million in the three months ended September 30, 2015 from \$187 million in the same period of 2014 and to \$872 million in the nine months ended September 30, 2015 from \$558 million in the same period of 2014. The increase is primarily attributable to depreciation and amortization charges associated with the assets acquired from tw telecom. Excluding the depreciation and amortization expenses associated with the tw telecom acquisition, the increase is driven by increased capital expenditures.

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 37% to \$364 million in the three months ended September 30, 2015 compared to \$266 million in the same period of 2014 and to \$1,098 million in the nine months ended September 30, 2015 compared to \$788 million in the same period of 2014. The increase was primarily related to \$73 million and \$218 million of additional employee related expenses and an increase in professional services and facilities fees of \$14 million and \$56 million for the three and nine months ended September 30, 2015, respectively, primarily due to the acquisition of tw telecom. Additionally, in the third quarter of 2015, the Company implemented certain workforce reductions, resulting in approximately \$16 million of restructuring charges recorded in SG&A expenses.

Non-cash, stock-based compensation expense included in the three and nine months ended September 30, 2015 is \$34 million and \$92 million, respectively, and in the three and nine months ended September 30, 2014, is \$22 million and \$48 million, respectively, related to outperform stock options, restricted stock units, performance restricted stock units, accruals for the Company's incentive and retention plans and shares issued for the Company's matching contribution for the 401(k) plan. The increase in stock-based compensation attributable to the 401(k) in 2015 compared to 2014 is due to bonuses being paid in cash in 2015 and combination of cash and stock in 2014 with stock not being matched with 401(k) contributions. The increase in the third quarter of 2015 compared to the third quarter of 2014 was primarily related to additional grants of restricted stock units, performance restricted stock units ("PRSU") and increased matching contributions for the Company's 401(k) plan due to the additional headcount from the tw telecom acquisition and additional PRSU grants. Approximately \$29 million and \$19 million of non-cash stock-based compensation expense was recorded in SG&A Expenses during the three months ended September 30, 2015 and 2014, respectively, and approximately \$78 million and \$42 million of non-cash stock-based compensation expense was recorded in SG&A Expenses during the nine months ended September 30, 2015 and 2014. Approximately \$5 million and \$3 million of non-cash stock-based compensation expense was recorded in Network Related Expenses during the three months ended September 30, 2015 and 2014, respectively, and approximately \$14 million and \$6 million of non-cash stock-based compensation expense was recorded in Network Related Expenses during the nine months ended September 30, 2015 and 2014, respectively.

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

Adjusted EBITDA is not a measurement under GAAP and may not be used in the same way by other companies. Management believes that Adjusted EBITDA is an important part of the Company's internal reporting and is a key measure used by management to evaluate profitability and operating performance of the Company and to make resource allocation decisions. Management believes such measurement is especially important in a capital-intensive industry such as telecommunications. Management also uses Adjusted EBITDA to compare the Company's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period its ability to fund capital expenditures, fund growth, service debt and determine bonuses.

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

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

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

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	\$ 1	\$ 85	\$ 110	\$ 248
Income Tax Expense	16	8	39	27
Interest Expense	145	159	490	459
Loss on modification and extinguishment of debt	—	—	163	—
Venezuela deconsolidation charge	171	—	171	—
Other, net	(6)	10	20	48
Depreciation and Amortization	296	187	872	558
Non-Cash Stock Compensation Attributable to Stock Awards	34	22	92	48
Adjusted EBITDA	\$ 657	\$ 471	\$ 1,957	\$ 1,388

Consolidated Adjusted EBITDA was \$657 million in the three months ended September 30, 2015 compared to \$471 million in the same period of 2014 and \$1,957 million in the nine months ended September 30, 2015 compared to \$1,388 million in the same period of 2014. The increase in Adjusted EBITDA is attributable to the acquisition of tw telecom, growth in the Company's higher incremental profit Core Network Services revenue and continued improvements in network access costs and lower Network Related Expenses as a percentage of revenue. See Note 9 — Segment Information in the notes to Consolidated Financial Statements for additional information on Adjusted EBITDA by region.

Adjusted EBITDA increased in the North America region in the three and nine months ended September 30, 2015, compared to 2014 primarily as a result of the tw telecom acquisition, growth in Core Network Services revenue and initiatives resulting in reduced fixed and variable network access costs.

Adjusted EBITDA increased in the EMEA region in the three and nine months ended September 30, 2015, compared to 2014 as a result of initiatives that reduced fixed and variable network access costs, which were partially offset by the effect of the stronger U.S. dollar against European currencies. Consolidated Adjusted EBITDA for three and nine months ended September 30, 2015 was negatively affected by approximately 1% each period versus the comparable prior periods as a result of the changes in foreign currency rates.

Adjusted EBITDA decreased in the Latin American region in the three and nine months ended September 30, 2015, compared to 2014 primarily as a result of the effect of the stronger U.S. dollar against Latin American currencies. Consolidated Adjusted EBITDA for the three and nine months ended September 30, 2015 was negatively affected by approximately 2% each period versus the comparable prior periods, as a result of the changes in foreign currency rates. These decreases were partially offset by initiatives resulting in reduced fixed and variable network access costs.

Interest Expense decreased 9% to \$145 million in the three months ended September 30, 2015 from \$159 million in the same period of 2014 and increased 7% to \$490 million in the nine months ended September 30, 2015 from \$459 million in the same period of 2014. Interest expense increased as a result of \$22 million and \$94 million of interest expense on additional borrowings used to fund the acquisition of tw telecom, partially offset by a \$27 million and \$44 million reduction of interest expense primarily as a result of the lower cost of borrowing on refinanced debt and a \$9 million and \$23 million reduction in interest expense as a result of the conversion of the 7% Convertible Senior Notes due 2015 into common equity, for the three and nine months ended September 30, 2015, respectively.

The Company expects annual interest expense in 2015 of approximately \$650 million based on current interest rates on the Company's debt outstanding as of September 30, 2015.

Loss on Modification and Extinguishment of Debt was \$0 and \$163 million in the three and nine months ended September 30, 2015, respectively, related to certain refinancing transactions completed during the periods.

On April 1, 2015, all of the outstanding principal amount of Level 3 Financing's 9.375% Senior Notes Due 2019 was redeemed at a redemption price equal to 104.688% of the principal amount. To fund the redemption of these notes, Level 3 Financing used the net proceeds, along with cash on hand, from the issuance on January 29, 2015 of its 5.625% Senior Notes due 2023. The Company recognized a loss on extinguishment of debt of \$36 million in the second quarter of 2015 as a result of the redemption of the 9.375% Senior Notes due 2019.

On April 28, 2015, Level 3 Financing issued \$700 million aggregate principal amount of its 5.125% Senior Notes due 2023 (the "2023 Notes") and \$800 million aggregate principal amount of its 5.375% Senior Notes due 2025 (the "2025 Notes") in a private offering.

The net proceeds from the offering of the 2023 Notes and 2025 Notes together with cash on hand, were used to redeem all \$1.2 billion aggregate principal amount of Level 3 Financing's 8.125% Senior

Notes due 2019 and all \$300 million aggregate principal amount of the Company's 8.875% Senior Notes due 2019. In the second quarter 2015, the Company recognized a loss on extinguishment of debt of \$100 million as a result of these redemptions.

On May 8, 2015, Level 3 Financing completed the refinancing of its \$2 billion senior secured Tranche B Term Loan due 2022 with an aggregate \$2 billion principal amount of a new senior secured Tranche B-II 2022 Term Loan. In the second quarter 2015, the Company recognized a loss on modification and extinguishment of debt of \$27 million as a result of this refinancing.

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, including \$1 million of interest income, was \$6 million of income in the three months ended September 30, 2015 compared to \$10 million of expense in the same period of 2014 and \$20 million of expense in the nine months ended September 30, 2015 compared to \$48 million of expense in the same period of 2014. The Other, net expense in the three and nine months ended September 30, 2014 is primarily due to the currency change from the official rate to SICAD I in Venezuela. The Other, net income in the three months ended September 30, 2015 was primarily due to foreign currency gains attributable to the appreciation of the U.S. dollar for certain intercompany balances denominated in the local currency of non-U.S. subsidiaries in North America and certain Asia Pacific countries that are not considered to be long-term in nature and other miscellaneous income of \$6 million, partially offset by a \$5 million charge related to the devaluation of the Venezuelan SICAD I exchange rate from 12.8 bolivars to the U.S. dollar to 13.5 bolivars to the U.S. dollar effective September 1, 2015. The Other, net expense in the nine months ended September 30, 2015 was incurred primarily due to foreign currency losses attributable to the appreciation of the U.S. dollar for certain intercompany balances denominated in the local currency of foreign subsidiaries in North America, EMEA and Latin America that are not considered to be long-term in nature.

Income Tax Expense was \$16 million in the three months ended September 30, 2015 compared to \$8 million in the three months ended September 30, 2014 and \$39 million in the nine months ended September 30, 2015 compared to \$27 million in the nine months ended September 30, 2014. The income tax expense in all periods is primarily related to taxes in foreign jurisdictions.

The Company incurs tax expense attributable to income in various Level 3 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. Income tax for the three and nine months ended September 30, 2015 is not necessarily indicative of income tax expense for the year ended December 31, 2015. The Company's tax rate is volatile and may move up or down with changes in, among other things, the amount and source of income or loss, its 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.

The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns, and future profitability. Based upon the weight of all available positive and negative evidence, the Company continues to maintain a full valuation allowance at September 30, 2015 for its U.S. federal and state net deferred tax assets and does not currently believe that the realization of its U.S. deferred tax assets is more likely than not. The Company monitors its cumulative loss position and other evidence each quarter to determine the appropriateness of its valuation allowance. The Company expects to generate income before taxes in future periods and based on the anticipated level of future profitability, it expects to release a significant portion of the valuation allowance primarily related to its U.S. deferred tax assets in the fourth quarter of 2015. If the valuation allowance release occurs in the fourth quarter of 2015, the Company will record a substantial tax benefit of approximately \$3.1 billion to \$3.3 billion in its

consolidated statement of income. Management expects that the Company will continue to maintain its existing valuation allowance against net deferred tax assets in many of its foreign jurisdictions.

Venezuela Effects

Effective September 30, 2015, the Company deconsolidated its Venezuelan subsidiary from its consolidated financial statements. Despite the Company's deconsolidation of its Venezuelan subsidiary, the Company continues to wholly own its Venezuelan subsidiary, operate in the region and remain committed to serving Venezuelan customers.

There are a number of currency and other operating controls and restrictions in Venezuela, which have evolved over time and may continue to evolve in the future. These evolving conditions have resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted the Company's Venezuelan operations' ability to pay dividends and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of the Company's Venezuelan operations and access the resulting liquidity provided by those earnings in U.S. dollars. The Company expects that this condition will continue for the foreseeable future. Additionally, government regulations affecting the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an acute degradation in the ability to make key operational decisions. This lack of exchangeability and degradation in the Company's ability to control key operational decisions has resulted in a lack of control over the Company's Venezuelan subsidiary for U.S. accounting purposes. Therefore, in accordance with Accounting Standards Codification 810 -- Consolidation, the Company has deconsolidated its Venezuelan subsidiary effective as of September 30, 2015 and will begin accounting for its investment in its Venezuelan subsidiary using the cost method of accounting. This change resulted in a one-time charge of \$171 million, which includes \$83 million of bolivar denominated cash and \$40 million of intercompany receivables from its Venezuelan subsidiary. In future periods, the Company's financial results will not include the operating results of its Venezuelan subsidiary. Any dividends from the Company's Venezuelan subsidiaries will be recorded as other income upon receipt of the cash. While the Company does not expect to enter into material transactions with its subsidiary in Venezuela that would result in the creation of additional intercompany receivable balances, if any such transactions were completed the Company would evaluate collectability of the intercompany receivable balance at that time which could result in a charge negatively affecting its results of operations. Please see Note 1 to the accompanying unaudited interim Consolidated Financial Statements. The Company's operations in Venezuela accounted for approximately 1% of consolidated revenue for each of the nine months ended September 30, 2015 and 2014, and approximately 3% and 4% of consolidated operating income for the nine months ended September 30, 2015 and 2014, respectively.

Venezuela is a highly inflationary economy under U.S. GAAP. As a result, prior to deconsolidation, the U.S. dollar had been the functional currency for the Company's subsidiary in Venezuela. A number of changes have been initiated in the Venezuelan exchange rate system, including changes that resulted in devaluations to their currency. Prior to deconsolidation, currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by the Company's Venezuelan subsidiary have been reflected in earnings and totaled \$11 million and \$41 million for the nine months ended September 30, 2015 and 2014, respectively.

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 I. 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 I 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 I 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 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. At September 30, 2015, the CENCOEX official exchange rate was 6.3. For the three and nine months ended September 30, 2015 prior to deconsolidation, the Company used SICAD I, which changed from 12.8 Venezuelan bolivares to the U.S. dollar to 13.5 Venezuelan bolivares to the U.S. dollar on September 1, 2015, as it is billing customers at this rate and paying suppliers requiring payments in the U.S. dollar at this rate.

On February 10, 2015, the Venezuelan government launched a new foreign exchange platform called Marginal Currency System ("SIMADI"), which was implemented as the third system in the Venezuelan three-tier exchange control mechanism and allows 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 has replaced the SICAD II rate. At September 30, 2015, the SIMADI exchange rate was 199 Venezuelan bolivares to the U.S. dollar.

The \$83 million value of the Company's bolivar denominated cash balance prior to deconsolidation as of September 30, 2015 reflects the foreign exchange loss that resulted from devaluing the Company's assets and liabilities from the official CENCOEX rate to the SICAD I exchange rate during the first quarter of 2014 and subsequent devaluations of the SICAD I rate against the U.S. dollar in 2015.

Financial Condition— For the Nine Months Ended September 30, 2015 and 2014

Cash flows from operating activities, investing activities and financing activities for the nine months ended September 30, 2015 and 2014 are summarized as follows:

(dollars in millions)	Nine Months Ended September 30,		
	2015	2014	Change
Net Cash Provided by Operating Activities	\$ 1,299	\$ 765	\$ 534
Net Cash Used in Investing Activities	(1,017)	(617)	(400)
Net Cash Used in Financing Activities	(155)	(9)	(146)
Effect of Exchange Rates on Cash and Cash Equivalents	(16)	(41)	25
Net Change in Cash and Cash Equivalents	\$ 111	\$ 98	\$ 13

Operating Activities

Cash provided by operating activities was \$1,299 million in the nine months ended September 30, 2015 compared to cash provided by operating activities of \$765 million in the same period of 2014. The increase in cash provided by operating activities was primarily due to growth in earnings driven by growth in the Company's Core Network Services revenue, continued improvements in Network Access Costs and the acquisition of tw telecom. Partially offsetting cash provided by operating activities was an increase in cash used for working capital of \$26 million. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable, bonuses and capital expenditures.

Investing Activities

Cash used in investing activities increased in the nine months ended September 30, 2015 compared to the same period of 2014 primarily as a result of an increase in capital expenditures, which totaled \$899 million in the nine months ended September 30, 2015 and \$608 million in the same period of 2014. Also, contributing to the increase in cash used in investing activities was an \$83 million write-down of the Company's Venezuelan bolivar denominated cash balance which was deconsolidated as of September 30, 2015.

Financing Activities

Cash used in financing activities of \$155 million in the nine months ended September 30, 2015, increased compared to \$9 million used in financing activities in the same period of 2014.

On April 1, 2015, all of the outstanding principal amount of the 9.375% Senior Notes Due 2019 was redeemed at a redemption price equal to 104.688% of the principal amount. The net cash outflow related to the redemption was \$523 million. To fund the redemption of these notes, Level 3 Financing used the net proceeds of \$492 million from the issuance on January 29, 2015 of its 5.625% Senior Notes due 2023, along with cash on hand.

On April 28, 2015, Level 3 Financing issued \$700 million aggregate principal amount of its 5.125% Senior Notes due 2023 (the "2023 Notes") and \$800 million aggregate principal amount of its 5.375% Senior Notes due 2025 (the "2025 Notes") in a private offering. The net proceeds of these issuances were \$1.476 billion.

The net proceeds from the offering of the 2023 Notes and 2025 Notes together with cash on hand, were used to redeem all \$1.2 billion aggregate principal amount of Level 3 Financing's 8.125% Senior Notes due 2019 at a redemption price equal to 104.063% of the principal amount and all \$300 million aggregate principal amount of the Company's 8.875% Senior Notes due 2019 at a redemption price equal to 104.438% of the principal amount. The net cash outflow related to the redemption was \$1.570 billion.

On May 8, 2015, Level 3 Financing completed the refinancing of its \$2 billion senior secured Tranche B Term Loan due 2022 with an aggregate \$2 billion principal amount of a new senior secured Tranche B-II 2022 Term Loan ("Tranche B-II 2022 Term Loan"). The net cash outflow related to the refinancing was \$21 million.

Effect of Exchange Rates on Cash and Cash Equivalents

The effect of exchange rates on cash and cash equivalents in the nine months ended September 30, 2015 and 2014 was a reduction in cash of \$16 million and \$41 million, respectively. The effect of exchange rates on cash and cash equivalents in the nine months ended September 30, 2015 was primarily due to the appreciation of the U.S. dollar against currencies in EMEA and Latin America and the effect in the nine months ended September 30, 2014 was the result of adopting SICAD I in Venezuela in the second quarter of 2014.

Liquidity and Capital Resources

The Company recognized net income of \$110 million in the nine months ended September 30, 2015 and net income of \$248 million in the same period of 2014. The Company used cash of \$899 million for capital expenditures and used \$155 million for financing activities in the nine months ended September 30, 2015. This compares to \$608 million of cash used for capital expenditures and \$9 million of cash flows used in financing activities in the nine months ended September 30, 2014.

Net cash interest payments are expected to increase to approximately \$640 million in 2015 from \$598 million in 2014 based on current interest rates on the Company's debt outstanding as of September 30, 2015.

Capital expenditures for 2015 are expected to be approximately 15% of total revenue, an increase from 13.4% 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 success-based, which is tied to a specific customer revenue opportunity, and 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 September 30, 2015, the Company had contractual debt obligations, including capital lease obligations, and excluding interest, discounts on debt issuance and fair value adjustments, of \$10 million that mature in the remaining three months of 2015, \$8 million in 2016 and \$7 million in 2017.

The Company had \$691 million of cash and cash equivalents on hand at September 30, 2015. The Company also had \$51 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 at September 30, 2015.

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, as needed to fund operations in the United States, including debt service.

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

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

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

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

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Level 3 is subject to market risks arising from changes in interest rates. As of September 30, 2015, 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 the variable rate instruments at September 30, 2015 was approximately 3.8%.

The Company's senior secured credit facility's variable interest rate is based on a fixed rate of 3.0% plus LIBOR, with a fixed minimum LIBOR rate of 1.0% for both the \$815 million Tranche B-III 2019 and the \$1.796 billion Tranche B 2020 Term Loans and the interest rate is based on a fixed rate of 2.75% plus LIBOR, with a minimum fixed LIBOR of 0.75% for the \$2 billion Tranche B-II 2022 Term Loan. The market LIBOR rate for the Company's senior secured credit facility was approximately 0.33% at September 30, 2015, which was below the fixed minimum rates. 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 LIBOR by 1% point would increase the Company's annual interest expense on all of its variable rate instruments by approximately \$24 million as of September 30, 2015.

At September 30, 2015, the Company had \$6.1 billion (excluding discounts) of fixed rate debt bearing a weighted average interest rate of 6.2%. 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. Certain Latin American countries previously designated as highly inflationary economies use the U.S. dollar as their functional currency. 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.

There are a number of currency and other operating controls and restrictions in Venezuela, which have evolved over time and may continue to evolve in the future. These evolving conditions have resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted the Company's Venezuelan operations' ability to pay dividends in U.S. dollars and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of the Company's Venezuelan operations and access the resulting liquidity provided by those earnings. The Company expects that this condition will continue for the foreseeable future. Additionally, government regulations affecting the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an acute degradation in the ability to make key operational decisions. This lack of exchangeability into U.S. dollars and the degradation in the Company's ability to control key operational decisions has resulted in a lack of control over the Company's Venezuelan subsidiary for U.S. accounting purposes. Therefore, while continuing to wholly own its Venezuelan subsidiary, in accordance with Accounting Standards Codification 810 -- Consolidation, the Company has deconsolidated its Venezuelan subsidiary effective as of September 30,

2015, and will begin accounting for its investment in its Venezuelan operations using the cost method of accounting. This change resulted in a one-time charge of \$171 million. In future periods, the Company's financial results will not include the operating results of its Venezuelan operations. Any dividends from the Company's Venezuelan subsidiaries will be recorded as other income upon receipt of the cash. Please see Note 1 to the accompanying unaudited interim Consolidated Financial Statements.

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

ITEM 4. CONTROLS AND PROCEDURES

(a) *Disclosure controls and procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2015. 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.

(b) *Internal controls.* The Company completed the acquisition of tw telecom on October 31, 2014. The Company is currently integrating policies, processes, people, technology, and operations of the combined Company. Management will continue to evaluate the Company's internal controls over financial reporting as it continues its integration of tw telecom. 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 third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings in which we are involved, see Note 10 — Commitments, Contingencies and Other Items, to our Consolidated Financial Statements included in this quarterly report on Form 10-Q.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in Level 3’s Form 10-K for the year ended December 31, 2014 , which could materially affect Level 3’s business, financial condition or future results. The risks described in Level 3’s Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to Level 3 or that it currently deems to be immaterial also may materially adversely affect Level 3’s business, financial condition and/or operating results. The Risk Factors included in the Company’s Form 10-K for the year ended December 31, 2014 , have not materially changed.

ITEM 6. EXHIBITS

- (a) Exhibits incorporated by reference are indicated in parentheses.
- 4.1 Supplemental Indenture, dated as of September 1, 2015, among Level 3 Communications, LLC, as guarantor, Level 3 Communications, Inc., as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on September 2, 2015)
- 4.2 Supplemental Indenture, dated as of September 1, 2015, among Level 3 Communications, LLC, as guarantor, Level 3 Communications, Inc., as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed on September 2, 2015)
- 4.3 Supplemental Indenture, dated as of September 1, 2015, among Level 3 Communications, LLC, as guarantor, Level 3 Communications, Inc., as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Form 8-K filed on September 2, 2015)
- 4.4 Supplemental Indenture, dated as of September 1, 2015, among Level 3 Communications, LLC, as guarantor, Level 3 Communications, Inc., as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.4 to the Registrant's Form 8-K filed on September 2, 2015)
- 12 Statements re computation of ratios.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Quarterly Report on Form 10-Q of Level 3 Communications, Inc. for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEVEL 3 COMMUNICATIONS, INC.

Dated: November 6, 2015

/s/ Eric J. Mortensen

Eric J. Mortensen

Senior Vice President, Controller and Principal Accounting Officer

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Statement Regarding Computation of Ratio of Earnings to Fixed Charges
(unaudited)

(dollars in millions)	Nine Months Ended September 30,		Year Ended December 31,				
	2015	2014	2014	2013	2012	2011	2010
Income (Loss) from Continuing Operations Before Income Taxes	\$ 149	\$ 275	\$ 238	\$ (71)	\$ (374)	\$ (786)	\$ (712)
Interest on Debt, Net of Capitalized Interest	490	459	654	649	733	716	586
Amortization of Capitalized Interest	—	—	—	—	—	—	—
Portion of rents deemed representative of the interest factor (1/3)	88	77	104	101	101	77	69
Earnings (Losses) Available for Fixed Charges	<u>\$ 727</u>	<u>\$ 811</u>	<u>\$ 996</u>	<u>\$ 679</u>	<u>\$ 460</u>	<u>\$ 7</u>	<u>\$ (57)</u>
Interest on Debt	490	459	654	649	733	716	586
Preferred Dividends	—	—	—	—	—	—	—
Interest Expense Portion of Rental Expense	88	77	104	101	101	77	69
Total Fixed Charges	<u>\$ 578</u>	<u>\$ 536</u>	<u>\$ 758</u>	<u>\$ 750</u>	<u>\$ 834</u>	<u>\$ 793</u>	<u>\$ 655</u>
Ratio of Earnings to Fixed Charges	<u>1.3</u>	<u>1.5</u>	<u>1.3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deficiency	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (71)</u>	<u>\$ (374)</u>	<u>\$ (786)</u>	<u>\$ (712)</u>

CERTIFICATIONS*

I, Jeff K. Storey, certify that:

1. I have reviewed this Form 10-Q of Level 3 Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2015

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

CERTIFICATIONS*

I, Sunit S. Patel, certify that:

1. I have reviewed this Form 10-Q of Level 3 Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2015

/s/ Sunit S. Patel

Sunit S. Patel
Chief Financial Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the three and nine months ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeff K. Storey, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

November 6, 2015

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the three and nine months ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sunit S. Patel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sunit S. Patel

Sunit S. Patel

Chief Financial Officer

November 6, 2015