

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period to

Commission file number 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)

Securities registered pursuant to section 12(b) of the Act:

**Common Stock, par value \$.01 per share**

**New York Stock Exchange**

Securities registered pursuant to section 12(g) of the Act

**None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

As of June 30, 2015, the aggregate market value of common stock held by non-affiliates of the registrant approximated \$13.018 billion based upon the closing price of the common stock as reported on the New York Stock Exchange as of the close of business on that date. Shares of common stock held by each executive officer and director and by each entity that owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

<b>Title</b>	<b>Outstanding</b>
Common Stock, par value \$.01 per share	356,840,483 as of February 24, 2016

#### **DOCUMENTS INCORPORATED BY REFERENCE**

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

Portions of the Company's Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Unless the context otherwise requires or expressly stated herein, when we use the words “Level 3,” “we,” “us,” or “our company” in this annual report on Form 10-K, we are referring to Level 3 Communications, Inc., a Delaware corporation, and its subsidiaries. Throughout this Form 10-K, we use various industry terms and abbreviations, which we have defined in the Glossary of Terms at the end of Item 1, “Business.” The Level 3 logo and Level 3 are registered service marks of our wholly owned subsidiary, Level 3 Communications, LLC, in the United States and other countries. All rights are reserved. This Form 10-K refers to trade names and trademarks of other companies. The mention of these trade names and trademarks in this Form 10-K is made with due recognition of the rights of these companies and without any intent to misappropriate those names or marks. All other trade names and trademarks appearing in this Form 10-K are the property of their respective owners.

**Cautionary Factors That May Affect Future Results  
(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)**

This Form 10-K contains statements and information that are based on the beliefs of our management as well as assumptions made by and information currently available to us. When we use words like “plan”, “estimate,” “expect,” “anticipate,” “believe,” “intend,” “goal,” “seek,” “project,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar expressions with respect to future periods in this Form 10-K, as they relate to us or our management, we are intending to identify forwardlooking statements. These statements reflect our current views 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, our actual results may vary materially from those described in this document. These statements include, among others, statements concerning:

- expectations as to our future revenue, margins, expenses, cash flows, profitability and capital requirements;
- our communications business, its advantages and our strategy for continuing to pursue our business;
- anticipated development and launch of new services in our business;
- anticipated dates on which we will begin providing certain services or reach specific milestones;
- growth of the communications industry;
- our integration of the operations of companies that we acquire and the anticipated benefits and synergies in connection with that acquisition; and
- other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.
- These statements are subject to risks and uncertainties, including financial, regulatory, environmental, industry growth and trend projections, that could cause actual events or results to differ materially from those expressed or implied by the statements. The most important factors that could prevent us from achieving our stated goals include, but are not limited to, the effects on our business and our customers of general economic and financial market conditions as well as our failure to:
- increase revenue and free cash flow from the services we offer;

- successfully use new technology and information systems to support new and existing services;
- prevent process and system failures that significantly disrupt the availability and quality of the services that we provide;
- prevent our security measures from being breached, or our services from being degraded as a result of security breaches;
- develop new services that meet customer demands and generate acceptable margins;
- effectively manage expansions to our operations;
- provide services that do not infringe the intellectual property and proprietary rights of others;
- attract and retain qualified management and other personnel; and
- meet all of the terms and conditions of our debt obligations.

Except as required by applicable law and regulations, we undertake no obligation to publicly update any statements, whether as a result of new information, future events or otherwise. Further disclosures that we make on related subjects in our additional filings with the Securities and Exchange Commission, or the SEC, should be consulted. For further information regarding the risks and uncertainties that may affect our future results, please review the information set forth below under Item 1A, "Risk Factors."

## Part I

### ITEM 1. BUSINESS

#### Introduction

We are an international facilities-based provider of a broad range of integrated communications services. A facilities-based provider is a provider that owns or leases a substantial portion of the plant, property and equipment necessary to provide its services. We have created our international communications network by constructing our own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. We designed our network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

Our company was incorporated as Peter Kiewit Sons', Inc. in Delaware in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. In subsequent years, we invested a portion of the cash flow generated by our construction activities in a variety of other businesses, including, among other things, the communications business. In 1998, our historical construction business was split off from the remainder of our operations. In conjunction with the split-off, we changed our name to "Level 3 Communications, Inc.," and the entity that was split-off and held the prior construction business was named "Peter Kiewit Sons', Inc."

We sold various businesses subsequent to the split-off, including our coal mining business in November 2011, as part of our long-term strategy to focus on core communications business operations. Most recently, in October 2011, we acquired Global Crossing Limited and in October 2014 we acquired tw telecom inc. The results of operations of the companies that we have acquired have been included in our consolidated results of operations since the respective closing date of the acquisition.

As of December 31, 2015, we had approximately 12,500 total employees. We believe that our success depends in large part on our ability to attract and retain qualified employees.

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

## **Business Overview, Vision and Strategy**

Level 3's vision is to be the trusted connection to the networked world. We seek to achieve this vision by focusing on:

- maximizing the value of our network for our customers by expanding the breadth and depth of our local to global network, and connecting our customers to their digital ecosystem of data and applications;
- delivering an exceptional and consistent customer experience by innovating to improve the efficiency and scalability of our operating platform; and
- generating profitable growth by expanding our enterprise customer base and layering value-added services onto existing network and operational capabilities.

We strive to create a culture and business environment that makes it easy for customers to do business with us, and providing high-performing, reliable and secure services on our local-to-global network with superior price value. We focus on operational excellence to streamline our systems and business processes to deliver a superior customer experience, and to reduce overhead costs and transactional costs for ourselves and for our customers.

We believe that we can be successful by making our customers the focal point of all we do. Our value proposition is structured to be fully aligned with helping our customers meet their growth, efficiency and security business challenges both today and in the future and across the globe wherever our services are available.

We believe that advances in optical and Internet Protocol, or IP, technologies have facilitated, and will continue to facilitate, decreases in unit costs for communications service providers that are able to most effectively take advantage of these technology advances. We believe that, over time, rapidly improving technologies and high demand elasticity will continue to drive this market dynamic.

Enterprises are increasingly moving their content and applications to third party providers of on-demand server and storage resources to reduce the costs and complexity of their information technology, or IT, operations. Since these server and storage resources can be offsite in any location and are often virtualized (as opposed to residing on dedicated hardware in a known location) they are referred to as "Cloud Services." We believe that this migration of enterprise data and applications to the Cloud will drive increased demand for our high-performing, reliable and secure network services.

Today's market drivers can be broken into three categories as they pertain to our core business strategy:

- *Growth*. We expect digital data creation and the associated demand for bandwidth to keep growing, as business relationships and supply chains become increasingly digital, and end users increasingly expect to be able to access their data and applications anytime and anywhere. Cloud application adoption continues to grow for all businesses, especially our enterprise customers. Mobility and Internet connected device proliferation continue to increase the rate at which content - especially video - is consumed, which in turn results in increased demand for higher bandwidth to enable that delivery and consumption. A rapidly increasing numbers of smart homes, cars, and everyday objects are getting connected to the network (the "Internet of Things"), further increasing demand for scalable and secure bandwidth. Globalization trends continue as customers look for growth from emerging markets, particularly with respect to enterprise customers. Additional opportunities for growth are present as a result of changing regulatory requirements in industries such as healthcare, consumer privacy, and financial services.
- *Efficiency*. As traffic volumes grow, our customers are not only under pressure to keep up with this growth but also to do so more efficiently. Accordingly, our product and technology teams take advantage of the scale and capabilities of our network and continuously innovate to deliver cost-effective services that meet customer needs.
- *Security*. Cyber threats continue to escalate, which affects both us and our customers. As more enterprise customer data and applications move to the Cloud, and as more and more consumer devices and personal information become reachable through the Internet, maintaining a secure network and collection of systems and processes is more important than ever.

Technology innovation in Internet Protocol and optical networking technologies has resulted in improvement in the functionality of applications supported by these technologies. We believe that this rapid innovation will continue well into the future across a number of different aspects of the communications marketplace.

We believe that decreases in communications services costs and prices enable the development of new bandwidth intensive applications, which, over time, result in even more significant increases in bandwidth demand. In addition, we believe that communications services are direct substitutes for other existing modes of information distribution from sources such as traditional broadcast entertainment as well as distribution of software, audio and video content using physical media delivered through physical transportation systems. An example of this dynamic is the use of the Internet for the distribution of video. We believe that as communications services improve more rapidly than traditional content distribution systems, demand for Internet delivered video will continue to grow rapidly. We also believe that high elasticity of demand for both new applications and the substitution for existing distribution systems will continue for the foreseeable future.

We also believe that there are significant implications that result from these market dynamics. First, given the improvement in optical and Internet Protocol technologies, communications service providers that are most effective at rapidly deploying new services that take advantage of these technologies will have an inherent cost and service advantage over companies that are less effective at deploying new services that use these technologies. In addition, given the consolidation in the number of local access providers (that is, the providers of connections from intercity networks to traffic aggregation points or end user locations), communications service providers that have ownership of local and/or metropolitan network facilities will have an inherent cost and service advantage over companies that do not have ownership over these types of assets. With respect to the migration to Cloud Services, this market dynamic creates opportunities for us to provide secure and high performance network connections to our enterprise customers, enabling their employees to connect seamlessly and efficiently to their content and applications in the Cloud.

In view of these market and technology opportunities, we seek to serve business customers by using a customer - first focus and providing a broad range of communications services over our advanced and extensive fiber optic network. With our network's extensive geographic reach and deep reach into major metropolitan areas of the United States, Europe and Latin America, we are positioned to provide end-to-end services for business customers entirely on our own facilities across multiple continents.

We have and will continually expand our fiber optic network to new locations where the demands of our customers and potential customers justify the upfront costs of expansion. This allows us to provide an end-to-end connection for the customer across our own fiber optic network, which is more secure and efficient and allows us to deliver a superior customer experience. Today and for the foreseeable future, we will need to connect to some locations using the networks of other carriers. We manage these relationships with other carriers to make the interconnection as efficient and effective as possible. We seek to minimize the need for these "off network" connections by targeting customers whose needs can be met primarily over our network and by building our network to as many high-traffic locations as possible.

Our fiber optic network has extensive reach across North America, Europe and Latin America. Our network reaches not only hundreds of cities (we refer to the part of our network connecting the larger cities as our "intercity" network) but also includes fiber optic routes around the various parts of the larger metropolitan areas (we refer to this part of our network as our "metropolitan" or "metro" networks), which allows us to connect directly with wholesale customers in major traffic aggregation centers (such as central offices of local exchange carriers) and with many medium and large enterprise customers at their offices and data centers. In addition, the fact that our metro networks have significant reach throughout major metropolitan areas means that we can make relatively short network extensions to reach customer locations that our network does not currently reach.

To connect our networks in North America, Europe and Latin America, as well as to connect our network to cities in other parts of the world, we own several undersea cables and have purchased capacity on cables owned by others. Since subsea cables require very large upfront investment and have very large capacity compared to the needs of any one carrier, they typically are either owned by consortia of carriers or are financed significantly by selling a large amount of capacity to other carriers either before the cable is built or shortly thereafter. We historically have been active both in building undersea cables and in buying capacity from others. Today we own more than 33,000 route miles of undersea fiber optic cables around the world. In addition, as we have points of presence (PoPs) in Asia, Africa and Australia, we have also purchased capacity on others' undersea cables to allow us to offer services in those regions despite the fact that we do not have extensive fiber optic networks of our own in these regions. This is important to our ability to handle the global needs of our multinational customers. For more information about our network, see Item 1, "Business - Our Communication Network" below.

For larger customers, specialized real estate is often required to house the equipment that we and the customer use to exchange traffic. This space requires a concentrated amount of electric power and cooling, as well as server racks, fiber optic cables and other technical equipment. Such specialized real estate, depending upon its nature and the type of companies that use it, is referred to variously as "colocation" or "data center" space. For interconnection among wholesale carriers and some of the largest enterprise customers, we also use real estate owned by third parties. We own or lease more than 250 colocation facilities in North America, approximately 100 colocation facilities in Europe, and approximately 15 colocation facilities in Latin America. In addition, we operate approximately 20 data center facilities in Latin America, Europe and North America.

Our business includes voice services. Historically, end-user voice services were provided over a network of local exchange carriers whose copper wire networks were dedicated to that service. Today, voice services can be carried over the Internet as a data service. This type of voice service usually is referred to as "voice over Internet Protocol," or "VoIP". Since many calls include a connection to the traditional voice network on one end and a VoIP connection on the other, early in our existence we

became deeply involved in managing connections between VoIP customers and those on the traditional public switched telephone network. This involves not only developing and managing equipment and software specialized for that purpose but also developing physical connections of our Internet Protocol network with the traditional networks of the various local exchange carriers. Additionally, we have also physically interconnected our IP network with the networks of many cellular telephone carriers. This enables us to provide what we believe is a more comprehensive service than most other carriers can provide to handle customers' needs for voice connections in today's changing communications environment. Our services that manage the initiation or termination of customers' voice calls generally are referred to as "local voice" services. Our voice services also include our comprehensive suite of audio, web and video collaboration services.

We also provide services that handle the termination of large volumes of telephone calls on behalf of other carriers. We refer to these as "wholesale voice" services. These services are provided in a very competitive environment in which many carriers participate and the customer typically uses automated systems to choose the least expensive way to terminate traffic to each city around the world on a minute-by-minute basis.

We provide specialized communications services for companies that distribute video or other digitized content across the Internet. Because the amount of bandwidth required by such media is large, special services are used to ensure delivery of such content at desired levels of quality. We have developed a system of servers, with software to control them, that store more popular content in various locations around the world. The aim is to store content so that it is not transferred very far across the Internet. This type of service typically is referred to as a "Content Delivery Network," or "CDN." We also have specialized video services to handle the needs of broadcasters for the rapid transmission of the very large streams of information that emerge when live events are broadcast. We carry these video streams across our network to locations specified by the broadcasters and from which these customers broadcast their final edited content.

Managing the transmission of information across our network requires the proper management of many interconnected technologies, processes and systems to provide high quality, convenient secure and reliable services for our customers. Some of these services may be charged for separately, while others are included as an integral part of our more basic services. Examples of services that are typically charged separately include network security (i.e., helping customers keep their information safe) and network monitoring (i.e., keeping customers informed of the status of various equipment and sub-parts of their connections). We regularly develop new features and ancillary services to keep our network services as valuable as possible to our target customers.

Since a large portion of our communications services are purchased by companies to interconnect their own information technology applications, often we find that certain customers need ancillary services that are not clearly part of communications network services and may more properly be described as information technology services. In an effort to ensure that our customers receive a superior overall experience, we frequently enter into partnerships with providers that specialize in these information technology services, so that we can assemble the full collection of services for the customer. In making the decision to add such services, we consider several factors including our core strengths, the existence of other parties with whom we can work to satisfy the customers' needs, how important it is to customers that the new service be combined into a single Level 3 offering, and the size of the incremental market that would become addressable by offering such services. For more information about our service offerings, see Item 1, "Business - Our Service Offerings" below.

We are currently focusing our attention on a number of operational and financial objectives, including:

- driving profitable revenue growth by increasing sales generated by our Core Network Services;

- growing our Enterprise customer base as well as our share of their telecom spend, as this customer group has the largest potential for significant growth;
- continually improving the customer experience to increase customer retention and reduce customer churn;
- integrating our prior acquisitions, building on the strengths and capabilities of the acquired legacy companies to position the combined company as a premier global communications provider;
- launching new products and services to meet customer needs, in particular for Enterprise customers;
- reducing network costs and operating expenses relative to our revenue;
- growing positive cash flows from operations;
- continuing to show improvement in Adjusted EBITDA (as defined in Item 7, “Management’s Discussions and Analysis of Financial Condition and Results of Operation”) as a percentage of revenue;
- concentrating our capital expenditures on those technologies and assets that enable us to increase our Core Network Services revenue; and
- managing our Wholesale Voice Services for margin contribution.

For a discussion of our Core Network Services and Wholesale Voice Services, see Item 1, “Business-Our Service Offerings” below.

## **Our Strengths**

We believe that the following strengths will assist us in implementing our strategy:

- *Experienced Management Team* . We have assembled a management team that we believe is well suited for our business objectives and strategy. Our senior management has substantial experience in leading the development, marketing and sale of communications services and in managing, designing and constructing metropolitan, intercity and international networks.
- *Recognized Industry Leadership* . We have a proven track record among communication service providers for being the first to implement many new technologies, including: global MPLS network in 2001, first global provider with IPV6 natively deployed, first to introduce VoIP and MPLS, and the first converged IP solution.
- *Global Reach of Our Network* . We deliver services to more than 60 countries around the world on our global network. Our network connects and crosses North America, Latin America, Europe and a portion of the Asia/Pacific region.
- *A Broad Range of Communications Services* . We provide a broad range of communications services designed to meet the needs of our customers over our network. Our communications service offerings include:

- Internet and data services, which includes Internet access and IP and Ethernet Virtual Private Networks, content distribution services including caching and downloading, streaming as well as video broadcast services;
- Transport service, which includes services such as wavelengths and private line services (transoceanic, backhaul, intercity, metro and unprotected private line services) as well as dark fiber in both our intercity and metropolitan networks;
- Voice and collaboration services, which includes enterprise or business voice services, wholesale VoIP component services, wholesale voice origination and termination services, voice, web and video conferencing and collaboration services.
- Colocation and data center services, which offer high quality data center space where customers can locate servers, content storage devices and communications network equipment in a safe and secure technical operating environment.
- Value-added services such as Managed Network Services and Managed Security, including protection against Distributed Denial of Service (DDoS) attacks;

The availability of these services varies by location.

For several years we have been developing services that take advantage of the investment that we have made in our network and that generally target large, existing markets. We have also expanded our existing markets for communications services through the acquisitions that we have completed, which has significantly increased the global reach of our network. Through our efforts we have increased significantly our addressable market by adding new addressable customers as well as new voice and data services that take advantage of the geographic coverage and cost advantages of our network.

- *Significant Metropolitan Network Platform.* As of December 31, 2015, we have metropolitan fiber networks in approximately 350 markets in North America, Europe and Latin America, which currently contain approximately 67 ,000 route miles. The number of route miles may change in the future as we continue our integration activities related to the tw telecom acquisition. Our metropolitan networks enable us to connect directly to points of traffic aggregation and customer locations and reduce our costs for the termination of our customers' communications traffic on other carriers' networks.
- *End-to-End Network Platform .* Our strategy is to deploy network infrastructure in major metropolitan areas and to link these networks with significant intercity and trans-oceanic networks in North America, Europe and Latin America. We believe that the integration of our metropolitan and intercity networks with our colocation facilities will expand the scope and reach of our on-net customer coverage, facilitate the uniform deployment of technological innovations as we manage our future upgrade paths and allow us to grow or scale our service offerings rapidly. We believe that we have a unique combination of:
  - a substantial intercity and subsea network;
  - large fiber count metropolitan networks;
  - global network reach;
  - substantial colocation & data center facilities;

- innovative content distribution technology and services; and
- a growing set of security services.
- *Advanced IP Backbone.* We operate one of the largest international IP networks or backbones. Our IP services deliver a broad range of IP transit and network interconnection solutions tailored to meet the varied needs of high bandwidth users.
- *Extensive Patent Portfolio .* Our patent portfolio includes patents covering technologies ranging from data and voice services, to content distribution, to transmission and networking equipment. We utilize our patent portfolio in multiple ways. Developing or acquiring technologies and receiving the legal right to preclude others from using them may give us a competitive advantage. The breadth and depth of our patent portfolio may deter others, particularly telecommunications operators, from bringing patent infringement claims against us for fear of counter-claim by us and enhances our ability to enter into cross-licensing arrangements with other patent holders. We will continue to file new patent applications as we enhance and develop products and services, we will continue to seek opportunities to expand our patent portfolio through strategic acquisitions and licensing, and we will continue to appropriately enforce our patents against infringement by others.
- *A More Readily Upgradeable Network Infrastructure.* We generally endeavor to design new networks to take advantage of technological innovations, incorporating many of the features that are not present in older communications networks. We design the transmission network to optimize aspects of fiber and optronics simultaneously as a system to provide an efficient cost structure for the services that we deliver to our customers. As fiber and optical transmission technology changes, we expect to realize new unit cost improvements by deploying more cost efficient technologies in our network. We believe that our network, process and system design will enable us to provide competitive services to our customers while also lowering our costs to provide those services .

## **Our Service Offerings**

We offer a broad range of communications services. All of our services can be purchased by any of our customers, but some services may not be available in all locations or jurisdictions. The following is an overview description of some of the services that we offer.

*Core Network Services.* The following are the communications services that are included in our financial reporting of Core Network Services revenue.

- *IP and Data Services.* Data services include Internet Services, virtual private network (“VPN”), content delivery network (“CDN”), media delivery, Vyvx broadcast service and Managed Services.
- *Internet Services.* We offer wholesale and content provider customers with high speed access to the Internet over one of the largest international Internet backbones. Using largely our own intercity and metropolitan networks in North America, Europe and Latin America, we provide customers with high performance, reliability and scalability. Access to the Internet is enabled through interconnection among our customers across our network as well as interconnections with other Internet service provider “peers.”
- The service is available stand-alone or in conjunction with managed services offerings, such as Managed Router where we deploy and manage a router that is on the customer premise or our network-based Distributed Denial of Service, or DDoS, Mitigation, which protects our business customers from Internet based DDoS attacks.

- *VPN Service*. Built on our optical transport network, we offer customers the ability to create private point-to-point, point-to-multipoint, and full-mesh networks based on IP VPN, Virtual Private LAN service, or VPLS, Ethernet Virtual Private Line, or EVPL, or MPLS VPN technologies. These services allow service providers, enterprises and government entities to replace multiple networks with a single, cost-effective solution that simplifies the transmission of voice, video, and data over a single or converged network, while delivering high quality of service and security. These services are used for service provider and corporate data and voice networks, data center networking, disaster recovery and out-of-region or redundant customer connectivity for other service providers. VPN services are sold stand-alone or in conjunction with our managed services offerings.
- *Level 3 Ethernet Services or E-Services* . Provide customers with geographically diverse, data intensive networks; scale, flexibility and reliability in order to meet existing and future networking demands. Level 3 E-Services encompasses E-Line and E-Access.
  - *Level 3 E-Line service* is a Layer 2 point-to-point and point-to-multipoint data service for enterprise network connectivity (Ports 100Mb-10Gb, EVC 2Mb to 6Gb).
  - *Level 3 E-Access service* is a Layer 2 Carrier Grade Ethernet network-to-network interface (NNI) to enable Service Providers like carriers, data centers and cloud providers to resell Level 3 Ethernet services to their enterprise customers.
  - Level 3 <sup>SM</sup> E-Line Service with Adaptive Network Control offers secure, high availability and scalable network connections with dynamic bandwidth making it ideal for providing high-speed connections among corporate headquarters, data centers and other business locations around the world to migrate legacy networks and equipment to Ethernet, expand existing WANs and get new applications online faster.
  - *Adaptive Network Control* provides added capabilities that are layered on to network services to provide greater visibility, flexibility and control of applications traffic traversing your Metro or Wide Area Network:
  - *Enhanced Management* is real time visibility of end-to-end network performance metrics to assist planning, trouble shooting and fine tuning your network for optimal performance. Available for all managed locations and backed by comprehensive service level agreements.
  - *Dynamic Bandwidth Capacity* , which is the ability to make real-time bandwidth adjustments via the Company's *MyPortal* customer portal to address fluctuating traffic demands.
- *CDN Services* . Our content delivery network services combine our IP network, Gateway facilities and patented technology that directs a requestor or end user to the best location or server cluster in our network to retrieve the requested content based on location and network conditions. Our CDN service provides customers with improved performance, economics, scalability, reliability and reach for their web applications. Our caching and download services provide efficient http delivery of large files such as video, software, security patches, audio and graphics to mass audiences. Our streaming service can be used to deliver high performance streams, either live or on-demand, to end users using leading proprietary protocols. Each service set provides flexible features to enable customers to control their content delivery to ensure quality end-user

experience, security, freshness and targeting. We also offer storage solutions enabling customers to upload and store content to our network as part of an optimized delivery platform. In addition to our delivery services, our patented Intelligent Traffic Management service enables customers to set rules to dynamically route traffic to meet failover or dual vendor objectives.

- *Media Delivery Service* . We offer media delivery service to customers seeking to manage, protect and monetize content delivered over the Internet. Our media delivery service extends support for online distribution models and operation by providing customers with means to ingest and digitize live video content and to manage the organization and presentation of both live and on demand video to end users via a content management system. Additionally, support for content monetization via paid and advertising supported models is provided. Our media delivery services leverage our content delivery network for the delivery of managed content to end users.
- *Vyvx Broadcast Service* . We offer various services to provide audio and video feeds over fiber or satellite for broadcast and production customers. These services vary in capacity provided, frequency of use (that is, may be provided on an occasional or dedicated basis) and price.
- *Managed Services*. This category includes our complete portfolio of advanced performance and managed services, including professional services. Our teams of professionals work with customers to design and customize solutions that match their strategy and can help customers increase network efficiency, reduce overall operational costs, supplement skill sets, or provide specialist knowledge. Services included Managed Router, Application Performance Management, Managed WAN Optimization, Managed Ethernet Services and a variety of other professional services to meet customer needs. Managed Services are purchased in conjunction with our other network services.
- *Cloud and IT Services*. Our multi-disciplinary cloud services draw on many products across our products that are described above. Our Cloud and IT-based services include Level 3 Cloud Connect Solutions, Communications as a Service and Data Center Services. These solutions are focused on the transport and delivery of enterprise data and applications.
- *Level 3 Cloud Connect Solutions* . Level 3 Cloud Connect Solutions create a secure, reliable path for customers to realize the efficiency, scalability and flexibility of the cloud, providing a private network that connects enterprises with leading cloud and data center providers around the world, including Amazon Web Services (AWS), Google Cloud Platform and Microsoft Azure ExpressRoute.
- *Communications as a Service (CaaS)* . Our Communications as a Service (CaaS) product offering delivers a Session Initiated Protocol, or SIP, based audio collaboration and on-net web conferencing over a virtual private network using a hosted model.
- *Transport and Fiber Services*. Transport services include wavelengths, private lines, transoceanic services, and dark fiber, as well as related professional services. These services are available across our metropolitan and intercity fiber network. Wavelength services provide unprotected point-to-point connections of a fixed amount of bandwidth with Ethernet or SONET interfaces. Wavelength services are available at a range of speeds from 1 Gbps to more than 100 Gbps. This service offering targets customers that require significant amounts of bandwidth, desire more direct control and provide their own network management. Private line services are also point-to-point connections of dedicated bandwidth but include SONET or Synchronous Digital Hierarchy (SDH) protection to provide

resiliency to fiber or equipment outages. Private line services are available in a wide range of speeds with electrical, optical and Ethernet interfaces. We also provide transport services within our transatlantic cable system connecting North America, Europe and Latin America as well as via leased bulk capacity on other transoceanic systems. International backhaul transport services, interconnecting cable landing stations and our terrestrial North American, European and Latin American networks, are also available.

Our dark fiber service provides carriers, service providers, government entities and enterprises a fiber solution when unique applications, control or scale requirements make this service desirable. This includes fiber, colocation space in our Gateways and in our network facilities, power and physical operations and maintenance of the fiber and associated infrastructure. Professional services related to our transport and fiber services include network architectural design, engineering, installation and turn-up, ongoing network monitoring and management services, and field technical services.

- **Voice Services** . We offer a broad range of local and enterprise voice services including VoIP (Voice over Internet Protocol) services and traditional circuit-switch based services. Our local and enterprise voice services include VoIP enhanced local service, SIP Trunking, local inbound service, Primary Rate Interface (“PRI”) service, long distance service, toll free service and a comprehensive suite of audio, web and video collaboration services. The following is a general description of our voice services. Some of the following services are also offered to our wholesale voice customers. For financial reporting purposes, voice services also include our collaboration services that are described below.
  - **VoIP Enhanced Local**. Our VoIP enhanced local service is a VoIP service that enables broadband cable operators, IXCs, voice over IP providers, and other companies operating their own switching infrastructure to launch IP-based local and long-distance voice services via any broadband connection.
  - **SIP Trunking** . SIP Trunking is a VoIP-based local phone service offered to medium and large enterprises as a replacement for traditional fully featured enterprise TDM voice services. SIP Trunking allows customers with an IP PBX to manage calls to and from the PSTN without having to purchase traditional access lines dedicated to voice.
  - **Local Inbound**. Our local inbound service terminates traditional telephone network originated calls to Internet Protocol termination points. This one-way service is sold primarily to customers, such as call centers, conferencing providers, voice over IP service providers and enterprises to only receive calls at their locations. The customers can obtain telephone numbers from us or port-in local telephone numbers that the customer already controls. These local calls are then converted to IP and transported over our backbone to a customer’s IP voice application at a customer-selected IP voice end point.
  - **Enterprise Long Distance**. Our long distance service portfolio consists of local and long distance transport and termination services. Medium and large enterprises purchase our long distance services for their corporate calling or outbound contact center needs. All Level 3 long distance services are offered at the customer’s option over circuit switch or softswitch technologies.
  - **Enterprise Toll Free** . Our toll free service terminates toll free calls that are originated on the traditional telephone network. These toll free calls are carried over either a circuit switch or softswitch network and delivered to customers in Internet Protocol or traditional TDM format.

- *Collaboration Services* . We offer a comprehensive suite of audio, web and video collaboration services, which include the following services:
    - *Audio Conferencing* . *Ready-Access* ®, our on-demand/reservation less audio conferencing service, provides toll free access in key business markets worldwide. We also provide operator-assisted, full-service conference calls where participants can access our service by dialing in on either a toll or a toll-free number, or by being dialed out to by an operator.
    - *Web Conferencing* . Our *Ready-Access Web Meeting* is fully integrated with *Ready-Access* audio conferencing for on-demand collaboration, allowing customers to manage their calls on-line, change account options, share presentations with participants and record entire meetings, including visuals. *eMeeting* is a full-featured Web conferencing application that allows customers to collaborate and share documents, presentations, applications, data and feedback with polling and instant messaging features. *Live Meeting* service uses technology licensed from Microsoft ®to allow multiple attendees to participate in meetings using only their computer, a phone, and an Internet connection. We have integrated *Ready-Access* as an audio conferencing component into *Live Meeting* .
    - *Videoconferencing Service* . Our videoconferencing service provides video over IP and ISDN platforms, using multi-point bridging to connect multiple sites. Enhanced options available with our videoconferencing services include scheduling, recording and hybrid meetings that combine our audio and video services.
  - *Colocation and Data Center Services* . Colocation and Data Center services include data center facilities and services including cloud, hosting, and application management solutions. Our data center facilities offer high quality, data center space where customers can locate servers, content storage devices and communications network equipment in a safe and secure technical operating environment. In addition, we offer high-speed, reliable connectivity to our network and to other networks, including metro and intercity networks, the traditional public switched telephone network and the Internet. Our data center services range from dedicated hosting and cloud services to more complex managed solutions, including disaster recovery, business continuity, applications management support, and security services to manage mission critical applications.
  - *Security Services* . Also reported in this category, Level 3 Security Solutions can be used to enable customers to address the growing threat of cyber-attack and allow customers to create a secure network, safeguard brand value, enable business continuity, and avoid complexity and cost. Our Security Services include: Secure Access which provides secure and encrypted connectivity for mobile users or remote offices; Cloud and Premises based Managed Firewall and Unified Threat Management Services including Intrusion Prevention and Detection service and Web Content filtering; network-based Distributed Denial of Service (DDoS) Mitigation, which protects against Internet based DDoS attacks; and Security Consulting services for Governance, Risk Management and Compliance. Security Services are sold stand-alone or in conjunction with Data Services.
- Wholesale Voice Services* . Our Wholesale Voice Services include voice termination and toll free service. These services share many of the same features as the local and enterprise voice services described above.
- *Voice Termination* . Our wholesale long distance offer include domestic and international voice termination services targeted to IXCs, wireless providers, local phone companies, cable companies, resellers and voice over IP providers.

- *Toll Free.* As with Enterprise Toll Free, Level 3's wholesale Toll Free service terminates toll free calls that are originated on the traditional telephone network. Customers for these services include call centers, conferencing providers, and voice over IP providers.

Our priority remains to protect the confidentiality of our customers' data, and to protect and secure our network. In addition, it is our policy and our practice to comply with laws in every country where we operate, and to provide government agencies access to customer data only when we are compelled to do so by the laws in the country where the data is located. We will continue to operate our global network in this manner to comply with applicable laws and the regulatory requirements of the telecommunications industry.

For a discussion of certain geographic information regarding our revenue from external customers and long-lived assets and a discussion of financial information and operating segments, please see the notes to our consolidated financial statements appearing elsewhere in this annual report on Form 10-K. For a discussion of our communications revenue, please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing later in this Form 10-K.

Our management continues to review our existing lines of business and service offerings to determine how those lines of business and service offerings align with our strategy and our financial objectives. This exercise takes place in the ordinary course of our business. To the extent that certain lines of business or service offerings are not considered to be compatible with our strategy or with our financial objectives, we may exit those lines of business or stop offering those services in part or in whole.

### **Our Distribution Strategy**

Our customers generally include the following types of customers: Enterprises; Content; Government and Wholesale. Our enterprise customers include:

- large multinational customers;
- larger enterprises that purchase communications services in a manner similar to carriers;
- enterprises that purchase communications services on a regional or local basis;
- portals and large search enterprises;
- regional service providers;
- systems integrators; and
- software service providers.

Our Content customers comprise subgroups of customers including:

- Digital Entertainment, such as providers of online gaming; social networking providers; technology companies that enable digital advertising and digital ad agencies; and companies that provide video over the Internet;
- Media and Entertainment, such as media conglomerates; programmers; studios and production companies; and broadcast station ownership groups; and

- Sports teams (professional and college); and stadiums and venues.

Our Government customers include U.S. Federal government departments and agencies, the government departments and agencies of other countries around the world, U.S. states and municipalities as well as research and educational consortia.

Our Wholesale customers include domestic and international carriers; voice service providers, which include calling card companies, conferencing providers, and contact centers that use VoIP technology to better manage costs and enable advanced applications; wireless providers; and broadband cable television operators.

To implement our strategy and reach our target large, multinational enterprise customers, we have established a Global Account Management team, which operates across our regions. In North America we have also implemented a General Manager sales model to target enterprises that are not Global Account Management accounts and government customers, where sales leaders manage sales, sales support, marketing, service delivery, service assurance, network planning and financial personnel. In North America, we also use an inside or call center based sales force, and indirect sales channels of third-party agents to reach our target customers.

In EMEA and Latin America, our sales teams use a combination of a direct sales force, an inside or call center based sales force, and indirect sales channels of third-party agents.

The specific elements that we use to reach our target customers depend upon the nature of the customers that are being targeted.

Our sales functions are supported by dedicated employees in sales and customer target marketing. These sales functions are also supported by centralized service or product management and development, general or corporate marketing, network services, engineering, information technology, and corporate functions including legal, finance, strategy and human resources.

For the year ended December 31, 2015, our top ten communications customers represented approximately 16% of our total revenue.

For a discussion of certain geographic information regarding how we manage our business, please see the discussion under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing later in this Form 10-K.

#### **Our Communications Network**

Our network is an advanced, international, facilities based communications network. We primarily provide services over our own facilities. As of December 31, 2015, our network encompasses:

- approximately 106,000 intercity route miles in North America, Europe and Latin America;
- metropolitan fiber networks in approximately 350 markets containing approximately 67,000 route miles;
- approximately eight million square feet of Gateway and transmission facilities in North America, Europe and Latin America;
- more than 360 colocation and data center facilities globally;
- approximately 33,000 route miles of subsea optical fiber cable systems; and

- more than 60 countries in service around the world.

*Terrestrial Intercity Networks* . Our intercity network covers approximately 70,000 route miles in North America, 26,000 route miles in Europe, and 10,000 route miles in Latin America as of December 31, 2015. We may eliminate specific routes or duplicate routes as we continue to look at opportunities to optimize our cost structure and remove unnecessary cost. Our intercity network generally includes the following characteristics:

*Optical fiber strands designed to accommodate Dense Wave Division Multiplexing, or DWDM, transmission technology* . Our optical fiber strands are designed to accommodate DWDM technology. We believe that the installation of newer optical fibers will allow a combination of greater wavelengths of light per strand, higher transmission speeds and longer physical spacing between network electronics. We also believe that each new generation of optical fiber will allow increases in the performance of these network design aspects and will therefore enable lower unit costs.

*High speed intercity DWDM equipment* . Our high speed intercity DWDM equipment provides high quality, reliable and cost effective transmission across our fiber backbone. We are continually evaluating advancements in technology that will enable us to scale, lower our cost and provide higher speed services over our intercity network. We believe that the market will continue to move toward Ethernet based services and higher speed interfaces. Through our technology evaluations we believe that we have positioned ourselves to be able to deliver these capabilities for both our own IP network needs as well as those of our customers.

*Open, non-proprietary hardware and software interfaces* . Our intercity network is designed to maximize the use of open, non-proprietary hardware and software interfaces to allow less costly upgrades as hardware and software technology improves.

*Local Market Infrastructure* . Our local facilities include fiber optic metropolitan networks connecting our intercity network and Gateways to buildings housing communications intensive end users, enterprise customers and traffic aggregation points-including ILEC and CLEC central offices, long distance carrier points-of-presence or POPs, cable head-ends, wireless providers' facilities and Internet peering and transit facilities. Our high fiber count metropolitan networks allow us to extend our services directly to our customers' locations at low costs, because the availability of this network infrastructure does not require extensive multiplexing equipment to reach a customer location, which is required in ordinary fiber constrained metropolitan networks. As of December 31, 2015, we had approximately 58,000, 3,200 and 6,200 route miles of metropolitan fiber networks in North America, Europe and Latin America, respectively, and had operational, facilities based, local metropolitan networks in 229, 67, 55 and 2 markets in North America, Europe, Latin America and Asia, respectively. As we continue to integrate the tw telecom acquisition, we may eliminate specific and/or duplicate routes as we continue to look at opportunities to reduce and/or optimize our network cost structure.

We operate approximately eight million square feet of space for our Gateway and transmission facilities. Our initial Gateway facilities were designed to house local sales staff, operational staff, our transmission and Internet Protocol routing, Content Delivery Networks and voice switching facilities and technical space to accommodate colocation services that is, the colocation of equipment by high-volume Level 3 customers, in an environmentally controlled, secure site with direct access to Level 3's network generally through dual, fault tolerant connections. As of December 31, 2015, we had more than 250 colocation facilities in North America, approximately 90 colocation facilities in Europe, and approximately 15 colocation facilities in Latin America.

Most of these facilities offer a complete set of data center services ranging from housing and hosting, to more complex managed solutions, including disaster recovery, applications management, business continuity, and security services to manage mission critical applications.

*Transoceanic Networks* . We own a number of subsea fiber optic cable systems, including Atlantic Crossing-1 (“AC-1”), Atlantic Crossing-2 (“AC-2”), Mid-Atlantic Crossing (“MAC”), South American Crossing (“SAC”), Pan American Crossing (“PAC”) and an approximately 300 route mile system connecting the U.K. and Ireland. AC-1 and AC-2 link our European network to our North American intercity network and each of AC-1 and Yellow (AC-2) consists of four fiber strand pairs. MAC provides a strategic gateway between the Eastern Seaboard of the U.S. and our Latin America assets, a route that is experiencing acute demand growth. SAC connects major markets throughout Latin America and is one of only two sub-sea systems currently in operation that circumnavigates the majority of South America. PAC is integrated with a 2,300 mile terrestrial ring route (including associated backhaul) within Mexico, as well as an extension to Costa Rica.

We also own capacity in the TAT-14 transatlantic cable system. In addition, we purchased 700 Gigabits of transatlantic capacity from Apollo Submarine Cable System Ltd. We have acquired an additional one Terabit of capacity on the Apollo South cable system, which will be drawn down over a multi-year period. We also are an owner of the Japan-US, and China-US cable systems, an indefeasible right of use, or IRU, holder on the Southern Cross cable system extending from Australia to California, as well as an owner of the Americas II cable extending from Florida to Brazil, and an IRU holder on the Arcos system in the Caribbean. In addition, we own capacity on the Reliance-Globacom transatlantic system Flag Atlantic-1 and capacity on the Hibernia transatlantic cable system.

*Content Acquisition and Distribution Services Architecture* . Content distribution network, or CDN, describes a system of computers networked together across the Internet to provide content to users in the most efficient manner to enable an optimal user experience. In a CDN, nodes or groups of computers are deployed in multiple locations closer to the end user, also known as the “edge of the network” and cooperate with each other to satisfy requests for content by end users, transparently moving content behind the scenes to optimize the delivery process. Requests for content are directed intelligently through sophisticated software applications to nodes that provide optimal performance for end users.

The CDN platform directs network traffic across our existing physical network and infrastructure. The CDN platform is composed of the edge server or computer that provides caching and streaming functions, and the global server that provides load balancing—that is, a computer that directs the traffic to the most efficient edge server to meet the end user’s request. The edge server enables the storage of popular content in a location that is closer to the end user and thereby reduces bandwidth requirements and improves response times for that stored content.

The Vyvx platform transmits audio and video programming for our customers over our fiber optic network and via satellite. We use our network to carry many live traditional broadcast and cable television events from the site of the event to the network control centers of the broadcasters of the event.

## **Our Patent Portfolio**

Through acquisitions and through our own research and development, we have more than 1,000 patents and patent applications in the United States and around the world, as of December 31, 2015. Our patent portfolio includes patents covering technologies ranging from data and voice services to content distribution to transmission and networking equipment.

In addition to the patents and patent applications we own, we have received licenses to patents held by others, including through a cross-license agreement with IBM entered into in December 2007, giving us access to technology covered by IBM’s approximately (at that time) 42,000 patents covering many technologies relevant to our business. While patents give us the right to prevent others, particularly competitors, from using our proprietary technologies, patent licenses give us the freedom to operate our business without the risk of interruption from the holder of the patent that has been licensed to us.

We use our patent portfolio in a number of ways. First, developing or acquiring technologies and receiving the legal right to preclude others from using them may give us a competitive advantage. Second, the breadth and depth of our patent portfolio may deter others, particularly telecommunications operators, from bringing patent infringement claims against us for fear of counter-claim by us. Most of the patent infringement suits brought against us to date have been initiated by patent-holding companies who do not operate telecommunications businesses and who are less likely to be subject to a counter-claim of infringement by us. Finally, the extensiveness of our patent portfolio gives us the option to cross-license with others having similarly broad portfolios on terms acceptable to us, mitigating the risk that others will wish to assert patent infringement claims against us.

We will continue to file new patent applications as we enhance and develop products and services, we will continue to seek opportunities to expand our patent portfolio through strategic acquisitions and licensing and we will continue to appropriately enforce our patents against infringement by others.

## **Business Support Systems**

We believe that it is important to streamline and simplify our processes and systems. To pursue our business strategies, we have developed and are continuing to develop and implement a set of integrated software applications designed to automate our operational processes. These development activities also relate to the integration of the systems that were used by the companies that we have acquired. Through the development of our business support systems, we believe that we have the opportunity to obtain a competitive advantage relative to traditional telecommunications companies. In addition, we recognize that for the success of certain of our services that some of our business support systems will need to be easily accessible and usable directly by our customers.

We are currently developing and deploying a unified set of simplified processes and systems that have been designed to streamline and synchronize our service, sales and operational functions. These processes and systems have been designed to provide improved capability in service catalog management, sales opportunity management, customer management, quoting, order entry, order workflow, physical and logical network inventory management, service management, and financial management.

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

- integrated modular applications to allow us to upgrade specific applications as new services are available;
- a scalable architecture that allows our customers and third-party sales channel partners direct access to certain functions that would otherwise have to be performed by our employees;
- phased completion of software releases designed to allow us to test functionality on an incremental basis;
- “web-enabled” applications so that on-line access to order entry, network operations, billing, and customer care functions are available to all authorized users, including our customers;
- use of a service-oriented architecture that is designed to separate data and applications, and is expected to allow reuse of software capabilities at minimum cost;
- use of pre-developed, commercial “off-the-shelf” applications or Software as a Service (SaaS), where applicable, which will interface with our internally developed applications; and

- creation of a mobility solution for use by sales and certain operational functions to improve productivity and customer experience.

## Competition

The communications industry has been and remains highly competitive. In the late 1990s and the early 2000s, significant new capacity was deployed by both existing and new entrants. This oversupply led to a period of financial restructuring and industry consolidation. Given the significant economies of scale inherent in the communications industry, we believe further consolidation may occur such as Verizon's recently announced acquisition of XO .

Our primary competitors are long distance carriers, ILECs, CLECs, Post Telephone and Telegraphs, or PTTs, companies that operate Content Delivery Networks, or CDNs, and other companies such as cable companies, that provide communications services. The following information identifies some key competitors for each of our service offerings.

Our key competitors for our IP and data services include Verizon, AT&T, XO, NTT, Tata and Cogent in North America, and BT, Orange, TeliaSonera and Tata in Europe. In Latin America, our main competitors are Telefonica, Telmex and national incumbent telecommunications carriers.

For transport and fiber services, our key competitors in North America are other facilities based communications companies including AT&T, Verizon, CenturyLink, Zayo, and XO. In Europe, our key competitors are other carriers such as PTT companies, BT, Orange, Vodafone, TeliaSonera, Colt, Interoute, KPN and Belgacom. In Latin America, our main competitors are Telefonica, Telmex and national incumbent telecommunications carriers.

For voice services our key competitors are other providers of communications services including

AT&T, Verizon, CenturyLink, CLECs and national incumbent telecommunications carriers.

For our colocation and datacenter services, our key competitors are other facilities based communications companies, and other colocation providers such as web hosting companies and third-party colocation companies. In North America, these companies include Equinix, Terremark (Verizon), and CoreSite. In Europe, competitors include Equinix, Global Switch, InterXion, Telety and Telehouse Europe. In Latin America, our largest competitors include Telefonica, Telmex, and IBM.

For CDN services, our key competitors include Akamai Technologies, Limelight Networks, Amazon, Edgecast Networks (Verizon), Fastly and CDNetworks .

For security services, our key competitors include Akamai, Verizon, CenturyLink, AT&T and Cloudflare.

In the enterprise and government markets, our key competitors in North America include ILECs (such as AT&T, Verizon and CenturyLink) and CLECs (such as XO). In Europe, they include BT, Vodafone, Deutsche Telekom and Orange. In Latin America, competitors include Telefonica and Telmex.

The communications industry is subject to rapid and significant changes in technology. For instance, periodic technological advances permit substantial increases in transmission capacity of both new and existing fiber, and the introduction of new products or emergence of new technologies may reduce the cost or increase the supply of certain services similar to those which we plan on providing. Accordingly, in the future our most significant competitors may be new entrants to the communications industry, such as content companies that have existing significant customer bases and substantial cash resources that are greater than ours, and, unlike the traditional incumbent

carriers we also compete with, would not be burdened by an installed base of outmoded or legacy equipment.

## **Regulation**

### ***U.S. Regulation***

#### *Federal Regulation*

The Federal Communications Commission (“FCC”) has jurisdiction over interstate and international communications services. We have obtained FCC approval to land our transoceanic cables in the United States. We have also obtained FCC authorization to provide international services on a facilities and resale basis, as well as via various wireless licenses. Under the Telecommunications Act of 1996 (the “1996 Act”), any entity, including cable television companies and electric and gas utilities, may enter any telecommunications market, subject to reasonable state regulation of safety, quality and consumer protection. The United States House of Representatives Energy and Commerce Committee recently began to consider revising and updating the 1996 Act, including potential changes to the FCC, its jurisdiction and its organizational structure. It is too early in this process for us to either predict any modifications that might be made to the 1996 Act as part of this process, their effects on us, or the pace at which this process may proceed.

The 1996 Act previously required certain tariffs to define the services, terms, and conditions under which said services were to be offered. Subsequent deregulatory measures have eliminated some tariff requirements for competitive services.

Accordingly, as of August 1, 2001, our tariffs for interstate end user services were eliminated and our tariffs for international interexchange services were eliminated on January 28, 2002. Our rates must still be “just and reasonable” and “nondiscriminatory” under the 1996 Act. Our state tariffs remain in place where required (some states do not have, or have eliminated, the requirement to file certain tariffs). We have historically relied primarily on our sales force and marketing activities to provide information to our customers regarding these matters and expect to continue to do so. Further, in accordance with certain FCC tariff filing requirements, we maintain a schedule of our rates, terms and conditions for our domestic and international private line services on our web site.

*Special Access Regulation.* Special access services are “lit” loop or transport facilities that support the transmission of data on a point-to-point basis, often referred to as “private lines.” Level 3 purchases a substantial amount of special access services from ILECs and other telecommunications carriers to reach customer premises and, less frequently, to support interoffice transport requirements. In addition, Level 3 provides special access services to end user customers and to other carriers via its own network and/or through the resale of other carriers’ special access services.

In January 2005, the FCC commenced an examination of the regulatory framework governing the rates, terms, and conditions under which ILECs subject to “price cap” regulation provide interstate special access services. In this rulemaking, the FCC is reviewing both the price cap regime by which ILEC special access rates are set in most areas, as well as the “pricing flexibility” regime under which ILECs have obtained, in so-called “phase I” areas, the ability to enter into more individualized relationships with customers and to lower prices, and in so-called “phase II” areas, the ability to raise prices based upon certain threshold showings of the presence of competitors in a specific geographic and product market. In August 2012, the FCC froze further grants of phase II pricing flexibility. In December 2012, the FCC issued an order stating that it will gather additional data on a mandatory basis from both providers and purchasers of special access services so that it can conduct a comprehensive evaluation of the state of competition in the special access market. Responses to these additional, mandatory data requests were made in early 2015,

but we cannot predict when the FCC will complete its review of the data submitted. In addition, the FCC has commenced a review to determine whether certain tariff terms of price cap ILECs, known in the industry as “demand lock-up” terms, are anticompetitive and therefore unlawful. We cannot predict if or when the FCC will complete its review or its outcome.

*Network Neutrality and Open Internet.* On February 26, 2015, the FCC adopted its most recent Open Internet order, the Open Internet Remand Order. The 2015 Order prohibits broadband providers from: blocking access to lawful content; impairing or degrading (also known as throttling) Internet traffic; prioritizing some content over other content in exchange for payment or other consideration; or unreasonably interfering with or disadvantaging the ability of users to access lawful content. The 2015 Order also provides the Commission with authority to hear complaints regarding interconnection disputes with broadband providers. The 2015 Order has been challenged in court. We cannot predict the outcome of that challenge, but we expect it to be decided in 2016. There have also been a variety of legislative efforts to water down the 2015 Order. We cannot predict the outcome of those legislative initiatives.

*IP Interconnection.* We have noted IP interconnection and congestion disputes with last mile bottleneck broadband providers, some of which historically refused to augment (or add) bandwidth at congested interconnection links between our respective networks (which is known to degrade the quality of third party content) without the payment of tolls unilaterally dictated by the broadband supplier. During 2015, we concluded improved IP Interconnection agreements with several large broadband providers, some of which were announced publically. We cannot predict at this time whether these arrangements will in all cases provide us with sufficient last mile interconnection capacity to avoid Internet congestion as the Internet continues to grow and/or when these agreements expire. The FCC’s current Open Internet rules provide Level 3 a forum to lodge interconnection disputes with the FCC for resolution, but how such disputes would be resolved, as well as the future of these Open Internet Rules, is unclear (see “*Network Neutrality and Open Internet*” discussion immediately above).

*Intercarrier Compensation.* Telecommunications carriers compensate one another for traffic carried on each other’s networks. Interexchange carriers pay access charges to local telephone companies for long distance calls that originate and terminate on local networks. Local telephone companies typically charge one another for local and Internet-bound traffic terminating on each other’s networks. The methodology by which carriers compensate one another for exchanged traffic, whether it be for local, intrastate or interstate traffic, has been under review by the FCC for over a decade.

In November 2011, the FCC released its Universal Service Fund/Intercarrier Compensation Transformation Order (USF/ICC Transformation Order). Along with addressing other matters, the USF/ ICC Transformation Order established a prospective intercarrier compensation framework for terminating switched access and VoIP traffic. Under the USF/ICC Transformation Order and subsequent related FCC orders, most terminating switched access charges and all reciprocal compensation charges were capped at then-current levels, and will be reduced to zero over, as relevant to Level 3, generally a six year transition period that began July 1, 2012.

Level 3 maintains approximately 300 interconnection agreements with other telecommunications carriers. These agreements set out the terms and conditions under which the parties will exchange traffic. The largest agreements are with AT&T and Verizon. Most of Level 3’s agreements with AT&T and Verizon have expired terms, but remain effective in evergreen status. As these and other interconnection agreements expire, we will continue to evaluate simply allowing them to continue in evergreen status (so long as the counterparty allows it) or negotiating new agreements. Any renegotiation would involve uncertainty as to the final terms and conditions, including the compensation rates for various types of traffic. In addition, changes in law, including

FCC orders, may allow or compel us to renegotiate current and successor interconnection agreements over the next year.

*Intercarrier Compensation/VoIP.* Pursuant to the USF/ICC Transformation Order, VoIP, while remaining unclassified as either an information or a telecommunications service, was prospectively categorized as either local or non-local traffic. If “local”, then VoIP traffic is subject to reciprocal compensation; if “non-local”, then it is subject to interstate rates, thus eliminating any intrastate access rate applicable to VoIP. The USF/ICC Transformation Order did not address the treatment of VoIP retroactively. Level 3 is involved in a number of intercarrier compensation disputes dealing with the rating of VoIP traffic. During 2015, the FCC issued clarifications concerning the rating of VoIP traffic that were favorable to Level 3. Those clarifications have been appealed, and at this time, we cannot predict the outcome of these appeals.

*Other VoIP Regulation.* The FCC has imposed various regulatory requirements on VoIP providers that had previously been applicable only to traditional telecommunications providers, such as obligations to provide 911 functionality, contribute to the federal universal service fund, to comply with regulations relating to local number portability (including contributing to the costs of managing number portability requirements), to abide by the FCC’s service discontinuance rules, to contribute to the Telecommunications Relay Services fund, and to abide by the regulations concerning Customer Proprietary Network Information and the Communications Assistance for Law Enforcement Act. In addition, a number of state public utility commissions are conducting regulatory proceedings that could affect our rights and obligations with respect to IP-based voice applications. Specifically, some states have taken the position that the “local” component of VoIP service is subject to traditional regulations applicable to local telecommunications services, such as the obligation to pay intrastate universal service fees. We cannot predict whether the FCC or state public utility commissions will impose additional requirements, regulations or charges upon our provision of services related to IP communications.

*Intercarrier Compensation/Wireless.* There are currently a number of lawsuits ongoing in the United States concerning the intercarrier compensation charges applicable to certain wireless telephone calls, how to determine whether those calls were local or long distance under the applicable rules, and what statute of limitations applies to such claims. We are defendants in certain of these lawsuits, and are potential plaintiffs in others. As with any litigation, the outcome of this litigation is difficult to predict.

*Universal Service.* Level 3 is subject to federal and state regulations that implement universal service support for access to communications services in rural and high-cost areas and to low-income consumers at reasonable rates; and access to advanced communications services by schools, libraries and rural health care providers. The FCC assesses Level 3 a percentage of interstate and international revenue it receives from retail customers as its contribution to the Federal Universal Service Fund, which assessments are generally passed on to our customers. Additionally, the FCC has ruled that states may assess contributions to their state Universal Service Funds from VoIP providers. Any change in the assessment methodology may affect Level 3’s revenue and expenses, but at this time it is not possible to predict the extent we would be affected, if at all.

*Network Security Agreement.* In connection with the acquisition of Global Crossing, we entered into an agreement (the “Network Security Agreement”) with certain agencies of the U.S. Government to address the U.S. Government’s national security and law enforcement concerns. The Network Security Agreement is intended (i) to ensure our ability to carry out lawfully authorized U.S. Government electronic surveillance of communications that originate and/or terminate in the U.S.; (ii) to prevent and detect access to and use of U.S. communications; and (iii) to satisfy U.S. critical infrastructure protection requirements. Failure to comply with our obligations under the Network Security Agreement could result in the revocation of our telecommunications licenses by the FCC

and other penalties. The Network Security Agreement also imposes significant requirements related to information storage and management, traffic routing and management, physical, logical and network security, personnel screening and training, audit, reporting and other matters.

### *State Regulation*

The 1996 Act is intended to increase competition in the telecommunications industry, especially in the local exchange market. With respect to local services, ILECs are required to allow interconnection to their networks and to provide unbundled access to network facilities, as well as a number of other pro-competitive measures.

State regulatory agencies have jurisdiction when our facilities and services are used to provide intrastate telecommunications services. A portion of our traffic may be classified as intrastate telecommunications and therefore subject to state regulation. We expect that we will offer more intrastate telecommunications services (including intrastate switched services) as our business and product lines expand. We are authorized to provide telecommunications services in all fifty states and the District of Columbia. In addition, we need to maintain interconnection agreements with ILECs where we wish to provide service. We expect that we should be able to negotiate or otherwise obtain renewals or successor agreements through adoption of others' contracts or through arbitration proceedings, although the rates, terms, and conditions applicable to interconnection and the exchange of traffic with certain ILECs could change significantly in certain cases. The degree to which the rates, terms, and conditions may change will depend not only upon the negotiation and arbitration process and availability of other interconnection agreements, but will also depend in significant part upon state commission proceedings that either uphold or modify the current regimes governing interconnection and the exchange of certain kinds of traffic between carriers.

There are initiatives in several state legislatures to lower intrastate access rates, aligning them with interstate rates, some of which may be affected by the FCC Order on intercarrier compensation. While we believe that rate adjustment initiatives such as this are generally better considered holistically by the FCC as part of its overall intercarrier compensation reforms, some states have and may continue to determine otherwise. Depending on whether we are a net collector or a net payer of any adjusted rate, such rate adjustments could have a negative effect on us.

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

### *Local Regulation*

Our networks are subject to numerous local regulations such as building/permitting/trenching codes and licensing/franchise fees. Such regulations vary on a city-by-city, county-by-county and state-by-state basis. To install our own fiber optic transmission facilities, we need to obtain rights-of-way over privately and publicly owned land. Rights-of-way that are not already secured, or which may expire and not be renewed, may not be available to us on economically reasonable or advantageous terms in the future.

### **European Regulation**

Unlike the United States which has a federal-state regulatory scheme, the European Union, or EU, has adopted a more systematic approach to the convergence of networks and the regulation of telecommunications services. The European Commission oversees the implementation by its Member States of various directives developed to regulate electronic communications. In March 2002, the European Union adopted a new regulatory framework for electronic communications that is designed to address in a technologically neutral manner the convergence of communications

across telecommunications, computer and broadcasting networks. The directives address: (1) framework, (2) interconnection and access, (3) authorization and licensing, (4) universal service, and (5) privacy. These directives along with an additional decision on radio spectrum set out the basis for regulation at the national level.

Pursuant to these measures, the licensing regime was replaced with one of general authorization, whereby all providers of electronic communication services, or ECS, are authorised by statute in all 28 EU countries to (1) build/maintain a network and (2) sell any form of ECS, other than mobile or broadcast services, without the need for an individual license. Accordingly, as for all communications providers, our existing licenses were canceled and replaced with statutory authorization, subject to various general conditions imposed by national regulatory authorities, or NRAs. NRAs continue to be responsible for issuing specific licenses in relation to radio spectrum.

In November 2009, the European Parliament and Council of Ministers agreed to implement a number of changes to the existing regime, comprising the "Better Regulation" Directive (Directive 2009/140/EC) and the "Citizens' Rights" Directive (Directive 2009/136/EC), which adjust the existing regulations in order to remove areas of potential ambiguity and more clearly define user rights. .

The Framework requires NRAs, on a rolling basis, to analyze a set of markets for electronic communications which may require ex-ante regulation to function competitively.

This analysis contains three different elements:

- Market definition - first the NRA must define the relevant geographic and product market.
- SMP assessment - in a second step the NRA must analyze whether one or more undertaking active in that market possesses significant market power (conceptually similar to dominance), either individually or jointly with others.
- Decision on remedies - if the NRA identifies a market with a lack of effective competition, it is required to impose certain regulatory obligations, so-called remedies.

The basis for this measure is the European Commission's Recommendation on Relevant Markets, which contains a list of markets that should be subject to ex ante regulation. Whenever a NRA concludes that a given market shows failures that hamper competition, it must impose appropriate remedies on undertakings with a significant market power in accordance with the market Access Directive and Universal Service Directives.

Notwithstanding a synchronized approach to regulation in Europe, the implementation of the directives has not been uniform across the Member States of the European Union. Recognizing this concern, in November 2009, the EU also implemented one regulation establishing the Body of European Regulators for Electronic Communications (Regulation (EC) No 1211/2009), or BEREC. BEREC's remit is to improve harmonization between national regulatory measures so as to ensure greater consistency of remedies and to anticipate emerging regulatory requirements. From 2012 through 2015, BEREC adopted a common position on several issues of relevance, including wholesale local and broadband access, wholesale leased lines and net neutrality. BEREC's work program for 2016 adopted in December 2015 identifies four key areas of focus: (1) promoting competition and investment, including work on wholesale access products, challenges and drivers for NRA roll-out and preparation for all-IP networks; (2) promoting the internal market, by coordinating input to regulatory proposals related to Digital Single Market initiative; (3) empowering and protecting end-users; and (4) improving the quality and efficiency of individual NRAs.

In 2010, the EU adopted a long term strategic policy known as the Digital Agenda for Europe 2010 - 2020, aimed at ensuring that the EU derives the maximum economic, industrial and social benefit from advanced communications services, including the extensive roll-out of 'superfast broadband.' The majority of Member States have each adopted their own national policies in support of this high level agenda.

In November 2015, the EU adopted Regulation EU 2015/2120 which, among other things set out new legislation in relation to open internet. The net neutrality provisions of this Regulation are effective at the beginning of the second quarter 2016. In 2015, the EU Commission also began a review of the entire suite of Directives and Regulations relating to the communications sector and it is expected that proposals will be published during 2016 with a view to agreeing any changes in sufficient time to have these transposed into Member State law by 2019.

### ***Middle East and African Regulation***

In recent years, we have expanded our operations beyond the borders of the European Union. While a number of jurisdictions have adopted regulatory regimes broadly similar to the European model and promote full competition, many of the countries in this region have not yet committed to liberalizing their telecommunications regimes and opening their telecommunications markets to foreign investment as part of the 1998 World Trade Organization Agreement on Basic Telecommunications Services. We cannot be certain of how many regional countries may ultimately liberalize their national markets or how quickly change may take place and the effect on our business of future regulatory change cannot be accurately predicted.

### ***Canadian Regulation***

The Canadian Radio-television and Telecommunications Commission ("CRTC") regulates telecommunications providers and their service offerings in Canada. Regulatory developments over the past several years have terminated the historic monopolies of the ILECs, bringing significant competition to this industry for both domestic and international long distance services. The provision of Canadian domestic and international transmission facilities based services is no longer restricted to "Canadian carriers". Prior to June 2012, these carriers had to have majority ownership and control in-fact by Canadians. There are no such Canadian ownership and control requirements for companies that resell the services and facilities of a Canadian carrier. Accordingly, we have historically operated as a reseller of Canadian domestic and international transmission facilities-based services in Canada. Material ownership restrictions were repealed, thus allowing us to register with the CRTC as a facilities-based telecommunications common carrier, which we did and also obtained a Basic International Telecommunications Service license, allowing us to carry traffic that originates or terminates in points outside of Canada.

### ***Latin American Regulation***

The regulatory status of the telecommunications markets in Latin America varies to some degree. All of the countries in which we currently operate are members of the World Trade Organization, and most have committed to some deregulatory measures such as market competition and foreign ownership. Some countries now permit competition for all telecommunications facilities and services, while others allow less competition for some facilities and services, but restrict competition for other services. The telecommunications regulatory regimes of many Latin American countries are in the process of development. Many issues, such as regulation of incumbent providers, interconnection, unbundling of local loops, resale of telecommunications services, and pricing have not been addressed fully, or even at all. We cannot accurately predict whether and how these issues will be resolved, or their effect on our operations.

Below is a summary of certain of the regulations currently applicable to our Latin American operations, by country. The regulations apply equally to all of our operating entities in a given country.

### *Argentina*

The Argentine telecommunications market was opened to competition on November 9, 2000. Following market liberalization, the government issued a series of regulations to transition to competition, including Decree No. 764/00. The Decree established rules for the granting of licenses for telecommunications services, interconnection, and the management and control of the radio spectrum. The Decree also established new rules and regulations to promote access to telecommunications services for customers located in high-cost access or maintenance areas or with physical limitations or special social needs. These rules and regulations, effective as of January 1, 2001, established that these services would be financed by all telecommunications providers (including us) through a Universal Service Fund (“USF”), backed by the payment of 1% of each provider’s total revenue for telecommunications services.

The Argentine telecommunications sector is subject to a new comprehensive national telecommunications act effective as of December 2014: “Digital Argentina Law” No. 27078 (the “New Telecom Law”).

The New Telecom Law establishes that the former Law No. 19,798, its supplementary laws and decrees, will remain in full force and effect as long as they do not contradict the New Telecom Law and until the new regulatory authority enacts the required new supporting regulatory framework. Most relevant aspects to our business such as the licensing processes, USF regime, interconnection regime and spectrum regime set forth under the former Law No. 19,798 and its supplementary laws will continue in full force.

In December 2015 the newly elected government has publicly communicated its intention to set information and communications technology policies as an economy driver. Some rules, which include the intervention of the recently created authority (“Autoridad Federal de Tecnologías de la Información” or Federal Authority for Information Technology) and the requirements of National Decrees 267/15 and 268/15 are providing a temporary framework until a new National Telecom Act is enacted in 2016.

### *Brazil*

Telecommunications services in Brazil are regulated by the Ministry of Communications, pursuant to Law No. 9,472 as of July 16, 1997 (the “General Telecommunications Law”). This law authorized the creation of the Agencia Nacional de Telecomunicações (the “National Telecommunications Agency,” known as “ANATEL”), an independent agency under the Ministry of Communications that regulates and supervises all aspects of telecommunications services. ANATEL enforces the legislative determinations of the Ministry of Communications. ANATEL has generally pursued a policy of market liberalization and supported a competitive telecommunications environment.

### *Chile*

The telecommunications industry in Chile is regulated by the Undersecretariat of Telecommunications, a department under the Ministry of Transportation and Telecommunications.

In 1978, the National Policy on Telecommunications was issued which, in its most relevant aspects, called for the development of telecommunications services to be conducted by private institutions through authorizations granted by the government. However, it also endorsed a series of

regulations aimed at establishing increased technical control over such investments and conferring certain discretionary powers upon the government. The policy was formalized through the General Law on Telecommunications approved in 1982, in which free, non-discriminatory access was granted to private firms in the development of the nation's telecommunications services. This law established responsibilities with respect to telecommunication services, compulsory interconnection of facilities between public service licensees, and effectuated mandatory tariffing of services where existing market conditions were deemed insufficient to guarantee a free tariff system.

Chile amended its General Law on Telecommunications in 1985 to provide that concessions and permits may be granted without limit depending upon the quantity and type of service and geographic location. The law guarantees interconnection among telecommunications service concessionaires. Chile defines value added services as supplementary services. It is not necessary to have a telecommunications service license to offer supplementary services, although those who provide additional services must comply with the technical standards established by the Department of Telecommunications, and obtain authorization therefrom.

The General Law on Telecommunications has been amended on several occasions regarding such matters as network neutrality, the recent elimination of domestic long distance telephony, and full implementation of number portability, and establishing a national plan for critical telecommunications infrastructure to ensure continuity of services.

### *Colombia*

The telecommunication industry in Colombia is subject to regulation by the Colombian Ministry of Communications. Since 1991, the Colombian Government has pursued a policy of liberalization and has encouraged joint ventures between public and private telecommunication companies to provide new and improved telecommunication services. In 2009, the Colombian government adopted a new regulatory regime (Law 1341, the "TIC law") that was aimed at further deregulating the telecommunications market.

The telecommunication industry in Colombia is subject to regulation by the Communications Regulation Commission (CRC), the National Spectrum Agency (ANE) and the National Television Authority (ANTV).

The competition authority and consumer protection agency in Colombia is the Superintendence of Industry and Commerce (SIC), which is responsible for enforcing antitrust regulations, protecting consumers' rights and promoting competition in all economic sectors, including telecommunications.

The Ministry of Information and Communications Technologies ("ICT") is in charge of telecommunications policymaking, and the Minister is a member of the board of the regulatory bodies (CRC, ANTV and ANE).

The TIC Law created a new ICT register to facilitate market entry by telecommunications operators, as licenses were no longer tied to the provision of telecommunications services in Colombia. If services providers require spectrum the Ministry granted a spectrum use permit. During 2015, the CRC and the Ministry of Information and Communications Technologies ("MinICT") issued regulations and policies to promote and improve competition in the telecommunications sector in Colombia, relating to, among other things, customer contracts, reporting, interconnection charges in the mobile market and certain local accounting rules.

The Colombian government issued the National Development Plan (NDP), which is intended to increase competition and the use of information technology and communications in the country. The NDP contains provisions to allow for the efficient deployment of infrastructure and services.

The Colombian government is interested in joining the Organization for Economic Cooperation and Development, or OECD, and this will require the adoption of some reforms in the telecommunication sector, such as measures to ensure the independence of the regulatory authorities, eliminate concentration in fixed and mobile markets and remove barriers to network infrastructure deployment, which would not affect our business in Colombia.

### *Costa Rica*

Costa Rica was the last country in Central America to liberalize the telecommunications market. Telecommunications in Costa Rica had historically been under the structure of a state-owned monopoly. Following ratification of the free trade agreement between the US and Central American States, in 2007, Costa Rica started the reform of its regulatory environment to open telecommunications to competition.

In pursuit of this objective, which is still ongoing, the government of Costa Rica moved to a total liberalized telecom market in the country from 2008. The Telecommunications Law was enacted in June 2008 and the regulatory body, the Telecommunications Superintendence ("SUTEL"), was appointed in 2009. SUTEL is an administrative body within the former Public Services Regulatory Authority (ARESEP).

Examples of SUTEL's responsibilities are: implementing policy and legislation, regulating the market entry by service providers and the services, imposing access and interconnection obligations, resolving intercarrier and unfair competition disputes, approving both retail tariffs (only if there are no effective competition conditions within the market) and adhesion contracts with end users, overseeing the universal service fund (FONATEL), and managing scarce resources, including numbers and radio spectrum. SUTEL also ensures compliance with consumer protections and promotes competition in the telecommunications sector.

The executive branch retains certain direct responsibilities in the telecom sector through the Ministry of Science, Technology and Telecommunications ("MICITT"), which is the main authority for the promotion and definition of national telecommunications policy, including the definition of a national plan for the development of telecommunications and granting spectrum licenses.

In 2014, SUTEL started to conduct market research on the prices of submarine cable access services in Costa Rica, to determine whether prices in that country are competitive in comparison with international prices. The final report on this research has not been released yet.

At the end of 2014, SUTEL announced that it expects to review the conditions for effective competition in the various telecommunications markets in Costa Rica (fixed, mobile, data, etc.), which could lead to the liberalization of the prices of telecommunication services in some markets or a review of new regulatory rulings to promote competition.

In October 2015, MICITT released the National Telecommunications Plan 2015-2021. The plan addresses the main objectives for the growth of the telecommunications sector until 2021 and the telecommunications market milestones. These objectives are mandatory both to MICITT and SUTEL regarding the spectrum procurement proceedings and the procurement proceedings financed through FONATEL.

### *Ecuador*

A new Law of Telecommunications was enacted in February of 2015. As a result, the organizational structure of public entities in Ecuador will be changed with the creation of the Agency for the Regulation and Control of Telecommunications ("ARCOTEL"), which will be responsible for the planning, regulation and control of telecommunications services as well as spectrum management.

The Ministry of Telecommunications will remain in charge of the development of information and communication technologies in Ecuador. It issues policies and general plans and monitors their implementation. The Ministry also evaluates, coordinates and promotes actions to ensure equal access to services and the effective and efficient use thereof.

## *Mexico*

In June, 2013, the Mexican government performed an integral amendment of the regime, through the enactment of a Constitutional Decree. Such Decree included the modification of the Mexican Constitution and several legislative measures and will require a series of further regulations amending the main regulatory framework of the telecommunications industry. Some of the most important aspects set forth in the amendment are the following: (i) the Federal Institution of Telecommunications (“IFETEL”) was created as a constitutionally autonomous entity, replacing the existing Federal Telecommunications Commission (“COFETEL”), as the sole telecommunications regulatory body; and (ii) foreign investment was allowed with up to 100% in telecommunications and satellite communication services (previously capped at 49%) and up to 49% in broadcasting services (previously prohibited).

A new telecommunications law was approved by the Federal Congress of Mexico and became effective on August 13, 2014.

The telecommunications sector in Mexico is regulated primarily by the Federal Institute of Telecommunications (“IFETEL or IFT”). Among other aspects, the IFT regulates the requirements for licensing public telecommunications networks, and the obligations of telecommunication companies in Mexico. Further, it manages licensing requirements for radioelectric spectrum, satellite geostationary orbits assigned to Mexico and its related spectrum, makes declarations of preponderant agents in the telecommunications and broadcasting sectors (more than 50% of the users, subscribers, audience, network traffic or used network capacity, measured on a national basis), analyzes the divestiture and restructuring plans submitted by Preponderant agents to reconsider their status and authorizations to commercialize telecommunications services.

Under the new telecommunications law, the provision of value-added services has been deregulated. Also, there is a new concession-granting regime, which establishes a unique concession for the provision of all telecommunication services. The unique concession may be granted by the IFT only to Mexican individuals or companies, but there will be no limitation on foreign investment. However, the concessions granted before the new law was enacted, will remain valid until they expire or the operator decides to apply for a master concession (transition regime).

On March 6 2014, the IFT declared America Movil SAB de CV, Telefonos de Mexico SAB de CV, and Grupo Carso, among other companies, to be preponderant agents in the telecommunications sector, and Grupo Televisa, among others, to be a preponderant agent in the open broadcast television sector. The divestiture plan submitted by America Movil is pending approval.

The IFT may impose asymmetric regulations and specific obligations upon preponderant agents such as rates, quality, shared-use of infrastructure, rights of way and disaggregation of the local telecommunication network.

Some important regulatory measures were issued by the IFT in 2015: (i) the application of no charge for the interconnection with networks of the preponderant agents and (ii) the modification of tariffs for national long distances telephony services due to the Mexican territory treatment as a local area.

While the IFT provides the main regulatory framework of the telecommunications industry, other relevant laws in the field are the Federal Antitrust Law, the Foreign Investment Law, the Law of Protection of Personal Information in Possession of Private Entities, and the Federal Consumers Protection Law, all of which play a part in the overall regulation of the sector, in addition to the general commerce and contractual laws. The above mentioned laws also shall be adjusted to the new telecommunication law.

The enactment of the new law and the initial measures taken by the IFT in 2014 have increased the dynamism of the Mexican telecommunications market, in which the main players are moving faster and new players are emerging, such as AT&T, which acquired USACELL at the end of 2014.

### *Panama*

In Panama the telecommunications market was privatized in 1997 and deregulated in 2003, and services have seen strong growth since that time. Due to the comparative advantages of the geographical location of Panama there is a significant supply of subsea connections.

The telecommunications industry in Panama is regulated by Autoridad Nacional de los Servicios Públicos or ASEP (formerly Ente Regulador de los Servicios Públicos), an independent regulatory body. ASEP is a multi-sector regulator in charge of all Panama utilities including telecommunications.

### *Peru*

The telecommunications industry in Peru is regulated by the Supervisory Authority for Private Investment in Telecommunications (“OSIPTEL”) and the Ministry of Transportation and Communications (“MTC”). OSIPTEL is an independent regulatory body attached to the Office of the President of the Council of Ministers.

Under Peruvian law, the provision of public telecommunications services requires a concession. The functions related to the issuance of concessions and market access registration and the assignment of the radio spectrum for public telecommunications services are managed by the MTC’s General Directorate of Concessions in Telecommunications. Since market liberalization became effective in August 1998, there has been no limitation on the issuance of concessions, except for services subject to natural limitations on grounds of scarce resources, as in the case of the radio spectrum.

During 2014, the National Congress submitted a General Telecommunication Bill which would modify the existing general regulatory regime. The bill remains under debate and has not yet been passed.

### *Uruguay*

The telecom market in Uruguay is highly regulated. The Executive Branch, through the Ministry of Industry, Energy and Mining, is the final authority in regards with telecom matters, while the Telecom National Office (Dirección Nacional de Telecomunicaciones) works as a general advisory body and the Communication Services Regulatory Unit URSEC (Unidad Reguladora de Servicios de Comunicaciones) participates as a regulatory agency.

To provide telecommunications services, it is necessary to hold a license. Moreover, if the service also requires the assignment of spectrum, it is also necessary to have a concession. The Executive Branch grants licenses to broadcast and also grants assignments of spectrum with a fixed term. URSEC is entitled to grant licenses and concessions in all the remaining cases. The international long distance telephony is a closed market with approximately ten players operating in that market. Through our Uruguayan branch “GC Sac Argetina SRL Sucursal Uruguay,” we are licensed for data transmission services and as an international long distance service provider.

## Venezuela

The Venezuelan telecommunications industry is regulated by the *Comisión Nacional de Telecomunicaciones* (“CONATEL of Venezuela”), which is ascribed to and under the purview of the Minister of People’s Power for Communication and Information. Venezuela opened its telecommunications market to competition on November 28, 2000. In 2007, the Venezuelan government nationalized the incumbent telecommunications operator, CANTV. In December 2010, the government issued a new law declaring that the provision of telecommunications services is an activity of the “public domain.” To date, the government has not indicated its intent to expand nationalization within the telecommunications sector.

## Asian Regulation

The status of liberalization of the telecommunications regulatory regimes of the Asian countries in which we operate or may in the future operate varies. Some countries allow full competition in the telecommunications sector, while others limit competition for many or most services. Similarly, some countries in Asia maintain foreign ownership restrictions which limit the amount of foreign direct investment and require foreign companies to seek local joint venture partners.

Most of the countries in the region have committed to liberalizing their telecommunications regimes and opening their telecommunications markets to foreign investment as part of the World Trade Organization Agreement on Basic Telecommunications Services, which came into force in 1998. Additionally, the United States has entered into bilateral Free Trade Agreements with Singapore, Australia and South Korea that became effective in 2003, 2005 and 2012, respectively, and a Trans-Pacific Partnership agreement with Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam that was concluded in 2015. We cannot predict what effect, if any, these agreements will have on other countries in the region or whether the U.S. will pursue similar agreements with other countries. We also cannot be certain whether this liberalizing trend will continue or accurately predict the pace and scope of liberalization. It is possible that one or more of the countries in which we operate or may in the future operate will slow or halt the liberalization of its telecommunications markets. The effect on us of such an action cannot be accurately predicted.

The telecommunications regulatory regimes of many Asian countries are in the process of development. Many issues, such as regulation of incumbent providers, interconnection, unbundling of local loops, resale of telecommunications services, offering of voice services and pricing have not been addressed fully or at all. We cannot accurately predict whether or how these issues will be resolved and their effect on our operations in Asia.

## Glossary of Terms

access	Telecommunications services that permit long distance carriers to use local exchange facilities to originate and/or terminate long distance service.
access charges	The fees paid by long distance carriers to LECs for originating and terminating long distance calls on the LECs’ local networks.
ATM	Asynchronous transfer mode. An information transfer standard that is one of a general class of packet technologies that relay traffic by way of an address cell. The ATM format can be used by many different information systems, including LANs, to deliver traffic at varying rates, permitting a mix of data, voice and video.

backbone	A high-speed network that interconnects smaller, independent networks. It is the through-portion of a transmission network, as opposed to spurs which branch off the through-portions
CAP	Competitive Access Provider. A company that provides its customers with an alternative to the local exchange company for local transport of private line and special access telecommunications services.
caching	A process by which a Web storage device or cache is located between Web servers (or origin servers) and a user, and watches requests for HTML pages and objects such as images, audio, and video, then saves a copy for itself. If there is another request for the same object, the cache will use its copy, instead of asking the origin server for it again.
capacity	The information carrying ability of a communications facility.
carrier	A provider of communications transmission services by fiber, wire or radio.
CDN	Content Distribution Network or CDN describes a system of computers networked together across the Internet that cooperate transparently to deliver various types of content to end users. The delivery process is optimized generally for either performance or cost. When optimizing for performance, locations that can serve content quickly to the user are chosen. When optimizing for cost, locations that are less expensive to serve from may be chosen instead.
central office	Telephone company facility where subscribers' lines are joined to switching equipment for connecting other subscribers to each other, locally and long distance.
CLEC	Competitive Local Exchange Carrier. A company that competes with ILECs in the local services market.
co-carrier	A relationship between a CLEC and an ILEC that affords each company the same access to and right on the other's network and provides access and services on an equal basis.
common carrier	A government defined group of private companies offering telecommunications services or facilities to the general public on a non-discriminatory basis.
conduit	A pipe, usually made of metal, ceramic or plastic, that protects buried cables.
dark fiber	Fiber optic strands that are not connected to transmission equipment.
dedicated lines	Telecommunications lines reserved for use by particular customers.
facilities based carriers	Carriers that own and operate their own network and equipment.
fiber optics	A technology in which light is used to transport information from one point to another. Fiber optic cables are thin filaments of glass through which light beams are transmitted over long distances carrying enormous amounts of data. Modulating light on thin strands of glass produces major benefits including high bandwidth, relatively low cost, low power consumption, small space needs and total insensitivity to electromagnetic interference.
Gateway	Gateways are the primary technical facilities in the markets we serve. They are the endpoints of each long haul city-pair segment. Where we have metro rings, they are the locations most metro rings home to.
Gbps	Gigabits per second. A transmission rate. One gigabit equals 1.024 billion bits of information.
ISDN	Integrated Services Digital Network. An information transfer standard for transmitting digital voice and data over telephone lines at speeds up to 128 Kbps.
ILEC	Incumbent Local Exchange Carrier. A company historically providing local telephone service. Often refers to one of the Regional Bell Operating Companies (RBOCs). Often referred to as "LEC" (Local Exchange Carrier).

Interconnection	Interconnection of facilities between or among the networks of carriers, including potential physical colocation of one carrier's equipment in the other carrier's premises to facilitate such interconnection.
ISPs	Internet Service Providers. Companies formed to provide access to the Internet to consumers and business customers via local networks.
IXC	Interexchange Carrier. A telecommunications company that provides telecommunications services between local exchanges on an interstate or intrastate basis.
Kbps	Kilobits per second. A transmission rate. One kilobit equals 1,024 bits of information.
LATA	Local Access and Transport Area. A geographic area composed of contiguous local exchanges, usually but not always within a single state. There are approximately 200 LATAs in the United States.
leased line	An amount of telecommunications capacity dedicated to a particular customer along predetermined routes.
LEC	Local Exchange Carrier. A telecommunications company that provides telecommunications services in a geographic area. LECs include both ILECs and CLECs.
local exchange	A geographic area determined by the appropriate state regulatory authority in which calls generally are transmitted without toll charges to the calling or called party.
local loop	A circuit that connects an end user to the LEC central office within a LATA.
long distance carriers	Long distance carriers provide services between local exchanges on an interstate or intrastate basis. A long distance carrier may offer services over its own or another carrier's facilities.
Mbps	Megabits per second. A transmission rate. One megabit equals 1.024 million bits of information.
MPLS	MultiProtocol Label Switching. A standards approved technology for speeding up network traffic flow and making it easier to manage. MPLS involves setting up a specific path for a given sequence of packets, identified by a label put in each packet, thus saving the time needed for a router or switch to look up the address to the next node to forward the packet to.
multiplexing	An electronic or optical process that combines a large number of lower speed transmission lines into one high speed line by splitting the total available bandwidth into narrower bands (frequency division), or by allotting a common channel to several different transmitting devices, one at a time in sequence (time division).
PBX	Private Branch eXchange. A PBX, sometimes known as a phone switch or phone switching device, is a device that connects office telephones in a business with the PSTN. The functions of a PBX include routing incoming calls to the appropriate extension in an office, sharing phone lines between extensions, automated greetings for callers using recorded messages, dialing menus, connections to voicemail, automatic call distribution and teleconferencing.
peering	The commercial practice under which ISPs exchange traffic with each other. Although ISPs are free to make a private commercial arrangement, there are generally two types of peering. With a settlement free peering arrangement the ISPs do not need to pay each other for the exchange of traffic. With paid peering, the larger ISP receives payment from the smaller ISP to carry the traffic of that smaller ISP. Peering occurs at both public and private exchange points.
POP	Point of Presence. Telecommunications facility where a communications provider locates network equipment used to connect customers to its network backbone.
private line	A dedicated telecommunications connection between end user locations.

PSTN	Public Switched Telephone Network. That portion of a local exchange company's network available to all users generally on a shared basis (i.e., not dedicated to a particular user). Traffic along the public switched network is generally switched at the local exchange company's central offices.
RBOCs	Regional Bell Operating Companies. Originally, the seven local telephone companies established as a result of the divestitures of AT&T in connection with its settlement with the U.S. Department of Justice of an antitrust lawsuit.
reciprocal compensation	The compensation of a CLEC for termination of a local call by the ILEC on the CLEC's network, which is the same as the compensation that the CLEC pays the ILEC for termination of local calls on the ILEC's network.
resale	Resale by a provider of telecommunications services (such as a LEC) of such services to other providers or carriers on a wholesale or a retail basis.
router	Equipment placed between networks that relays data to those networks based upon a destination address contained in the data packets being routed.
selective router	Telephone switch or functional equivalent, controlled by the relevant local exchange carrier (LEC), which determines the public safety answering point to which a 911 call should be delivered based on the location of the 911 caller.
SONET	Synchronous Optical Network. An electronics and network architecture for variable bandwidth products which enables transmission of voice, data and video (multimedia) at very high speeds. SONET ring architecture provides for virtually instantaneous restoration of service in the event of a fiber cut or equipment failure by automatically rerouting traffic in the opposite direction around the ring.
special access services	The lease of private, dedicated telecommunications lines or "circuits" along the network of a local exchange company or a CAP, which lines or circuits run to or from the long distance carrier POPs. Examples of special access services are telecommunications lines running between POPs of a single long distance carrier, from one long distance carrier POP to the POP of another long distance carrier or from an end user to a long distance carrier POP.
streaming	Streaming is the delivery of media, such as movies and live presentations, over a network in real time. A computer (a streaming server) sends the media to another computer (a client computer), which plays the media as it is delivered.
switch	A device that selects the paths or circuits to be used for transmission of information and establishes a connection. Switching is the process of interconnecting circuits to form a transmission path between users and it also captures information for billing purposes.
Tbps	Terabits per second. A transmission rate. One terabit equals 1.024 trillion bits of information.
TDM	Time Division Multiplexing. A technology that transmits multiple signals simultaneously over a single transmission path.
unbundled	Services, programs, software and training sold separately from the hardware.
unbundled access	Access to unbundled elements of a telecommunications services provider's network including network facilities, equipment, features, functions and capabilities, at any technically feasible point within such network.
VoIP	Voice over Internet Protocol.

## ITEM 1A. RISK FACTORS

### *Forward Looking Statements*

We, or our representatives, from time to time may make or may have made certain forward-looking statements, either orally or in writing, including without limitation statements made or to be made

in this Form 10-K, our quarterly reports on Form 10-Q, information contained in other filings with the SEC, press releases and other public documents or statements. In addition, our representatives, from time to time, participate in speeches and calls with market analysts, conferences with investors or potential investors in our securities and other meetings and conferences. Some of the information presented at these speeches, calls, meetings and conferences may include forward-looking statements. We use words like “plan,” “estimate,” “expect,” “anticipate,” “believe,” “intend,” “goal,” “seek,” “project,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods to identify forward-looking statements.

We wish to ensure that all forward-looking statements are accompanied by meaningful cautionary statements, so as to ensure to the fullest extent possible the protections of the safe harbor established in the U.S. Private Securities Litigation Reform Act of 1995. Accordingly, all forward-looking statements are qualified in their entirety by reference to, and are accompanied by, the following discussion of certain important factors that could cause actual results to differ materially from those projected in these forward-looking statements. We caution the reader that this list of important factors may not be exhaustive. We operate in a rapidly changing business, and new risk factors emerge from time to time.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. We cannot predict every risk factor, nor can we assess the effect, if any, of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Further, we undertake no obligation to update forward-looking statements that may be made from time to time, whether as a result of new information, future developments or otherwise, after the date they are made to conform the statements to actual results or changes in our expectations.

For more information about our results of operations and financial condition, you should see the discussion included under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” appearing later in this Form 10-K.

### ***Risks Related to our Business Operations***

#### ***We need to increase Core Network Services revenue from the services that we offer to realize our targets for financial and operating performance.***

We must increase Core Network Services revenue at acceptable margins to realize our targets for financial and operating performance, including free cash flow. If:

- we do not avoid excessive customer churn or improve our current relationships with existing key customers;
- we are not able to expand the available capacity on our network to meet our customers’ demands in a timely manner; or
- our customers determine to obtain these services from either their own network or from one of our competitors,

we may not be able to increase or maintain our Core Network Services revenue at acceptable margins as well as our free cash flow, which would adversely affect our ability to become and/or remain profitable.

***Our business requires the continued development of effective business support systems and uniform standards, controls and policies to implement customer orders and to provide and bill for services.***

Our business depends on our ability to continue to develop and manage effective business support systems. In certain cases, the development of these business support systems is required to realize anticipated benefits from both past and future acquisitions. The development and management of business support systems is a complicated undertaking requiring significant resources and expertise, the development of uniform standards, controls, procedures and policies and the efficient consolidation and elimination of business support systems that are no longer useful in the business. This undertaking also requires support from third-party vendors. Following the development of the business support systems, the data migration regarding network and circuit inventory must be completed for the full benefit of the systems to be realized. Business support systems are needed for:

- quoting, accepting and inputting customer orders for services;
- provisioning, installing and delivering services;
- providing customers with direct access to our information systems so that they can manage the services that they purchase from us, generally through web-based customer portals; and
- billing for services.

Because our business provides for continued rapid growth in the number of customers that we serve, the volume of services offered as well as the integration of any acquired companies' business support systems, there is a need to continually develop our business support systems on a schedule sufficient to meet proposed milestone dates. The failure to continue to develop effective unified business support systems or complete the data migration regarding network and circuit inventory into these systems could materially adversely affect our ability to implement our business plans and realize anticipated benefits from our acquisitions.

***We may lose customers if we experience system failures that significantly disrupt the availability and quality of the services that we provide. System failures may also cause interruptions to service delivery and the completion of other corporate functions.***

Our operations depend on our ability to limit and mitigate interruptions or degradation in service for customers. Interruptions in service or performance problems for whatever reason, including integration related activities, could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones. In addition, because many of our services are critical to the businesses of many of our customers, any significant interruption or degradation in service could result in lost profits or other losses to customers. Although we generally limit our liability for service failures in our service agreements to limited service credits (generally in the form of free service for a short period of time) and generally exclude any liability for "consequential" damages such as lost profits, a court might not enforce these limitations on liability in the manner contemplated, which could expose us to financial loss. In addition, we often provide our customers with committed service levels. If we are unable to meet these service level commitments, we may be obligated to provide service credits or other compensation to our customers. Because we offer emergency notification services referred to as "911" services, any significant interruption or degradation in those services could create legal and financial exposure.

The failure of any equipment or facility on our network, including our network operations control centers and network data storage locations, could result in the interruption of customer service and other corporate functions until necessary repairs are effected or replacement equipment is installed. In addition, our business continuity plans may not be adequate to address a particular failure that we experience. Delays, errors, network equipment or network facility failures, including with respect to our network

operations control centers and network data storage locations, could also result from natural disasters (including natural disasters that may increase in frequency as a result of the effects of climate change), disease, accidents, terrorist acts, power losses, security breaches, vandalism or other illegal acts, computer viruses, or other causes. Our business could be significantly hurt from these delays, errors, failures or faults including as a result of:

- service interruptions;
- exposure to customer liability;
- the inability to install new service;
- the unavailability of employees necessary to provide services;
- the delay in the completion of other corporate functions such as issuing bills and the preparation of financial statements; or
- the need for expensive modifications to our systems and infrastructure.

***We have only recently generated net income for our two most recent full fiscal years and have generated substantial net losses in the past.***

While we did have net income of \$3.433 billion (which included a \$3.3 billion income tax benefit due to the release of a valuation allowance against U.S. federal and state deferred tax assets) and \$314 million for the year ended December 31, 2015 and 2014, respectively, we generated net losses of approximately \$109 million and \$422 million for the years ended December 31, 2013 and 2012, respectively. Although we anticipate that our operating results will continue to improve over time, there can be no assurance that the recent level of operating results and profitability will continue and that currently anticipated future operating improvements will be realized on schedule or that we will be able to sustain profitability in the future. If we would incur net losses in the future they could limit our ability to fund expansions of our network, investments in our products and services, interest and principal payments on our debt, or other business needs.

***If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our systems, products and services, we may experience significant legal and financial exposure, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and our business may be disrupted.***

Network and information systems and other technologies are critical to our business activities. Network and information systems-related events such as computer hackings, cyber-attacks, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks or other malicious activities, or any combination of the these items, could result in a degradation or disruption of our services, damage to our properties, equipment and data, or unauthorized disclosure of confidential information. We experience cyber-attacks against our network and information systems of varying degrees on a regular basis, and as a result, unauthorized parties could obtain access to our data or our customers' data. Our security measures may also be breached due to employee error, malfeasance, or otherwise. Additionally, outside parties may attempt to fraudulently induce our employees or customers to disclose sensitive information to gain access to our data or our customers' data, including information subject to data protection laws and regulations such as the national laws implementing the European Union Directive on Data Protection and various U.S. federal and state laws governing personally identifiable information, protected health information and Customer Proprietary Network

Information. The risk of these systems-related events and security breaches occurring has intensified, in part because we maintain certain information necessary to conduct our businesses in digital form stored on servers connected to the Internet.

While we develop and maintain systems and processes designed to prevent systems-related events and security breaches from occurring, the development and maintenance of these systems and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Despite our efforts, there can be no assurance that unauthorized access and security breaches will not occur in the future. In addition, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Any security breach or unauthorized access could result in significant legal and financial exposure, including in respect of customer credits, lost revenue due to business interruption, increased expenditures on security measures, monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, damage to our reputation and the market perception of the effectiveness of our security measures could cause us to lose customers. Moreover, the amount and scope of insurance we maintain against losses resulting from unauthorized access or security breaches may not be sufficient to cover our losses or otherwise adequately compensate us for any disruptions to our businesses that may result.

***Failure to develop and introduce new services could affect our ability to compete in the industry.***

We continuously develop, test and introduce new services that are delivered over our communications network. These new services are intended to allow us to address new segments of the communications marketplace, address the changing communications needs of our existing customers and compete for additional customers.

In certain instances, the introduction of new services requires the successful development of new technology. To the extent that upgrades of existing technology are required for the introduction of new services, the success of these upgrades may be dependent on reaching mutually acceptable terms with vendors and on vendors meeting their obligations in a timely manner.

In addition, new service offerings may not be widely accepted by our customers. If our new service offerings are not widely accepted by our customers, we may terminate those service offerings and we may be required to impair any assets or technology used to develop or offer those services.

If we are not able to successfully complete the development and introduction of new services in a timely manner, our business could be materially adversely affected.

***Our future results will suffer if we do not effectively manage expansions to our operations.***

We may continue to expand our operations through new product and service offerings and through additional strategic investments, acquisitions or joint ventures, some of which may involve complex technical and operational challenges. Our future success depends, in part, upon our ability to manage our expansion opportunities, which pose numerous risks and uncertainties, including the need to integrate new operations into our existing business in an efficient and timely manner, to combine accounting and data processing systems and management controls and to integrate relationships with customers, vendors and business partners. In addition, future acquisitions or joint ventures may involve the issuance of additional shares of our common stock, which may dilute our stockholders' ownership.

Any future acquisitions of businesses or facilities could entail a number of risks, including:

- problems with the effective integration of operations;
- inability to maintain key pre-acquisition business relationships;
- increased operating costs;
- exposure to unanticipated liabilities; and
- difficulties in realizing projected efficiencies, synergies and cost savings.

We continually evaluate potential investments and strategic opportunities to expand, enhance connectivity and add traffic to our network. In the future, we may seek additional investments, strategic alliances or similar arrangements, which may expose us to risks such as:

- the difficulty of identifying appropriate investments, strategic allies or opportunities on terms acceptable to us;
- the possibility that senior management may be required to spend considerable time negotiating agreements and monitoring these arrangements;
- potential regulatory issues applicable to the telecommunications industry;
- the loss or reduction in value of the capital investment;
- our inability to capitalize on the opportunities presented by these arrangements; and
- the possibility of insolvency of a strategic ally.

We cannot assure you that our future expansion or acquisition opportunities will be successful, or that we will realize expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

***Our future growth depends upon the continued development and expansion of the Internet as a communications medium and marketplace for the distribution and consumption of data and video by businesses, consumers and governments.***

Achieving the anticipated benefits of our business operations will depend in part upon the continued development and expansion of the Internet as a communications medium and marketplace for the distribution and consumption of data and video by businesses, consumers and governments. The use of the Internet for these purposes may not grow and expand at the rate that we anticipate or may be restricted by such things as:

- actions by ISPs or the owners of access networks that restrict us from delivering our customers' traffic to the users of those networks;
- future regulation;
- a lack of anticipated technology innovation and adoption; or
- a lack of continued broadband penetration both in the United States and elsewhere.

***Intellectual property and proprietary rights of others could prevent us from using necessary technology to provide our services or subject us to expensive intellectual property litigation.***

If technology that is necessary for us to provide our services was determined by a court to infringe a patent held by another entity that is unwilling to grant us a license on terms acceptable to us, we could be precluded by a court order from using that technology and we would likely be required to pay a significant monetary damages award to the patent holder. The successful enforcement of these patents, or our inability to negotiate a license for these patents on acceptable terms, could force us to cease using the relevant technology and offering services incorporating the technology. In the event that a claim of infringement was brought against us based on the use of our technology or against our customers based on their use of our services for which we are obligated to indemnify, we could be subject to litigation to determine whether such use or sale is, in fact, infringing. This litigation could be expensive and distracting, regardless of the outcome of the suit.

While our own patent portfolio may deter other operating companies from bringing such actions, patent infringement claims are increasingly being asserted by patent holding companies, which do not use technology and whose sole business is to enforce patents against operators, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counterclaim would be largely ineffective. We have already been the subject of time-consuming and expensive patent litigation brought by certain patent holding companies and we can reasonably expect that we will face further claims in the future.

***Continued uncertainty in the global financial markets and the global economy may negatively affect our financial results.***

Continued uncertainty in the global financial markets and economy may negatively affect our financial results. A prolonged period of economic decline could have a material adverse effect on our results of operations and financial condition and exacerbate some of the other risk factors we describe herein. Our operating results and financial condition could be negatively affected if, as a result of economic conditions:

- customers cancel, defer or forgo purchases of our services;
- customers are unable to make timely payments to us;
- the demand for, and prices of, our services are reduced as a result of actions by our competitors or otherwise;
- key suppliers upon which we rely are unwilling or unable to provide us with the materials we need for our network on a timely basis or on terms that we find acceptable; or
- our financial counterparties, insurance providers or other contractual counterparties are unable to, or do not meet, their contractual commitments to us.

***Future expansion or adaptation of our network will require substantial resources, which may not be available at the time.***

We will need to continue to expand and adapt our network to remain competitive, which may require significant additional funding. Additional expansion and adaptations of our communications network's electronic and software components will be necessary to respond to:

- growing number of customers;
- the development and launching of new services;

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

Future expansion or adaptation of our network will require substantial additional financial, operational and managerial resources, which may not be available at the time. We may be unable to expand or adapt our network to respond to these developments on a timely basis and at a commercially reasonable cost.

***The market prices for many of our services have decreased in the past and may decrease in the future, resulting in lower revenue and margins than we anticipate.***

Over the past few years, the market prices for many of our services have decreased. These decreases resulted from downward market pressure and other factors including:

- technological changes and network expansions which have resulted in increased transmission capacity available for sale by us and by our competitors;
- some of our customer agreements contain volume based pricing; and
- some of our competitors have been willing to accept smaller operating margins in the short term in an attempt to increase long-term revenue.

To retain customers and revenue, we often must reduce prices in response to market conditions and trends. As our prices for some of our services decrease, our operating results may suffer unless we are able to either reduce our operating expenses or increase traffic volume from which we can derive additional revenue.

***The need to obtain additional capacity for our network from other providers increases our costs. In addition, the need to interconnect our network to networks that are controlled by others could increase our costs.***

We use network resources owned by other companies for portions of our network. We obtain the right to use such network portions, including both telecommunications capacity and rights to use dark fiber, through operating leases and IRU agreements. In several of those agreements, the counter party is responsible for network maintenance and repair. If a counter party to a lease or IRU suffers financial distress or bankruptcy, we may not be able to enforce our rights to use these network assets or, even if we could continue to use these network assets, we could incur material expenses related to maintenance and repair. We could also incur material expenses if we were required to locate alternative network assets. We may not be successful in obtaining reasonable alternative network assets if needed. Failure to obtain usage of alternative network assets, if necessary, could have a material adverse effect on our ability to carry on business operations. In addition, some of our agreements with other providers require the payment of amounts for services whether or not those services are used.

In the normal course of business, we need to enter into interconnection agreements, including IP interconnection for voice and data services, with many domestic and foreign local telephone companies as well as the owners of networks that our customers desire to access to deliver their services. We are not always able to secure these interconnection agreements on favorable terms.

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

***Our operations are subject to regulation in each of the countries in which we operate and require us to obtain and maintain a number of governmental licenses and permits. If we fail to comply with those regulatory requirements or to obtain and maintain those licenses and permits, including payment of related fees, if any, we may not be able to conduct our business in that jurisdiction. Moreover, those regulatory requirements could change in a manner that significantly increases our costs or otherwise adversely affects our operations.***

In the ordinary course of constructing our networks and providing our services, we are required to obtain and maintain a variety of telecommunications and other licenses and authorizations in the countries in which we operate, as well as rights-of-way from utilities, railroads, incumbent carriers and other persons. We also must comply with a variety of regulatory obligations. Due to the political and economic risks associated with the countries in which we operate, there can be no assurance that we will be able to maintain our licenses or that they will be renewed upon their expiration. Our failure to obtain or maintain necessary licenses, authorizations and rights-of-way, or to comply with the obligations imposed upon license holders including the payment of fees, in one or more countries, may result in sanctions or additional costs, including the revocation of authority to provide services in one or more countries.

In addition, our subsidiaries are defendants in several lawsuits that, among other things, challenge the subsidiaries' use of rights-of-way. The plaintiffs have sought to have these lawsuits certified as class actions. It is possible that additional suits challenging use of our rights-of-way will be filed and that those plaintiffs also may seek class certification. The outcome of such litigation may increase our costs and adversely affect our operating results.

Our operations around the world are subject to regulation at the regional level (for example, the European Union), the national level (for example, the FCC) and, in many cases, at the state, provincial, and local levels. We also operate in some areas of the world without licenses, but only as permitted through relationships with locally licensed partners. The regulation of telecommunications networks and services around the world varies widely. In some countries, the range of services that we are legally permitted to provide may be limited, or may change. In other countries, existing telecommunications legislation is in the process of development, is unclear or inconsistent, or is applied in an unequal or discriminatory fashion, or inadequate judicial, regulatory or other forums are available to address these inadequacies or disputes. Changes to existing regulations or rules, or the failure to regulate going forward in areas which have historically been regulated on matters such as network neutrality, licensing fees, environmental, health and safety, privacy, intercarrier compensation, interconnection and other areas, in general or particular to our industry, may increase costs, restrict operations or decrease revenue. Our inability or failure to comply with the telecommunications and other laws and regulations of one or more of the countries in which we operate could result in the temporary or permanent suspension of operations in one or more countries. We also may be prohibited from entering certain countries at all or from providing all of our services in one or more countries. In addition, many of the countries in which we operate are conducting regulatory or other proceedings that will affect the implementation of their telecommunications legislation. We cannot be certain of the outcome of these proceedings. These proceedings may affect the manner in which we are permitted to provide our services in these countries as well as the level of fees and taxes payable to the government.

***Termination of relationships with key suppliers could cause delay and additional costs.***

Our business is dependent on third-party suppliers for fiber, computers, software, optronics, transmission electronics and related components as well as providers of network colocation facilities and right of way rights that are integrated into our network, some of which are critical to the operation of our business. If any of these critical relationships is terminated, a supplier either exits or curtails its business as a result of economic conditions, a supplier fails to provide critical rights of use, services or equipment, or the supplier is forced to stop providing services due to legal constraints, such as patent infringement, and we are unable to reach suitable alternative arrangements quickly, we may experience significant additional costs or we may not be able to provide certain services to customers.

***Our consolidated revenue is concentrated in a limited number of customers.***

Approximately 16% of our consolidated revenue is concentrated among our top ten customers at year end 2015. If we lost one or more of our major customers, or, if one or more of them significantly decreased or terminated orders for our services, our business could be materially and adversely affected.

***ILECs may not provide us local access services at prices that allow us to effectively compete.***

We acquire a significant portion of our local access services, the connection between our owned network and the customer premises, from incumbent local exchange carriers or ILECs. The ILECs compete directly with our business and may have a tendency to favor themselves and their affiliates to our detriment. For instance, at the end of 2013, AT&T attempted to eliminate its longer term plans (and correspondingly larger discounts) used routinely by us to purchase certain local access services from AT&T. The price increases we would have seen as the result of the loss of these larger discounts, price increases we would have had little choice but to pass on to our customers, would have made competing with AT&T in its operating region more difficult. We and others objected to AT&T's filings at the FCC, and following FCC intervention, AT&T withdrew these unilateral price increases. We are unable to predict what AT&T may try next, and what other incumbent telephone companies may pursue in this regard.

Network access represents a very large portion of our total costs and if we face less favorable pricing and provisioning timeframes, we may be at a competitive disadvantage to the ILECs.

***In some instances it is expensive and difficult to switch new customers to our network, and lack of cooperation of incumbent carriers can slow the new customer connection process.***

It is expensive, difficult and time-consuming for new customers to switch to our network if we require cooperation from the incumbent carrier in instances where there is no direct connection between the customer and our network. Many of our principal competitors, the domestic and international incumbent carriers, are already established providers of local telephone services to all or virtually all telephone subscribers within their respective service areas. Their physical connections from their premises to those of their customers are expensive and difficult to duplicate. To complete the new customer provisioning process for a customer's location that is not located on our network, we rely on the incumbent carrier to process certain information. The incumbent carriers have a financial interest in retaining their customers, which could reduce their willingness to cooperate with our new customer provisioning requests, thereby adversely affecting our ability to compete and increase revenue. Further consolidation of incumbent carriers with other telecommunications service providers may make these problems more acute.

***We may be liable for the information that content owners or distributors distribute over our network.***

The law relating to the liability of private network operators for information carried on or disseminated through their networks is still unsettled. While we disclaim any liability for third-party content in our services agreements, we may become subject to legal claims relating to the content disseminated on our network, even though such content is owned or distributed by our customers or a customer of our customers. For example, lawsuits may be brought against us claiming that material distributed using our network was inaccurate, offensive, or violated the law or the rights of others. Claims could also involve matters such as defamation, invasion of privacy and copyright infringement. In addition, the law remains unclear over whether content may be distributed from one jurisdiction, where the content is legal, into another jurisdiction, where it is not. Companies operating private networks have been sued in the past, sometimes successfully, based on the nature of material distributed, even if the content is not owned by the network operator and the network operator has no knowledge of the content or its legality. It is not practical for us to monitor all of the content that is distributed using our network. We may need to take costly measures to reduce our exposure to these risks or to defend ourselves against such claims.

***We may not be able to efficiently and effectively integrate future acquired operations and thus may not fully realize the anticipated benefits from those future acquisitions.***

Achieving the anticipated benefits of any acquisitions depends in part upon whether we can integrate our businesses in an efficient and effective manner. We may acquire businesses in accordance with our business strategy. The integration of any acquired businesses involves a number of risks, including, but not limited to:

- demands on management related to any significant increase in size after the acquisition;
- the disruption of ongoing business and the diversion of management's attention from the management of daily operations to management of integration activities;
- failure to fully achieve expected synergies and costs savings;
- unanticipated impediments in the integration of departments, systems, including accounting systems, technologies, books and records, procedures and policies, as well as in maintaining uniform standards and controls, including internal control over financial reporting;
- loss of customers or the failure of customers to order incremental services that we expect them to order;
- failure to provision services that are ordered by customers during the integration period;
- higher integration costs than anticipated; and
- difficulties in the assimilation and retention of highly qualified, experienced employees, many of whom may be geographically dispersed.

Successful integration of acquired businesses or operations depends on our ability to manage these operations, realize opportunities for revenue growth presented by strengthened service offerings and expanded geographic market coverage, obtain better terms from our vendors due to increased buying power, and eliminate redundant and excess costs to fully realize the expected synergies. Because of difficulties in combining geographically distant operations and systems which may not be fully compatible, we may not be able to achieve these objectives.

We cannot be certain that we will realize our anticipated benefits from our acquisitions, or that we will be able to efficiently and effectively integrate acquired operations as planned.

***Changes in regulations affecting commercial power providers may increase our costs.***

In the normal course of business, we need to enter into agreements with many providers of commercial power for our office, network, Gateway facilities, and colocation and data center facilities. Costs of obtaining commercial power comprise a significant component of our operating expenses. Changes in regulations that affect commercial power providers, particularly regulations related to the control of greenhouse gas emissions or other climate change related matters, could affect the costs of commercial power, which may increase the costs of providing our services.

***Potential regulation of Internet service providers in the United States could adversely affect our operations.***

In the United States, the FCC has, to date, treated Internet service providers as enhanced service providers. In addition, Congress has, to date, not sought to heavily regulate the provision of IP-based services. Both Congress and the FCC are considering proposals that involve greater regulation of IP-based service providers. Depending on the content and scope of any regulations, the imposition of such regulations could have a material adverse effect on our business and the profitability of our services.

***The communications industry is highly competitive with participants that have greater resources and a greater number of existing customers.***

The communications industry is highly competitive. Many of our existing and potential competitors have financial, personnel, marketing and other resources significantly greater than ours. Many of these competitors have the added competitive advantage of a larger existing customer base. In addition, significant new or increased competition could arise as a result of:

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

In addition, future significant competitors could include new entrants to the communications industry such as content companies that have existing significant customer bases and substantial cash resources that are greater than ours. If we are unable to compete successfully, our business could be significantly affected.

***Rapid technological changes can lead to further competition.***

The communications industry is subject to rapid and significant changes in technology. In addition, the introduction of new services or technologies, as well as the further development of existing services and technologies, may reduce the cost or increase the supply of certain services similar to those that we provide. As a result, our most significant competitors in the future may be new entrants to the communications industry. These new entrants may not be burdened by an installed base of outdated equipment or obsolete technology. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes.

***Our international operations and investments expose us to risks that could materially adversely affect the business.***

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

- general economic, social and political conditions;
- the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems;
- tax rates in some countries may exceed those in the United States;
- United States and other country tax laws may limit our ability to repatriate cash from non-U.S. affiliates without adverse tax consequences;
- foreign currency exchange rates may fluctuate, which could adversely affect our results of operations and the value of our international assets and investments;
- non-U.S. earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- difficulties and costs of compliance with non-U.S. laws and regulations that impose restrictions on our investments and operations, with penalties for noncompliance, including loss of licenses and monetary fines;
- difficulties in obtaining licenses or interconnection arrangements on acceptable terms, if at all; and
- changes in laws and regulations relating to non-U.S. trade and investment.

***We are exposed to significant currency exchange rate risks and currency transfer restrictions and our results may suffer due to currency translations and remeasurements.***

Certain of our current and prospective customers derive their revenue in currencies other than U.S. dollars but are invoiced by us in U.S. dollars. The obligations of customers with substantial revenue in foreign currencies may be subject to unpredictable and indeterminate increases in the event that such currencies depreciate in value relative to the U.S. dollar. Furthermore, these customers may become subject to exchange control regulations restricting the conversion of their revenue currencies into U.S. dollars. In either event, the affected customers may not be able to pay us in U.S. dollars. Similarly, declines in the value of foreign currencies (such as the devaluation of the Brazilian real and the Argentine peso discussed below) relative to the U.S. dollar could adversely affect our ability to market our services to customers whose revenue is denominated in those currencies. In addition, where we issue invoices for our services in currencies other than U.S. dollars, our results of operations may suffer due to currency translations in the event that such currencies depreciate relative to the U.S. dollar and we cannot or do not elect to enter into currency hedging arrangements in respect of those payment obligations.

We conduct a significant portion of our business using the British pound, the euro and the Brazilian real. Appreciation of the U.S. dollar adversely affects our consolidated revenue. Since we tend to incur costs in the same currency in which those operations realize revenue, the effect on operating income and operating cash flow is largely mitigated. However, if the U.S. dollar appreciates significantly, future revenue, operating income and operating cash flows could be materially affected. In addition, the

appreciation of the U.S. dollar relative to foreign currencies reduces the U.S. dollar value of cash balances held in those currencies.

Certain Latin American economies have experienced shortages in foreign currency reserves and have adopted restrictions on the use of certain mechanisms to expatriate local earnings and convert local currencies into U.S. dollars. Any of these shortages or restrictions may limit or impede our ability to transfer or to convert those currencies into U.S. dollars and to expatriate those funds. In addition, currency devaluations in one country may have adverse effects in another country.

***Economic and political conditions in Latin America pose numerous risks to our operations.***

Our business operations in the Latin American region constitute a significant portion of our business. As events in the Latin American region have demonstrated, negative economic or political developments in one country in the region can lead to or exacerbate economic or political instability elsewhere in the region. Furthermore, events in recent years in other developing markets have placed pressures on the stability of the currencies of a number of countries in Latin America in which we operate, including Argentina, Brazil and Colombia. While certain areas in the Latin American region have experienced economic growth, this recovery remains fragile. Pressures on local currencies are likely to have an adverse effect on our customers in this region. Volatility in regional currencies and capital markets could also have an adverse effect on our ability and that of our customers to gain access to international capital markets for necessary financing, refinancing and repatriation of earnings.

In addition, any changes to the political and economic conditions in certain Latin American countries could materially and adversely affect our business.

***Inflation and certain government measures to curb inflation in some Latin American countries may have adverse effects on their economies and our business and operations in those locations.***

Some Latin American countries, including Brazil and Argentina, have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the economies of these countries. Governmental actions taken in an effort to curb inflation, coupled with speculation about possible future actions, have contributed to economic uncertainty at times in most Latin American countries. These countries may experience high levels of inflation in the future that could lead to further government intervention in the economy, including the introduction of government policies that could adversely affect our results of operations in those locations. In addition, if any of these countries experience high rates of inflation, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structures in those locations. A high inflation environment would also have negative effects on the level of economic activity and employment and adversely affect our business.

***Our agreements with certain agencies of the U.S. Government impose significant requirements on us. A violation of those agreements could have severe consequences.***

We are a party to an agreement with the U.S. Departments of Homeland Security, Justice and Defense addressing the U.S. government's national security and law enforcement concerns. This agreement imposes significant requirements on us related to information storage and management; traffic management; physical, logical, and network security arrangements; personnel screening and training; and other matters. We are also party to an agreement with the U.S. Department of Defense addressing the U.S. government's national security concerns. This agreement imposes significant requirements on us related to the composition and qualifications of the Level 3 Communications, Inc. board of directors; the limitation of the influence or control over us of non-U.S. persons; physical, logical, and network security arrangements; and other matters.

While we expect to continue to comply fully with our obligations under both of the above-mentioned agreements, it is impossible to eliminate completely the risk of a violation of either. The consequences of a violation of these agreements could be severe, potentially including the revocation of our FCC licenses in the U.S., which would result in the cessation of our U.S. operations, and/or the loss of permissions required to do business with the U.S. Government.

***We are subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”) and other anticorruption laws, and our failure to comply therewith could result in penalties which could harm our reputation and have a material adverse effect on our business.***

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits. Although we have policies and procedures designed to ensure that we, our employees and agents comply with the FCPA and other anticorruption laws, there can be no assurance that such policies or procedures will work effectively all of the time or protect us against liability for actions taken by our agents, employees and intermediaries with respect to our business or any businesses that we acquire.

We currently operate and in the future may operate in a number of jurisdictions that pose a high risk of potential anticorruption violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures. Any investigation of any potential violations of the FCPA or other anticorruption laws by U.S. or foreign authorities could have an adverse effect on our business.

The U.K. Bribery Act 2010 (the “Bribery Act”) reformed the United Kingdom (“U.K.”) law in relation to bribery and corruption. As well as containing provisions concerning bribery of public officials, the Bribery Act includes a criminal offense of failing to prevent bribery by relevant commercial organizations. This offense applies when any person associated with the organization offers or accepts bribery anywhere in the world intending to obtain or retain a business advantage for the organization or in the conduct of business. The Bribery Act has wide ranging implications in particular for business in the U.K., including our subsidiaries. However, it should be noted that it also has a wide-ranging extra-territorial effect. The Bribery Act is broader in scope than the FCPA in that it directly addresses commercial bribery in addition to bribery of government officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA. Under the Bribery Act, it is a defense to the accusation of failure to prevent bribery for a commercial organization to show that it had in place “adequate procedures” designed to prevent such acts.

As with the FCPA, if we are not in compliance with the Bribery Act as well as similar laws in the U.K. or elsewhere, such as The Federal Law n. 12.846/13, which is known as the “Brazilian Anti-corruption Law” that became effective on February 2, 2014, that are applicable to our business, we may be subject to criminal and civil penalties and other remedial measures.

## **Risks Related to Our Liquidity and Financial Resources**

***Disruptions in the financial markets could affect our ability to obtain debt or equity financing or to refinance our existing indebtedness on reasonable terms (or at all), and have other adverse effects on us.***

Disruptions in the commercial credit markets could result in a tightening of credit markets. The effects of recent credit market disruptions were widespread, and it is impossible to predict whether the improvement in the global credit markets will continue. As a result of credit market turmoil, we may not be able to obtain debt or equity financing or to refinance our existing indebtedness on favorable terms (or at all), which could affect our strategic operations and our financial performance and force modifications to our operations.

***If we are unable to comply with the restrictions and covenants in our debt agreements, there would be a default under the terms of these agreements, and this could result in an acceleration of payment of funds that have been borrowed.***

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

***If we experience a change in control or certain other events, we may be unable to satisfy our obligations to repurchase our outstanding notes as required under our outstanding debt agreements.***

Upon the occurrence of certain events defined in the various debt agreements relating to our outstanding debt, we are required to make an offer to purchase all of our outstanding notes at a purchase price generally equal to 101% of the principal amount of the notes, plus accrued and unpaid interest thereon (if any). In addition, to the extent that we are required to make an offer to purchase one of the outstanding issues of our notes, the debt agreements relating to our other issues of notes may require us to repurchase that other debt upon a change in control or termination of trading. We may not have or be able to borrow sufficient funds to pay the purchase price for all the notes tendered by holders seeking to accept the offer to purchase.

***We have substantial debt, which may hinder our growth and put us at a competitive disadvantage.***

Our substantial debt may have important consequences, including the following:

- the ability to obtain additional financing for acquisitions, working capital, investments and capital or other expenditures could be impaired or financing may not be available on acceptable terms;
- a substantial portion of our cash flows will be used to make principal and interest payments on outstanding debt, reducing the funds otherwise available for operations and future business opportunities;
- a substantial decrease in cash flows from operating activities or an increase in expenses could make it difficult to meet debt service requirements and force modifications to operations;
- having more debt than certain of our competitors may place us at a competitive disadvantage; and
- substantial debt may make us more vulnerable to a downturn in business or the economy generally.

We had a ratio of earnings to fixed charges of 1.4 for the year ended December 31, 2015 and 1.3 for the year ended December 31, 2014. We had substantial deficiencies of earnings to cover fixed charges of approximately \$71 million and \$374 million for the years ended December 31, 2013 and 2012, respectively.

***We may not be able to repay our existing debt; failure to do so or refinance the debt could prevent us from implementing our strategy and realizing anticipated profits.***

If we were unable to refinance our debt or to raise additional capital on acceptable terms, our ability to operate our business would be impaired. As of December 31, 2015, we had an aggregate of approximately \$11.025 billion of current and long-term debt on a consolidated basis (excluding debt discounts and fair value adjustments), and approximately \$10.126 billion of stockholders' equity. Of the long-term debt, approximately \$15 million is due to mature in 2016, \$7 million is due to mature in 2017, \$307 million is due in 2018 and \$822 million is due in 2019, in each case excluding debt discounts and fair value adjustments.

Our ability to make interest and principal payments on our debt and borrow additional funds on favorable terms depends on the future performance of the business. If we do not have enough cash flow in the future to make interest or principal payments on its debt, we may be required to refinance all or a part of our debt or to raise additional capital. We cannot be sure that we will be able to refinance our debt or raise additional capital on acceptable terms.

***Restrictions and covenants in our debt agreements limit our ability to conduct our business and could prevent us from obtaining needed funds in the future.***

Our debt and financing arrangements contain a number of significant limitations that restrict our ability to, among other things:

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

## **Risks Related to Our Common Stock**

***The unpredictability of our quarterly results may adversely affect the trading price of our common stock.***

Our revenue and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause the price of our common stock to fluctuate. The primary factors, among other things, that may affect our quarterly results include the following:

- the timing of costs associated with the operation of our business and integration activities with respect to any completed acquisitions;
- demand for our services;

- loss of customers or the ability to attract new customers;
- changes in pricing policies or the pricing policies of our competitors;
- costs related to acquisitions of technology or businesses;
- changes in regulatory rulings; and
- general economic conditions as well as those specific to the communications and related industries.

A delay in generating revenue or the timing of recognizing revenue and expenses could cause significant variations in our operating results from quarter to quarter. It is possible that in some future quarters our results may be below analysts' and investors' expectations. In these circumstances, the price of our common stock will likely decrease.

***If certain transactions occur with respect to our capital stock, we may be unable to fully utilize our net operating loss carry forwards, or NOLs, to reduce our U.S. federal income taxes.***

As of December 31, 2015, we had NOLs of approximately \$9.8 billion for U.S. federal income tax purposes (after taking into account the effects of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code")). If certain transactions occur with respect to our capital stock that result in a cumulative ownership change of more than 50 percentage points by 5% stockholders over a three-year period as determined under rules prescribed by the Code and applicable regulations, annual limitations would be imposed with respect to our ability to utilize our NOLs and certain current deductions against any taxable income we achieve in future periods.

We have entered into transactions over the applicable three-year period that, when combined with other changes in ownership that are outside of our control, have resulted in cumulative changes in the ownership of our capital stock. Additional transactions that we enter into, as well as transactions by existing 5% stockholders and transactions by holders that become new 5% stockholders that we do not participate in, could cause us to incur a 50 percentage point ownership change by 5% stockholders and, if we trigger the above noted Code imposed limitations, such transactions would prevent us from fully utilizing NOLs and certain current deductions to reduce our U.S. federal income taxes and could result in a substantial income tax expense to our consolidated statement of operations. In addition, these limitations could cause us not to pursue otherwise favorable acquisitions and other transactions involving our capital stock, or could reduce the net benefits to be realized from any such transactions.

In April 2011, we entered into the rights agreement in an effort to deter acquisitions of our common stock that might reduce our ability to use our NOLs. Under the rights agreement, from and after the record date of April 21, 2011, each share of our common stock carries with it one preferred share purchase right that could discourage a third-party from proposing a change of control or other strategic transaction concerning Level 3 or otherwise have the effect of delaying or preventing a change of control of Level 3 that other stockholders may view as beneficial.

In July 2014, the rights agreement was amended to provide that the rights issued under the rights agreement will expire at or prior to the earliest of:

- October 31, 2017;
- the time at which the rights are redeemed;
- the time at which the rights are exchanged;

- the time at which our board of directors determines that the NOLs are utilized in all material respects or that an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, would not adversely effect in any material respect the time period in which we could use the NOLs, or materially impair the amount of the NOLs that we could use in any particular time period, for applicable tax purposes; or
- a determination by our board of directors, prior to the date that the rights are distributed, that the rights agreement and the rights are no longer in our and our stockholders' best interests.

***Under our certificate of incorporation, we are able to issue more shares of our common stock than are currently outstanding. Such future issuances of our common stock may have a dilutive effect on the earnings per share and voting power of our stockholders.***

Our certificate of incorporation, as currently in effect, authorizes us to issue to up to 433,333,333 shares of our common stock, which is a greater number of shares of common stock than are outstanding. If our Board of Directors elects to issue additional shares of common stock in the future, whether in public offerings, in connection with mergers and acquisitions or otherwise, these additional issuances may dilute the earnings per share and voting power of our stockholders. Depending on the number of shares being issued and the particular circumstances involved, the Board of Directors may be able to complete a particular issuance without further stockholder action.

***Anti-takeover provisions in our charter and by-laws could limit the share price and delay a change of management.***

Our restated certificate of incorporation and by-laws contain provisions that could make it more difficult or even prevent a third-party from acquiring us without the approval of our incumbent Board of Directors. These provisions, among other things:

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

In addition, the terms of most of our long-term debt require that upon a "change in control," as defined in the agreements that contain the terms and conditions of the long-term debt, we make an offer to purchase the outstanding long term debt at either 100% or 101% of the aggregate principal amount of that long term debt.

These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock and significantly impede the ability of the holders of our common stock to change management. Provisions and agreements that inhibit or discourage takeover attempts could reduce the market value of our common stock.

***If a large number of shares of our common stock is sold in the public market, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.***

We cannot predict what effect, if any, future issuances by us of our common stock will have on the market price of our common stock. In addition, shares of our common stock that we issue in

connection with an acquisition may not be subject to resale restrictions. The market price of our common stock could drop significantly if certain large holders of our common stock, or recipients of our common stock in connection with an acquisition, sell all or a significant portion of their shares of common stock or are perceived by the market as intending to sell these shares other than in an orderly manner. In addition, these sales could impair our ability to raise capital through the sale of additional common stock in the capital markets.

***The market price of our common stock has been volatile and, in the future, the market price of our common stock may fluctuate substantially due to a variety of factors.***

The market price of our common stock has been subject to volatility and, in the future, the market price of our common stock may fluctuate substantially due to a variety of factors, including:

- the depth and liquidity of the trading market for our common stock;
- variations in actual or anticipated operating results;
- changes in estimated results by securities analysts;
- market conditions in the communications and information services industries;
- announcement and performance by competitors;
- regulatory actions; and
- general economic conditions.

In addition, market fluctuations could have a material adverse effect on the market price or liquidity of our common stock.

## **Other Risks**

***We have environmental liabilities from our historical operations.***

There could be environmental liabilities arising from historical operations of our predecessors, for which we may be liable. Our operations and properties are subject to a wide variety of laws and regulations relating to environmental protection, human health and safety. These laws and regulations include those concerning the use and management of hazardous and non-hazardous substances and wastes. We have made and will continue to make significant expenditures relating to our environmental compliance obligations. Despite our best efforts, we may not at all times be in compliance with all of these requirements.

In connection with certain historical operations, we have responded to or been notified of potential environmental liability at approximately 171 properties as of January 11, 2016. We are engaged in addressing or have liquidated environmental liabilities at 87 of those properties. Of these: (a) we have formal commitments or other potential future costs at 23 sites; (b) there are eight sites with unknown future costs; and (c) there are 56 sites with no likely future costs. The remaining properties have been dormant for several years. We could potentially be held liable, jointly or severally, and without regard to fault, for the costs of investigation and remediation of these sites. The discovery of additional environmental liabilities related to historical operations or changes in existing environmental requirements could have a material adverse effect on our business.

***We are exposed to legal proceedings and contingent liabilities that could result in material losses that we have not reserved against.***

We are party to various legal proceedings and are subject to certain important contingent liabilities described more fully in Note 16, "Commitments, Contingencies and Other Items," to our consolidated financial statements included in this Form 10-K. If one or more of these legal proceedings or contingent liabilities were to be resolved in a manner adverse to us, we could suffer material losses. Certain of these contingent liabilities could have a material adverse effect on our business in addition to the effect of any potential monetary judgment or sanction against us. Furthermore, any legal proceedings, regardless of the outcome, could result in substantial costs and diversion of resources. Assets and entities that we have acquired may be subject to unknown or contingent liabilities for which we may have no recourse, or only limited recourse to the entity from which the business was acquired (or its stakeholders).

***Terrorist attacks and other acts of violence or war may adversely affect the financial markets and our business.***

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

***The pension plans previously maintained by Global Crossing and with respect to our operations before 1997 may require additional funding and negatively affects cash flows.***

Certain North American and European hourly and salaried employees of Global Crossing are covered by defined benefit pension plans. On December 31, 1996, the North American plan was frozen and all employees hired thereafter are not eligible to participate in the plan. The U.K. plans were closed to new employees on December 31, 1999. The pension expense and required contributions to these pension plans are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets and the actuarial assumptions used to measure the defined benefit pension plan obligations. As of December 31, 2015, the projected benefit obligation under these pension plans and the pension plans with respect to non-Global Crossing operations prior to 1997 was approximately \$158 million (\$72 million for U.S. plans and \$86 million for U.K. plans) and the value of plan assets was approximately \$142 million (approximately \$69 million for U.S. plans and \$73 million for U.K. plans), resulting in these pension plans being underfunded by \$16 million. If plan assets perform below expectations, future pension expense and funding obligations will increase, which would have a negative effect on our cash flows from operations.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our headquarters are located on 46 acres in the Interlocken Advanced Technology Environment within the City and County of Broomfield, Colorado. The campus facility, which we own, encompasses approximately 850,000 square feet of office space.

We also lease or own significant corporate office space in the following cities and lease smaller sales, administrative, and support offices around the world:

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- North America: Atlanta, Georgia; Littleton, Colorado; Miami, Florida; Montreal, Canada; New York, New York; Phoenix, Arizona; Pittsburgh, Pennsylvania; Southfield, Michigan; and Tulsa, Oklahoma
- Europe: Basingstoke, England; Crewe, England; Dublin, Ireland; London, England; Naarden, The Netherlands; and Paris, France
- Latin America: Bogota, Colombia; Buenos Aires, Argentina; Caracas, Venezuela; Lima, Peru; Quito, Ecuador; Santiago, Chile; and Sao Paulo, Brazil
- Asia/Pacific: Hong Kong, China; Singapore and Tokyo, Japan

We own or lease numerous cable landing stations and telehouses throughout the world related to undersea and terrestrial cable systems. Furthermore, we own or lease properties to house and operate our fiber optic backbone and distribution network facilities, our point-to-point distribution capacity, as well as our switching equipment and connecting lines between other carriers' equipment and facilities and the equipment and facilities of our customers. Our Gateway facilities are designed to house local sales staff, operational staff, our transmission and IP routing/switching facilities and technical space to accommodate colocation of equipment by high-volume Level 3 customers. We operate approximately eleven million square feet of space for our Gateway and transmission facilities. Our Gateway space is either owned by and other properties relating to our network operations, see Item 1, "Business -- Our Communications Network."

We have entered into various agreements regarding our unused office and technical space to reduce our ongoing operating expenses regarding such space.

Our existing properties are in good condition and are suitable for the conduct of our business.

### **ITEM 3. LEGAL PROCEEDINGS**

For information regarding legal proceedings in which we are involved, see Note 16, "Commitments, Contingencies and Other Items," to our Consolidated Financial Statements included in this Form 10-K.

### **ITEM 4. MINING SAFETY DISCLOSURES**

Not applicable.

**Part II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information.*

Our common stock is traded on the New York Stock Exchange under the symbol "LVL.T." As of February 24, 2016, there were approximately 5,573 holders of record of our common stock, par value \$.01 per share. The table below sets forth, for the calendar quarters indicated, the high and low per share closing sales prices of our common stock as reported by the NYSE Composite Tape for the quarters and the years indicated.

<b>Year Ended December 31, 2015</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 55.46	\$ 47.02
Second Quarter	56.90	52.11
Third Quarter	54.16	41.57
Fourth Quarter	54.45	43.00

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

*Equity Compensation Plan Information.*

We have one equity compensation plan under which we may issue shares of our common stock to employees, officers, directors and consultants, which is called The Level 3 Communications, Inc. Stock Incentive Plan. In addition, in connection with our acquisition of Global Crossing, we assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan. Options outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at the closing of the acquisition were automatically exchanged for options to purchase shares of our common stock. Since this plan's term has expired, no shares remain for future issuances under this plan, but shares do remain for awards outstanding as of the expiration of the term. The following table provides information about the shares of our common stock that may be issued upon exercise of awards under the Level 3 Communications, Inc. Stock Incentive Plan (in the "Equity compensation plans approved by stockholders" category) and the 2003 Global Crossing Limited Stock Incentive Plan (in the "Equity compensation plans not approved by stockholders" category) as of December 31, 2015.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by stockholders	5,181,749 (1)	\$ 22.75 (2)	22,270,028
Equity compensation plans not approved by stockholders	415,629 (3)	\$ 22.85 (2)	—

(1) Includes, among other awards, awards of outperform stock appreciation units (“OSOs”), and performance restricted stock units (“PRSUs”). For purposes of this table, each OSO was considered to use a single share of our common stock and each PRSU was also assumed to use a single share of our common stock (which would be target performance) from the total number of shares reserved for issuance under the Level 3 Communications, Inc. Stock Incentive Plan even though the actual payout multiplier may range from zero to four and performance may be less than or greater than target, as described below.

(2) At December 31, 2015, the only type of award outstanding that included an “exercise price” was the OSOs. The weighted-average exercise price indicated was for the outstanding OSOs at the date of grant. The exercise price of an OSO is subject to change based upon the performance of our common stock relative to the performance of the S&P 500 Index from the time of the grant of the award until the award has been exercised.

(3) The 2003 Global Crossing Limited Stock Incentive Plan provided for the granting of (i) stock options, (ii) stock appreciation rights and (iii) other stock based awards, including, without limitation, restricted share units, to eligible participants. Amounts shown indicate the number of awards outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at December 31, 2015. Includes awards of outperform stock appreciation units (“OSOs”). For purposes of this table, each OSO was considered to use a single share of our common stock from the total number of shares reserved for issuance even though the actual payout multiplier may range from zero to four, as described below.

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

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

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

The mechanism for determining the value of an individual OSO award is described as follows. The Initial Price is adjusted over time (the “Adjusted Strike Price”) until the settlement date. The adjustment represents an

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amount equal to the percentage appreciation or depreciation in the value of the S&P 500<sup>®</sup> Index from the date of grant to the settlement date. The value of the OSO would increase for increasing levels of outperformance.

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

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

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

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

*Dividend Policy.*

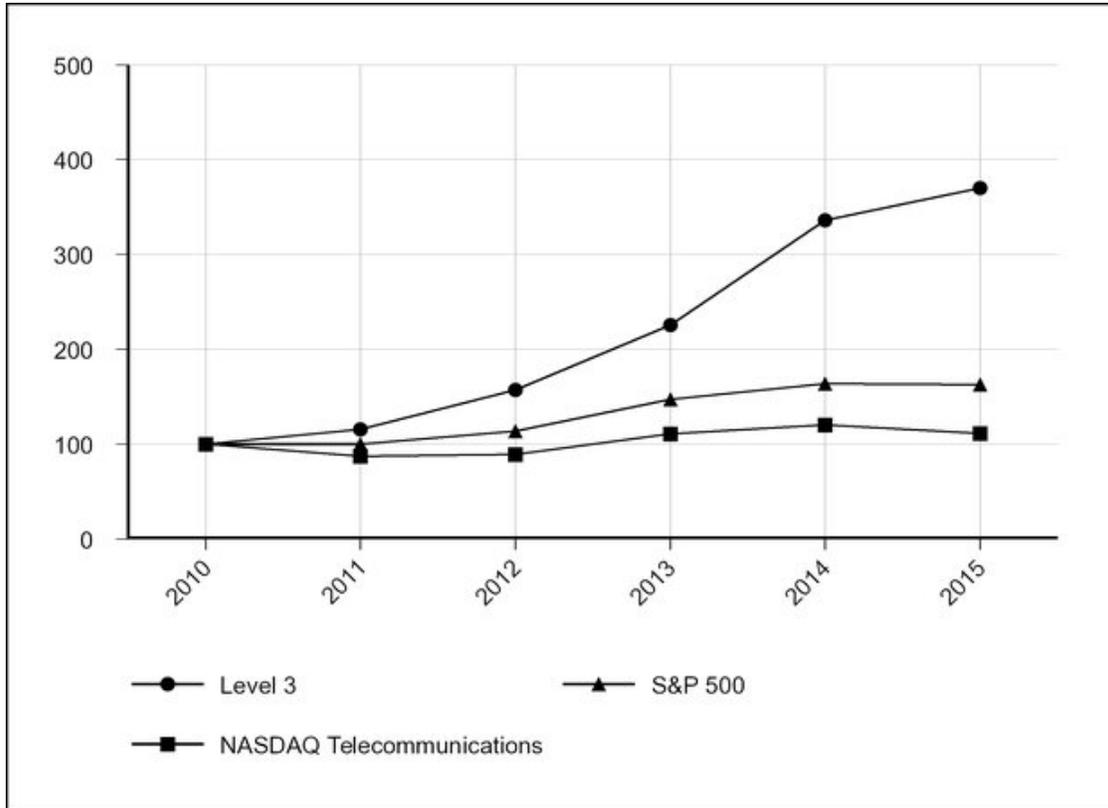
Our current dividend policy, in effect since April 1, 1998, is to retain future earnings for use in our business. As a result, our directors and management do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. In addition, under certain of our debt covenants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

*Performance Graph.*

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

The performance graph compares the cumulative total return of our common stock for the five year period from 2011 through 2015 with the S&P<sup>®</sup> 500 Index and the Nasdaq Telecommunications Index. The performance graph assumes that the value of the investment was \$100 on December 31, 2010, and that all dividends and other distributions were reinvested.

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



	12/10	12/11	12/12	12/13	12/14	12/15
Level 3 common stock	\$ 100.00	\$ 115.58	\$ 157.21	\$ 225.65	\$ 335.92	\$ 369.80
S&P 500® Index	100.00	100.00	113.40	146.97	163.71	162.52
NASDAQ Telecommunications	100.00	87.38	89.13	110.54	120.38	111.36

**ITEM 6. SELECTED FINANCIAL DATA**

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
(dollars in millions, except per share amounts)					
<b>Results of Operations:</b>					
Revenue (1)	\$ 8,229	\$ 6,777	\$ 6,313	\$ 6,376	\$ 4,333
Income (Loss) from Continuing Operations (2)	3,433	314	(109)	(422)	(827)
Income from Discontinued Operations, Net (1)	—	—	—	—	71
Net Income (Loss)	3,433	314	(109)	(422)	(756)
<b>Per Common Share:</b>					
Income (Loss) from Continuing Operations - Basic	9.71	1.23	(0.49)	(1.96)	(6.03)
Income from Discontinued Operations, Net - Basic	—	—	—	—	0.52
Net Income (Loss) - Basic (2)	9.71	1.23	(0.49)	(1.96)	(5.51)
Income (Loss) from Continuing Operations - Diluted	9.58	1.21	(0.49)	(1.96)	(6.03)
Income from Discontinued Operations, Net - Diluted	—	—	—	—	0.52
Net Income (Loss) - Diluted (2)	9.58	1.21	(0.49)	(1.96)	(5.51)
Dividends (3)	—	—	—	—	—
<b>Financial Position:</b>					
Total Assets	\$ 24,145	\$ 20,947	\$ 12,874	\$ 13,307	\$ 13,188
Current portion of long-term debt (4)	15	349	31	216	65
Long-Term Debt, less current portion (4)	10,994	10,984	8,331	8,516	8,385
Stockholders' Equity (5)	10,126	6,363	1,411	1,171	1,193

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

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

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

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

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

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

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

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

In 2015, Level 3 redeemed Level 3 Financing's 9.375% Senior Notes due 2019 together with cash on hand, from the issuance on January 29, 2015 of its 5.625% Senior Notes due 2023. Level 3 recognized a loss on extinguishment of debt of \$36 million associated with this transaction in the second quarter of 2015. Level 3 Financing also issued \$700 million aggregate principal amount of its 5.125% Senior Notes due 2023 and \$800 million aggregate principal amount of its 5.375% Senior Notes due 2025. The net proceeds from the offering of these 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 Level 3's 8.875% Senior Notes due 2019. In the second quarter 2015, Level 3 recognized a loss on extinguishment of debt of

\$100 million as a result of these redemptions. 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 of 2015, Level 3 recognized a loss on modification and extinguishment of debt of \$27 million as a result of this refinancing. In the fourth quarter 2015, Level 3 Financing issued \$900 million aggregate principal amount of its 5.375% Senior Notes due 2024. The net proceeds from the offering of the 5.375% Senior Notes due 2024, together with cash on hand, were used to redeem all \$900 million aggregate principal amount of the Company's 8.625% Senior Notes due 2020. Level 3 recognized a loss on modification and extinguishment of debt of approximately \$55 million associated with this transaction during the fourth quarter of 2015.

Effective September 30, 2015, Level 3 deconsolidated its Venezuelan subsidiary from its consolidated financial statements. 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 during the third quarter 2015.

In the fourth quarter of 2015, with the continued expectation of generating income before taxes in the United States, the Company released a significant portion of its valuation allowance against its net U.S. federal and state deferred tax asset position. The release of the valuation allowance benefited income tax expense and net income by approximately \$3.3 billion.

- (3) The Company's current dividend policy, in effect since April 1998, is to retain future earnings for use in the Company's business. As a result, management does not anticipate paying cash dividends on shares of common stock in the foreseeable future. In addition, the Company is restricted under certain debt-related covenants from paying cash dividends on shares of its common stock.
- (4) In 2011, the Company issued approximately \$605 million of 11.875% Senior Notes due 2019 in two separate transactions, as well as \$500 million of its 9.375% Senior Notes due 2019. Proceeds from the first 11.875% Senior Note offering were used to redeem \$196 million of 5.25% Convertible Senior Notes. In the second offering, the Company exchanged \$295 million of 9% Convertible Senior Discount Notes for the 11.875% Senior Notes. Level 3 Escrow, Inc., an indirect wholly owned subsidiary of the Company, issued \$600 million in aggregate principal amount of 8.125% Senior Notes due 2019. Level 3 Escrow, Inc. issued an additional \$600 million in aggregate principal amount of its 8.125% Senior Notes due 2019 under the same indenture as the 8.125% Senior Notes previously issued, which were treated as a single series of notes under the indenture. In connection with the Amalgamation, all of the 8.125% Senior Notes due 2019 were assumed by Level 3 Financing, Inc., a direct wholly owned subsidiary of the Company, and the proceeds were used to refinance certain existing indebtedness of Global Crossing. The Company exchanged approximately \$128 million of its 15% Convertible Senior Notes due 2013 for approximately 5 million shares of its common stock. The Company also paid approximately \$29 million in cash, representing interest due from the conversion through the 2013 maturity date. The Company also repurchased approximately \$20 million of its 3.5% Convertible Senior Notes due 2012. The Company borrowed \$550 million aggregate principal amount of its Tranche B III Term Loan. The net proceeds in addition to cash on hand were used to redeem the remaining \$274 million aggregate principal amount of 3.5% Convertible Senior Notes due 2012 and prepay the \$280 million Tranche B Term Loan that was outstanding under the existing Senior Secured Term Loan. Also in connection with the closing of the Amalgamation, the Company amended its existing credit agreement to incur an additional \$650 million of borrowings through an additional Tranche B II Term Loan. The net proceeds from the Tranche B II Term Loan were used to consummate the Amalgamation, to refinance certain existing indebtedness of Global Crossing in connection with the consummation of the Amalgamation and for general corporate purposes.

In 2012, the Company refinanced its existing \$650 million Tranche B II Term Loan and \$550 million Tranche B III Term Loan under its existing senior secured credit facility through the creation of a new term loan in the aggregate principal amount of \$1.2 billion (the "Tranche B-II 2019 Term Loan") along with cash on hand. The Company also fully repaid the outstanding principal amount of its Commercial Mortgage due 2015 along with accrued interest which was approximately \$63 million. Also in 2012, the Company completed the offering of \$300 million aggregate principal amount of its 8.875% Senior Notes due 2019 in a private offering. The net proceeds from that offering were used for general corporate purposes, including the repurchase, redemption, repayment or refinancing of the Company's and its subsidiaries' existing indebtedness. Additionally in 2012, the Company completed the offering of \$775 million aggregate principal amount of its 7% Senior Notes due 2020 in a private offering. The net proceeds from the offering of the notes, along with cash on hand, were used to redeem all of the Company's outstanding 8.75% Senior Notes due 2017, including the payment of accrued and unpaid interest and applicable premiums. The Company refinanced its existing \$1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$1.415 billion (the "New Term Loans") along with cash on hand and used the remaining net proceeds to repay \$15 million in principal amount plus a premium for existing vendor financing obligations. Further in 2012, the Company exchanged approximately \$100 million aggregate principal amount of its outstanding 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of its common stock, including an inducement premium. Also in 2012, the Company issued \$900 million aggregate principal amount of its 8.625% Senior Notes due 2020. A portion of the net proceeds from the offering were used to redeem all of the Company's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million.

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

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

Refer to Note 11 - Long-Term Debt in the notes to the Consolidated Financial Statements for the Company's offerings and refinancings in 2015.

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

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

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

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

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

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

In 2015, the Company issued approximately 12 million shares of common stock when holders of the remaining \$333 million of its 7% Convertible Senior Notes due 2015 converted these notes.

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements (including the notes thereto) included elsewhere herein and the description of its business in Item 1, "Business".

### Executive Summary

#### Overview

The Company is a facilities-based provider of a broad range of communications services. Revenue for communications services is generally recognized on a monthly basis as these services are provided. For contracts involving private line, wavelength and dark fiber services, Level 3 may receive upfront payments for services to be delivered for a period of generally up to 25 years. In these situations, Level 3 defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract. At December 31, 2015, for contracts where upfront payments were received for services to be delivered in the future, the Company's weighted average remaining contract period was approximately 12 years.

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

As of September 30, 2015, the Company deconsolidated its Venezuelan subsidiary and began accounting for its investment in that subsidiary using the cost method of accounting in the fourth quarter of 2015. This change resulted in a one-time charge of \$171 million to adjust the Venezuelan subsidiary's assets and liabilities to estimated fair value in the third quarter of 2015. The Company's financial results do not include the operating results of its Venezuelan subsidiary subsequent to September 30, 2015. Any dividends from the Company's Venezuelan subsidiary are recorded as other income upon receipt of the cash. Please see Note 1 to the accompanying Consolidated Financial Statements and additional discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations under "Venezuela Effects" in Results of Operations.

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

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

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

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

The Company has also been focused on improving its liquidity and financial condition, and extending the maturity dates of certain debt. See Note 11 - Long-Term Debt in the notes to the Consolidated Financial Statements.

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

As a result of the Merger, the Company was comprised of the following four reportable segments for financial reporting purposes for the fourth quarter of 2014: 1) North America; 2) Europe, the Middle East and Africa (EMEA); 3) Latin America; and 4) tw telecom, which represents the standalone operations of the former tw telecom business. As a result of the integration of financial information of tw telecom in North America in the first quarter of 2015, 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 now consist of: 1) North America; 2) EMEA; and 3) Latin America.

Total Revenue consists of:

- Core Network Services revenue from colocation and data center services; transport and fiber; Internet Protocol ("IP") and data services; and local and enterprise voice services.
- Wholesale Voice Services revenue from sales of long distance voice services to wholesale customers.

Core Network Services revenue represents higher profit services and Wholesale Voice Services 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 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 revenue. The Company believes that performance in its communications business is best gauged by analyzing revenue changes in Core Network Services.

#### *Core Network Services*

IP and data services primarily include the Company's Internet services, Virtual Private Network ("VPN"), Content Delivery Network ("CDN"), media delivery, Vyvx broadcast 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.

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

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.

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.

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*

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.

#### *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. The Company also establishes appropriate reserves for disputes of incorrect network access cost billings from its suppliers of network services, which may include disputes for circuits that are not disconnected by the supplier on a timely basis, charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. The network access costs reserves for disputed supplier billings are based on an analysis of the Company's historical experience in resolving disputes with its suppliers and regulatory analysis regarding certain specific supplier billing matters. The timing and ultimate outcome of the dispute resolution process could differ from the Company's initial estimates and these differences could be material.

## **Critical Accounting Policies and Estimates**

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

While the Company has other accounting policies that involve estimates such as the allowance for doubtful accounts and unfavorable contracts recognized in acquisition accounting, management has identified the policies below, which require the most significant judgments and estimates to be made in the preparation of the Consolidated Financial Statements, as critical to its business operations and the understanding of its results of operations.

### *Revenue*

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

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

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which 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 and is currently evaluating the effect of adopting this ASU on its consolidated financial statements and related disclosures including the transition method that it will elect.

### *Revenue Reserves*

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

### *Network Access Costs Reserves*

The Company disputes incorrect billings from its suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis, charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. The Company establishes appropriate network access costs reserves for disputed supplier billings based on an analysis of its historical experience in resolving disputes with its suppliers and regulatory analysis regarding certain supplier billing matters. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

### *Valuation of Long-Lived Assets*

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

The Company conducted a long-lived asset impairment analysis in the fourth quarter of 2015 and 2014 and in each case concluded that its long-lived assets, including its finite-lived acquisition-related intangible assets, were not impaired. To the extent that future changes in assumptions and estimates cause a change in estimates of future cash flows that indicate the carrying amount of the Company's long-lived assets, including finite-lived acquisition-related intangible assets, may not be recoverable, the Company may incur impairment charges in the future to write-down the carrying amount of the Company's long-lived assets to their estimated fair value.

### *Useful Lives of Long-Lived Assets*

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

The Company extended the lives associated with IP equipment and certain of its facility equipment in the first quarter of 2014. This change in estimate was accounted for prospectively.

#### *Goodwill and Acquired Indefinite-Lived Intangible Assets*

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

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

In 2015, the Company's reporting units consist of its three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. Goodwill assigned to the North America, EMEA and Latin America reporting units at December 31, 2015 totaled \$7.749 billion and was \$7.024 billion, \$0.129 billion and \$0.596 billion, respectively. Following the acquisition of tw telecom during the fourth quarter of 2014, goodwill was assigned to the North America, EMEA, Latin America and tw telecom reporting units at December 31, 2014 and totaled \$7.689 billion and was \$1.832 billion, \$0.138 billion, \$0.595 billion and \$5.124 billion, respectively.

As a result of the deconsolidation of the Company's Venezuelan subsidiary, the Company completed an assessment of the Latin American and other reporting units' goodwill as of September 30, 2015 and concluded there was no impairment in 2015. In 2014, the Company conducted its qualitative goodwill impairment analysis and determined that it was more likely than not that the fair value of its reporting units exceeded the carrying value and concluded that goodwill was not impaired. As a result, the Company did not perform the two step goodwill impairment evaluation.

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

The Company's indefinite-lived intangible assets impairment review process compares the estimated fair value of the indefinite-lived intangible assets to their respective carrying values. If the fair value of the indefinite-lived intangible assets exceeds their carrying values, then the indefinite-lived intangible assets are not impaired. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting standards, an entity may assess qualitative factors to determine whether it is more likely than not that the

fair value exceeds the carrying value prior to performing the two step evaluation. If it is determined that it is unlikely the carrying value exceeds the fair value, then the entity is not required to perform the two step indefinite-lived intangible assets impairment evaluation.

During the fourth quarter of 2015 and 2014, the Company conducted its indefinite-lived intangible assets impairment analysis and concluded that there was no impairment in 2015 and there was impairment of \$17 million in its trade name indefinite-lived intangible asset in 2014.

#### *Asset Retirement Obligations*

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

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

#### *Assessment of Loss Contingencies*

The Company has legal, tax and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. The Company has provided for losses in situations where it has concluded that it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. Further, with respect to loss contingencies, where it is probable that a liability has been incurred and there is a range in the expected loss and no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in predicting the likelihood of future events and estimating the financial impact of such events. Accordingly, it is possible that upon the further development or resolution of a contingent matter, a significant charge could be recorded in a future period related to an existing contingent matter. For additional information, see Note 16 - Commitments, Contingencies and Other Items in the notes to the Consolidated Financial Statements.

#### *Business Combinations*

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

#### *Income Taxes*

The Company recognizes deferred tax assets and liabilities for its United States and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in

which those temporary differences become deductible. The 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 by tax jurisdiction. The Company has historically provided a valuation allowance to reduce its U.S. federal, state and foreign deferred tax assets to the amount that is more likely than not to be realized. The Company monitors its cumulative loss position and other evidence each quarter to determine the appropriateness of its valuation allowance. Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

In the fourth quarter 2015, the Company released the majority of its valuation allowance against its U.S. federal and state deferred tax assets, resulting in a non-cash benefit to income tax expense of approximately \$3.3 billion, \$3.1 billion of which was related to future years' earnings. In making the determination to release the valuation allowance against U.S. federal and state deferred tax assets, the Company took into consideration its movement into a cumulative income position for the most recent three-year period, including pro forma adjustments for acquired entities, its eight out of nine consecutive quarters of pre-tax operating income, and forecasts of future earnings for its U.S. business. The Company expects to continue to generate income before taxes in the United States in future periods. In 2014 the Company released approximately \$100 million of its deferred tax valuation allowance primarily related to its business in the United Kingdom due to consolidation of legal entities whereby one U.K. entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets.

### Results of Operations 2015 vs. 2014 and 2014 vs. 2013

**Year Ended December 31,  
(dollars in millions)**

	2015	2014	2013
Revenue	\$ 8,229	\$ 6,777	\$ 6,313
Network Access Costs	2,833	2,529	2,471
Network Related Expenses	1,432	1,246	1,214
Depreciation and Amortization	1,166	808	800
Selling, General and Administrative Expenses	1,467	1,181	1,162
Total Costs and Expenses	6,898	5,764	5,647
Operating Income	1,331	1,013	666
Other Income (Expense):			
Interest Income	1	1	—
Interest Expense	(642)	(654)	(649)
Loss on Modification and Extinguishment of Debt	(218)	(53)	(84)
Venezuela Deconsolidation Charge	(171)	—	—
Other, net	(18)	(69)	(4)
Total Other Expense	(1,048)	(775)	(737)
Income (Loss) Before Income Taxes	283	238	(71)
Income Tax (Expense) Benefit	3,150	76	(38)
Net Income (Loss)	\$ 3,433	\$ 314	\$ (109)

**Discussion of all significant variances:***Revenue by Channel:*

<b>Year Ended December 31, (dollars in millions)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Core Network Services:			
North America - Wholesale Channel	\$ 1,734	\$ 1,522	\$ 1,478
North America - Enterprise Channel	4,474	3,003	2,471
EMEA - Wholesale Channel	275	328	354
EMEA - Enterprise Channel	560	563	534
Latin America - Wholesale Channel	154	165	160
Latin America - Enterprise Channel	560	614	594
<b>Total Core Network Services</b>	<b>7,757</b>	<b>6,195</b>	<b>5,591</b>
Wholesale Voice Services	472	582	722
<b>Total Revenue</b>	<b>\$ 8,229</b>	<b>\$ 6,777</b>	<b>\$ 6,313</b>

*Revenue by Service Offering:*

<b>Year Ended December 31, (dollars in millions)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Core Network Services:			
Colocation and Datacenter Services	\$ 605	\$ 590	\$ 585
Transport and Fiber	2,345	2,087	1,935
IP and Data Services	3,586	2,530	2,133
Voice Services (Local and Enterprise)	1,221	988	938
<b>Total Core Network Services</b>	<b>\$ 7,757</b>	<b>\$ 6,195</b>	<b>\$ 5,591</b>
Wholesale Voice Services	472	582	722
<b>Total Revenue</b>	<b>\$ 8,229</b>	<b>\$ 6,777</b>	<b>\$ 6,313</b>

**Revenue** increased 21% in 2015 compared to 2014 and increased 7% in 2014 compared to 2013. The increase in total revenue in 2015 compared to 2014 was primarily driven by a full year of additional revenue in 2015 associated with acquisition of tw telecom in the fourth quarter of 2014, compared to \$285 million representing two months of revenue from the tw telecom acquisition included in the 2014 results. Assuming the tw telecom revenue was included for the full year of 2014, the total revenue would have increased from \$8,123 million (see Note 2 - Events Associated with the Merger of tw telecom inc. in the Notes to the Consolidated Financial Statements) in 2014 to \$8,229 million in 2015, or a 1% increase. This increase was primarily driven by enterprise channel growth of \$341 million in North America, offset by declines in Latin America revenue of \$69 million and EMEA revenue of \$67 million due primarily to the strengthening of the U.S. dollar against local currencies in 2015, as well as declines of \$99 million in Wholesale Voice Services revenue and the effect of the deconsolidation of the Company's Venezuelan subsidiary as of September 30, 2015.

The increase in 2014 compared to 2013 was driven by growth in Core Network Services revenue from enterprise customers and the inclusion of \$285 million of revenue from tw telecom subsequent to the

completion of the Merger on October 31, 2014, partially offset by a decline in Wholesale Voice Services revenue.

The Company experienced continued growth in its IP and data services of \$1,056 million, transport and fiber services of \$258 million and voice services of \$233 million during 2015 compared to 2014 driven primarily by the acquisition of tw telecom and end user customer demand for VPN and bandwidth in the enterprise channel. The increase in IP and Data Services was predominantly driven by the Company's VPN and Managed Services and revenue from the tw telecom acquisition. The Company also experienced increases in Transport and Fiber driven by Dark Fiber, Wavelengths and Professional Services and in Colocation and Datacenter Services and Voice Services, which also benefited from the tw telecom acquisition, offset by the adverse effect of the weakening of currencies in EMEA and Latin America against the U.S. dollar.

The Company experienced growth in its IP and Data services, Transport and Fiber and Voice Services during 2014 compared to 2013 driven primarily by end user customer demand for enterprise bandwidth and content delivery over the Internet as well as the acquisition of tw telecom.

Core Network Services revenue increased in the North America region in 2015 compared to 2014 as a result of the full year of results from the tw telecom acquisition and growth in services provided to the existing enterprise customer base. These increases were partially offset by decreases in EMEA and Latin America for 2015 due to the appreciation of the U.S. dollar against currencies in EMEA and Latin America.

Core Network Services revenue increased in the North America and Latin America regions in 2014 compared to 2013, as a result of growth in services provided to the existing enterprise customer base, the acquisition of new customers in the enterprise channel and the acquisition of tw telecom, which contributed \$285 million to Core Network Services revenue for the period subsequent to the completion of the Merger. Additionally, the Company's revenue from the EMEA region's enterprise channel increased over 2013. These increases were partially offset by decreases in the North America and EMEA regions' wholesale channel revenue.

Wholesale Voice Services revenue decreased in all regions in 2015 compared to 2014 and in 2014 compared to 2013. In 2015 compared to 2014, Wholesale Voice Services revenue decreased in North America 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 the Wholesale Voice Services profitability.

Wholesale Voice Services revenue decreased in 2014 compared to 2013 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.

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

Network Access Costs as a percentage of total revenue was 34% in 2015 compared to 37% in 2014 and 39% in 2013. The decrease is primarily due to an improving mix of higher profit on-net Core Network Services and a decline in lower profit Wholesale Voice Services. 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. The increase in total Network Access Costs in 2014 compared to

2013 is primarily related to the addition of tw telecom's results of operations for November and December 2014.

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

Network Related Expenses increased 15% in 2015 from 2014 and increased 3% in 2014 from 2013 . The increase in 2015 was primarily related to an increase in employee related expense of \$106 million and an increase in facilities and rent expense of \$62 million resulting from 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.

The increase in 2014 compared to 2013 is primarily attributable to the acquisition of tw telecom by an increase in employee related expense of \$64 million and an increase in facilities and rent expense of \$16 million offset by an increase in capitalized labor and related costs of \$21 million and a decrease in non-cash stock-based compensation of \$27 million. Additionally in 2014 and 2013, the Company implemented certain workforce reductions in its operations staff. Restructuring charges in 2014 and 2013 of \$11 million and \$12 million, respectively, were recorded in Network Related Expenses.

**Depreciation and Amortization** expense increased 44% in 2015 from 2014 and increased 1% in 2014 from 2013 . The increase in 2015 compared to 2014 is primarily attributable to \$312 million of depreciation and amortization charges associated with the assets acquired from tw telecom and increased capital expenditures, partially offset by the impact of foreign currency exchange rate changes in EMEA and Latin America of \$17 million. The increase in 2014 compared to 2013 is primarily related to \$63 million of depreciation and amortization on tangible and intangible assets acquired from tw telecom and \$150 million of additional capital expenditures in 2014, partially offset by \$84 million of the effect of a change in useful lives of certain asset categories in the first quarter of 2014.

**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 24% in 2015 compared to 2014 and increased 2% in 2014 compared to 2013 . The increase in 2015 compared to 2014 was primarily related to \$199 million of additional employee related expenses and an increase in professional services and non-network rent of \$51 million, primarily associated with the acquisition of tw telecom. The increase in 2014 compared to 2013 is primarily related to \$33 million of additional employee related expenses and \$29 million of additional professional fees resulting from the acquisition of tw telecom and acquisition-related expenses incurred in connection with the Merger offset by a decrease in non-cash, stock-based compensation of \$51 million. The Company incurred \$32 million and \$81 million in expenses related to the acquisition of tw telecom in 2015 and 2014, respectively.

From time to time, the Company has implemented certain workforce reductions in its administrative staff. Restructuring charges in 2015, 2014 and 2013 of \$16 million, \$34 million and \$35 million, respectively, were recorded in SG&A Expenses.

**Non-cash, stock-based compensation** expense of \$141 million, \$73 million and \$151 million was recorded in 2015, 2014 and 2013, respectively, related to grants of outperform stock appreciation rights,

performance restricted stock units, restricted stock units, accruals for the Company's annual discretionary bonus, a portion of which was paid in stock for 2013, incentive and retention plans and shares issued for the Company's matching contribution to the 401(k) plan. Approximately \$121 million, \$64 million and \$115 million of non-cash stock-based compensation expense was recorded in SG&A Expenses in 2015, 2014 and 2013, respectively, and \$20 million, \$9 million and \$36 million was recorded in Network Related Expenses in 2015, 2014 and 2013, respectively. The increase in 2015 compared to 2014 was primarily related to additional grants of restricted stock units, performance restricted stock units ("PRSUs") and increased matching contributions for the Company's 401(k) plan due to the additional headcount from the tw telecom acquisition. The total decrease in non-cash, stock-based compensation expense in 2014 compared to 2013 is primarily due to the 2014 annual discretionary bonus being accrued for as a cash bonus rather than a partial cash, partial equity bonus as in previous years. In addition, the \$23 million charge recorded in 2013 related to the vesting of long-term incentive awards in connection with the Company's former CEO's departure from the Company, as described below, did not recur in 2014.

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

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

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

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

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

The following information provides a reconciliation of Net Income (Loss) to Adjusted EBITDA as defined by the Company along with Adjusted EBITDA by reportable segment:

(dollars in millions)	Year Ended December 31,		
	2015	2014	2013
Net Income (Loss)	\$ 3,433	\$ 314	\$ (109)
Income Tax Expense (Benefit)	(3,150)	(76)	38
Interest Expense	642	654	649
Loss on Modification and Extinguishment of Debt	218	53	84
Venezuela Deconsolidation Charge	171	—	—
Other, net	17	68	4
Depreciation and Amortization Expense	1,166	808	800
Non-Cash Stock Compensation Attributable to Stock Awards	141	73	151
Non-Cash Impairment	—	1	7
Adjusted EBITDA	\$ 2,638	\$ 1,895	\$ 1,624
North America	\$ 3,048	\$ 2,065	\$ 1,799
EMEA	235	214	226
Latin America	302	348	313
Unallocated Corporate Expenses	(947)	(732)	(714)
Consolidated Adjusted EBITDA	\$ 2,638	\$ 1,895	\$ 1,624

Consolidated Adjusted EBITDA was \$2.638 billion in 2015 compared with \$1.895 billion in 2014 and \$1.624 billion in 2013. 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 15 - Segment Information in the notes to Consolidated Financial Statements for additional information on Adjusted EBITDA by region.

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

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

Adjusted EBITDA decreased in the Latin American region in 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 2015 was negatively affected by approximately 2% versus the comparable prior period, as a result of the changes in foreign currency rates. The decrease was partially offset by initiatives resulting in reduced network access costs.

Prior to 2014, the Company paid a portion of employee annual bonuses with shares of its common stock. Beginning in 2014, the Company accrued the entire bonus compensation within SG&A Expenses and Network Related Expenses as cash compensation, which is paid in the first quarter of the following year.

Adjusted EBITDA increased in North America and Latin America in 2014 compared to 2013 primarily resulting from (i) growth in core network services revenue and (2) initiatives resulting in reduced network access costs. The results of operations from acquisition of tw telecom contributed \$105 million to Adjusted EBITDA in 2014. These increases were partially offset by a decrease in wholesale channel revenue, primarily in North America and EMEA.

**Interest Expense** decreased \$12 million in 2015 from 2014 and increased \$5 million in 2014 from 2013. Interest expense decreased in 2015 compared to 2014 by \$72 million due to a lower weighted average interest cost of debt of 4.9% at December 31, 2015 compared to 5.9% at December 31, 2014 due to refinancing activities and a \$30 million reduction in interest expense as a result of the conversion of the 7% Convertible Senior Notes due 2015 and 7% Convertible Senior Notes due 2015, Series B into common stock, partially offset by \$89 million of interest expense on additional borrowings used to fund the tw telecom merger. Interest expense increased in 2014 compared to 2013 by \$47 million as a result of additional borrowings to finance the tw telecom merger, partially offset by \$45 million due to a lower weighted average interest cost of debt of 5.9% at December 31, 2014 compared to 6.8% at December 31, 2013 due to refinancing activities.

The Company expects annual interest expense in 2016 to approximate \$570 million based on current interest rates on the Company's debt outstanding as of December 31, 2015. See Note 11 - Long-Term Debt in the notes to Consolidated Financial Statements for additional information on Level 3's financing activities.

**Loss on Modification and Extinguishment of Debt** was \$218 million in 2015 compared to a loss of \$53 million in 2014 and a loss of \$84 million in 2013. See Note 11 - Long-Term Debt in the notes to the Consolidated Financial Statements for more details regarding the Company's financing activities.

The loss recorded during 2015 was related to a charge of approximately \$36 million related to the redemption of the 9.375% Senior Notes due 2019 in April 2015, \$100 million related to the redemptions of the 8.125% Senior Notes due 2019 and 8.875% Senior Notes due 2019 in April 2015, \$27 million related to the refinancing of the \$2 billion senior secured Tranche B Team Loan due 2022 in May 2015 and \$55 million related to the redemption of the 8.625% Senior Notes due 2020.

The loss recorded during 2014 was related to the refinancing of the 11.875% Senior Notes due 2019.

The loss recorded during 2013 was related to a charge of approximately \$1 million related to the refinancing of the Floating Rate Senior Notes due 2015 in December 2013, \$56 million related to the refinancing of the 10% Senior Notes due 2018 in December 2013, \$10 million related to the refinancing of the \$1.2 billion Tranche B-II 2019 Term Loan in October 2013, \$8 million related to the refinancing of the \$595.5 million Tranche B 2016 Term Loan in August 2013 and \$9 million related to refinancing the \$815 million Tranche B 2019 Term Loan in August 2013.

**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.

(dollars in millions)	Year Ended December 31,		
	2015	2014	2013
(Gain) Loss on Sale of Property, Plant, and Equipment and Other Assets	\$ 1	\$ (3)	\$ (1)
Foreign Currency Loss related to Venezuela	11	43	16
Other Foreign Currency (Gain) Loss	18	18	(19)
Impairment	—	17	—
Other	(12)	(6)	8
Other, net	\$ 18	\$ 69	\$ 4

Other, net was \$18 million of expense in 2015 compared to \$69 million of expense in 2014 and \$4 million of expense in 2013. The Other, net expense in 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.

Other, net expense in 2014 and 2013 is primarily due to foreign currency fluctuations of local currencies relative to the U.S. dollar, including foreign currency losses attributable to the devaluation of the Venezuelan bolivar as discussed below, and the partial impairment of the Company's indefinite-lived intangible asset, partially offset by net foreign currency gains.

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

During the first quarter 2014, the Venezuelan government enacted additional changes to the country's foreign exchange system. The government expanded the types of transactions that may be allowed via the weekly auctions under the Complementary System of Foreign Currency Acquirement ("SICAD 1"). The Venezuelan government also announced the replacement of its existing foreign currency administration with the National Center for Foreign Commerce ("CENCOEX"). At this time, entities could seek approval to transact through CENCOEX at the official rate of 6.30 Venezuelan bolivars to the U.S. dollar; however, certain transactions could be approved at the latest SICAD 1 rate, depending on the entity's facts and circumstances.

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

During the second quarter of 2015, the Company recognized a charge of \$6 million related to the devaluation of the Venezuelan SICAD I exchange rate from 12.0 bolivars to the U.S. dollar to 12.8 bolivars to the U.S. dollar at June 30, 2015.

During the third quarter of 2015 prior to deconsolidation, the Company recognized a charge of \$5 million 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.

**Income Tax (Expense) Benefit** was \$3,150 million of benefit in 2015 compared to \$76 million of benefit in 2014 and \$38 million of expense in 2013. During the fourth quarter of 2015, the Company released approximately \$3.3 billion of its deferred tax valuation allowance related to its business in the United States. Income tax expense in prior periods was primarily related to taxes in foreign jurisdictions. In making the determination to release the valuation allowance against U.S. federal and state deferred tax assets, the Company took into consideration its movement into a cumulative income position for the most recent three-year period, including pro forma adjustments for acquired entities, its eight out of nine consecutive quarters of pre-tax operating income, and forecasts of future earnings for its U.S. business. The Company expects to continue to generate income before taxes in the United States in future periods. The release is reflected as an income tax benefit in 2015.

During the fourth quarter of 2014, the Company released approximately \$100 million of deferred tax valuation allowance primarily related to its business in the United Kingdom due to consolidation of legal entities whereby one U.K. entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets. The release is reflected as an income tax benefit in 2014.

The Company incurs tax expense attributable to income in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. The Company also recognizes accrued interest and penalties in income tax expense related to uncertain tax benefits. 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, its valuation allowance, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

## **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 its 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 deconsolidated its Venezuelan subsidiary effective as of September 30, 2015 and began 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 and unless events and circumstances would cause the Company to re-evaluate its decision to deconsolidate its Venezuelan subsidiary, 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 Consolidated Financial Statements. Prior to the deconsolidation, the Company's operations in Venezuela accounted for approximately 1% of consolidated total revenue for the nine months ended September 30, 2015 and for the twelve months ended December 31, 2014, and approximately 3% and 4% of consolidated operating income for the same periods, respectively.

The \$83 million value of the Company's bolivar denominated cash balance prior to deconsolidation as of September 30, 2015, reflects the foreign Venezuelan 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—December 31, 2015

Cash flows provided by operating activities, investing activities and financing activities for the years ended December 31, 2015 and 2014, respectively, are summarized as follows:

(dollars in millions)	Year Ended December 31,		
	2015	2014	Change
Net Cash Provided by Operating Activities	\$ 1,855	\$ 1,161	\$ 694
Net Cash Used in Investing Activities	(1,344)	(1,086)	(258)
Net Cash Used in Financing Activities	(219)	(82)	(137)
Effect of Exchange Rates on Cash and Cash Equivalents	(18)	(44)	26
Net Change in Cash and Cash Equivalents	\$ 274	\$ (51)	\$ 325

#### Operating Activities

Cash provided by operating activities increased to \$1.855 billion in 2015 compared to \$1.161 billion in 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. 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 to \$1.344 billion in 2015 compared to \$1.086 billion in 2014, primarily as a result of additional capital expenditures, which totaled \$1.229 billion in 2015 and \$910 million in 2014. The increase in capital expenditures is primarily due to additional investment in the network and the additional capital expenditures after the acquisition of the tw telecom business. 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 \$219 million in 2015 compared to cash used in financing activities of \$82 million in 2014 relates to the premiums paid upon refinancing. See Note 11 - Long-Term

Debt in the notes to the Consolidated Financial Statements for more details regarding the Company's debt transactions during 2015 and 2014.

#### *Effect of Exchange Rates on Cash and Cash Equivalents*

The effect of exchange rates on cash and cash equivalents in 2015 and 2014 was a reduction in cash of \$18 million and \$44 million, respectively. The effect of exchange rates on cash and cash equivalents in 2015 was primarily due to the appreciation of the U.S. dollar against currencies in EMEA and Latin America and the devaluation of the Venezuelan SICAD I exchange rate from 12.0 bolivars to the U.S. dollar at December 31, 2014 to 12.8 bolivars to the U.S. dollar at June 30, 2015 and to 13.5 bolivars to the U.S. dollar at September 30, 2015 and the effect in 2014 was the result of the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate in the second quarter of 2014.

#### **Liquidity and Capital Resources**

The Company had \$854 million of cash and cash equivalents on hand at December 31, 2015. The Company also had \$50 million of current and non-current restricted cash and securities used to collateralize outstanding letters of credit and certain performance and operating obligations of the Company and other deposits at December 31, 2015.

Free Cash Flow is defined by the Company as net cash provided by (used in) operating activities less capital expenditures as disclosed in the Consolidated Statements of Cash Flows. Management believes that Free Cash Flow is a relevant metric to provide to investors, as it is an indicator of the company's ability to generate cash to service its debt. Free Cash Flow excludes cash used for acquisitions, principal repayments and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Free Cash Flow to measure the company's performance as it excludes certain material items such as principal payments on and repurchases of long-term debt and cash used to fund acquisitions. Comparisons of Level 3's Free Cash Flow to that of some of its competitors may be of limited usefulness since Level 3 does not currently pay a significant amount of income taxes due to net operating losses, and therefore, generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to interest expense, accounts receivable and accounts payable and capital expenditures. Free Cash Flow should not be used as a substitute for net change in cash and cash equivalents on the Consolidated Statements of Cash Flows.

The following information provides a reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow as defined by the Company:

<b>(dollars in millions)</b>	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net Cash Provided by Operating Activities	\$ 1,855	\$ 1,161	\$ 713
Capital Expenditures	(1,229)	(910)	(760)
Free Cash Flow	\$ 626	\$ 251	\$ (47)

Free Cash Flow was \$626 million in 2015 compared to \$251 million in 2014, reflecting a \$375 million improvement driven by \$694 million of higher cash provided by operating activities offset by \$319 million of higher spending on capital expenditures in 2015. For the full year 2016, the Company expects to generate Free Cash Flow of \$1.0 to \$1.1 billion.

Capital expenditures for 2016 are expected to be approximately 15% of revenue, consistent with 15% of revenue in 2015 as the Company invests in base capital expenditures (estimated capital required to keep the network operating efficiently and support new service development) with the remaining capital expenditures expected to be partly success-based, which is tied to a specific customer revenue opportunity, and partly project-based where capital is used to expand the network based on the Company's expectation that the project will eventually lead to incremental revenue.

After the refinancing activity completed in 2015, net cash interest payments are expected to decrease to approximately \$520 million in 2016 from \$668 million in 2015 based on forecasted interest rates on the Company's variable rate debt outstanding as of December 31, 2015. As of December 31, 2015, the Company had contractual debt obligations, including capital lease obligations, and excluding interest, discounts on debt issuance and fair value adjustments, of \$15 million that mature in 2016, \$7 million in 2017, and \$307 million in 2018.

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 United States any of its foreign cash and cash equivalents from operating entities outside of Latin America. After the deconsolidation of Venezuela, the Company has no material restrictions on its ability to repatriate to the United States foreign cash and cash equivalents.

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. In addition, the Company may consider other uses of capital or opportunities to return cash to stockholders. The Company will evaluate any such transactions in light of the existing market conditions and the possible dilutive effect to stockholders. The amounts involved in any such transaction, individually or in the aggregate, may be material.

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

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

#### **Off-Balance Sheet Arrangements**

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

#### **Contractual Obligations**

The following table summarizes the contractual obligations and other commercial commitments of the Company at December 31, 2015, as further described in the Notes to Consolidated Financial Statements.

**Payments Due by Period**

	<b>Total</b>	<b>Less than 1 Year</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
(dollars in millions)					
<b>Contractual Obligations</b>					
Long-Term Debt, including current portion	\$ 11,025	\$ 15	\$ 314	\$ 3,401	\$ 7,295
Interest Obligations	3,391	520	1,058	926	887
Asset Retirement Obligations	90	13	10	8	59
Operating Leases	1,590	278	454	280	578
Right of Way Agreements	700	151	141	113	295
Purchase and Other Obligations	1,741	1,132	460	62	87
<b>Other Commercial Commitments</b>					
Letters of Credit	46	8	5	1	32

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

Long-term debt obligations exclude issue discounts.

Interest obligations assume interest rates on \$4.9 billion of variable rate debt do not change from December 31, 2015. In addition, interest is calculated based on debt outstanding as of December 31, 2015.

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

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

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

Certain other right of way agreements are currently cancelable or can be terminated under certain conditions by the Company. The Company includes the payments under such cancelable right of way agreements in the table above for a period of 1 year from January 1, 2016, if the Company does not consider it likely that it will cancel the right of way agreement within the next year.

Purchase and other obligations represent all outstanding purchase order amounts of the Company as of December 31, 2015 (\$589 million), contractual commitments with third parties to purchase network access services (\$930 million) and fixed maintenance payments for portions of the Company's network (\$222 million).

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

Due to uncertainty regarding the completion of tax audits and possible outcomes, the remaining estimate of the timing of payments related to uncertain tax positions and interest cannot be made. See Note 14 - Income Taxes and Note 16 - Commitments, Contingencies and Other Items in the notes to Consolidated Financial Statements for additional information regarding the Company's uncertain tax positions.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### *Interest Rate Risk*

The Company is subject to market risks arising from changes in interest rates. As of December 31, 2015, Level 3 Financing had borrowed a total of approximately \$4.9 billion primarily under term loans pursuant to a senior secured credit facility (excluding discounts) and Floating Rate Senior Notes due 2018 that bear interest at LIBOR rates plus an applicable margin. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the debt instruments, unless LIBOR rates are below the minimum LIBOR rate for a particular Senior Secured Term Loan. The weighted average interest rate on these variable rate instruments at December 31, 2015, was approximately 3.8%.

The 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 senior secured credit facility was approximately 0.61% at December 31, 2015, which was below the fixed minimum rate. Declines in LIBOR below the fixed minimum rate or increases up to the fixed minimum rate do not affect the Company's annual interest expense. A hypothetical increase in LIBOR by 1% point would increase the Company's annual interest expense on all of its variable rate instruments by approximately \$37 million as of December 31, 2015.

At December 31, 2015, the Company had \$6.1 billion (excluding discounts) of fixed rate debt bearing a weighted average interest rate of 5.7%. 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.

Please see Venezuela Effects in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-K.

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

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 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.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)

under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of its management, including the Company's principal executive officer and principal financial officer, management assessed the effectiveness of internal controls over financial reporting as of December 31, 2015 based on the guidelines established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2015 .

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 . That report appears on page F-3.

#### **ITEM 9B. OTHER INFORMATION**

None.

### **Part III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 is incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information called for by Item 201(d) of Regulation S-K regarding our compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance is contained in Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities" above. The other information required by this Item 12 is incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is incorporated by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC.

### **Part IV**

#### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) Financial statements and financial statement schedules required to be filed for the registrant under Items 8 or 15 are set forth following the index page at page F-I. Exhibits filed as a part of this report are listed below. Exhibits incorporated by reference are indicated in parentheses.
- 3.1 Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3(i) to the Registrant's Current Report on Form 8-K dated May 23, 2008).
- 3.2.1 Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.2 of Level 3 Communications, Inc.'s Registration Statement on Form S-3 (SEC File No. 333-160493) filed with the Securities and Exchange Commission on July 9, 2009).

- 3.2.2 Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.2 of Level 3 Financing, Inc.'s, Level 3 Communications, Inc.'s and Level 3 Communications, LLC's Registration Statement on Form S-4 (SEC File No. 333-167110) filed on May 26, 2010).
- 3.2.3 Certificate of Amendment to the Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated October 6, 2011).
- 3.2.4 Certificate of Amendment of the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1.2 to the Form 8-A filed on October 19, 2011).
- 3.2.5 Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.1.1 to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2012).
- 3.2.6 Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated November 5, 2014).
- 3.3 Conformed copy of the Restated Certificate of Incorporation of Level 3 Communications, Inc., as amended through October 30, 2014 (incorporated by reference to Exhibit 3.6 to the Registrant's Current Report on Form 10-K dated February 27, 2015).
- 3.4 Amended and Restated By-Laws of Level 3 Communications, Inc., effective as of November 12, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated November 13, 2015).
- 4.1.1 Rights Agreement, dated as of April 10, 2011, by and between Level 3 Communications, Inc. and Wells Fargo Bank, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A dated April 11, 2011).
- 4.1.2 Amendment to the Rights Agreement, dated as of March 15, 2012, by and between Level 3 Communications, Inc. and Wells Fargo Bank, N.A., as rights agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated March 13, 2012).
- 4.1.3 Amendment No. 2 to the Rights Agreement, dated as of July 21, 2014, by and between Level 3 Communications, Inc. and Wells Fargo Bank, N.A., as rights agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 22, 2014).
- 4.2.1 Indenture, dated as of August 6, 2012, among 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 7% Senior Notes due 2020 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 1, 2012).
- 4.2.2 Supplemental Indenture, dated as of December 6, 2012, among Level 3 Communications, LLC, 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 7% Senior Notes due 2020 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated December 6, 2012).
- 4.2.3 Supplemental Indenture, dated as of December 6, 2012, 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 7% Senior Notes due 2020 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated December 6, 2012).

- 4.3.1 Indenture, dated as of November 26, 2013, among 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 Floating Rate Senior Notes due 2018 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 26, 2013).
- 4.3.2 Supplemental Indenture, dated as of March 14, 2014, 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 Floating Rate Senior Notes due 2018 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated March 14, 2014).
- 4.3.3 Supplemental Indenture, dated as of March 14, 2014, 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 Floating Rate Senior Notes due 2018 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated March 14, 2014).
- 4.4.1 Indenture, dated as of August 12, 2014, between Level 3 Escrow II, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2022 of Level 3 Escrow II, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 12, 2014).
- 4.4.2 Securities Assumption Supplemental Indenture, dated as of October 31, 2014, by and among Level 3 Escrow II, Inc., Level 3 Financing, Inc., Level 3 Communications, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated October 30, 2014).
- 4.4.3 Supplemental Indenture, dated as of October 31, 2014, by and 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 2022 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated October 30, 2014).
- 4.5 Indenture, dated as of December 1, 2014, between Level 3 Communications, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the 5.75% Senior Notes due 2022 of Level 3 Communications, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated December 1, 2014).
- 4.6.1 Indenture, dated as of January 29, 2015, among 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 5.625% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated January 30, 2015).
- 4.6.2 Supplemental Indenture, dated as of June 3, 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 5.625% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 4, 2015).

- 4.6.3 Supplemental Indenture, dated as of June 3, 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 5.625% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 4, 2015).
- 4.7.1 Indenture, dated as of April 28, 2015, among 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 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated April 30, 2015).
- 4.7.2 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 Current Report on Form 8-K dated September 2, 2015).
- 4.7.3 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 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated September 2, 2015).
- 4.8.1 Indenture, dated as of April 28, 2015, among 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 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated April 30, 2015).
- 4.8.2 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 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 2, 2015).
- 4.8.3 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 Current Report on Form 8-K dated September 2, 2015).
- 4.9.1 Indenture, dated as of November 13, 2015, among 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 5.375% Senior Notes due 2024 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 13, 2015).

- 4.9.2 Supplemental Indenture, dated as of February 8, 2016, 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 2024 of Level 3 Financing, Inc. (Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated February 8, 2016).
- 4.9.3 Supplemental Indenture, dated as of February 8, 2016, 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 2024 of Level 3 Financing, Inc. (Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated February 8, 2016).
- 4.9.4 Registration Agreement, dated as of November 13, 2015, among Level 3 Communications, Inc., Level 3 Financing, Inc. and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, Barclays Capital Inc., Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co. and J. P. Morgan Securities LLC, relating to Level 3 Financing, Inc.'s 5.375% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 13, 2015).
- 10.1.1 Amendment No. 1 to Separation Agreement, dated March 18, 1997, by and among Peter Kiewit Sons', Inc., Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).
- 10.2 Form of Aircraft Time-Share Agreement (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.3 Stockholder Rights Agreement, dated as of April 10, 2011, by and between Level 3 Communications, Inc. and STT Crossing Ltd. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated April 14, 2011).
- 10.4 Level 3 Communications, Inc. Stock Incentive Plan, effective May 21, 2015 (incorporated by reference to Annex 3 to the Registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 7, 2015).
- 10.5 Form of OSO Master Award Agreement of Level 3 Communications, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated May 25, 2010).
- 10.6 Form of Amended Master Deferred Issuance Stock Agreement of Level 3 Communications, Inc. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated May 25, 2010).
- 10.7.1 Form of Level 3 Communications, Inc. Restricted Stock Unit and Performance Restricted Stock Unit Master Award Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 1, 2014).
- 10.7.2 Form of Level 3 Communications, Inc. Restricted Stock Unit and Performance Unit Master Award Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 10-Q dated August 6, 2015).
- 10.7.3 Form of Level 3 Communications, Inc. Amended and Restated Restricted Stock Unit and Performance Unit Master Award Agreement, dated as of December 31, 2015.
- 10.8.1 Level 3 Communications, Inc. Key Executive Severance Plan (as approved by the Board on April 1, 2014) (to be effective as of April 1, 2015) (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated April 1, 2014).
- 10.8.2 Restrictive Covenant Agreement, dated as of March 13, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 13, 2013).

- 10.8.3 Form of Key Executive Severance Plan Amendment Notice Letter Dated October 9, 2014 (incorporated by reference to Exhibit 10.8.3 to the Registrant's Current Report on Form 10-K dated February 27, 2015).
- 10.9 Form of Master Deferred Issuance Stock Agreement for consultants (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated February 23, 2011).
- 10.10 2012 Management Incentive and Retention Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 23, 2012).
- 10.11 Credit Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., Level 3 Financing, Inc. and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.12 Guarantee Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., the Subsidiaries of Level 3 Communications, Inc. and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.13 Collateral Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Subsidiaries of Level 3 Communications, Inc. and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.14 Indemnity, Subrogation and Contribution Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Subsidiaries of Level 3 Communications, Inc. and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.15 Omnibus Offering Proceeds Note Subordination Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., Level 3 Financing, Inc., Level 3 Communications, LLC and the Subsidiaries party thereto (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.16 Supplement No. 1 to Omnibus Offering Proceeds Note Subordination Agreement, dated as of March 13, 2007, among Level 3 Communications, Inc., Level 3 Communications, LLC, Level 3 Financing, Inc. and the Subsidiaries party thereto (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated March 16, 2007).
- 10.17 Amendment Agreement to the March 13, 2007 Credit Agreement, dated April 16, 2009, among Level 3 Communications, Inc., Level 3 Financing, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Wachovia Bank, N.A., and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 17, 2009).
- 10.18 Amended and Restated Loan Proceeds Note Collateral Agreement, dated as of March 13, 2007, as amended and restated as of April 16, 2009, among Level 3 Financing, Inc., Level 3 Communications, LLC and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated April 17, 2009).
- 10.19 First Amendment, dated as of May 15, 2009, to the Amended and Restated Credit Agreement dated as of April 16, 2009, among Level 3 Communications, Inc., Level 3 Financing, Inc. and Merrill Lynch Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Citigroup Global Markets, Inc., Credit Suisse Securities (USA) LLC, Wachovia Bank, N.A., and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 15, 2009).

- 10.20 Second Amendment Agreement to the Amended and Restated Credit Agreement, dated as of October 4, 2011, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 6, 2011).
- 10.21 Third Amendment Agreement to the Amended and Restated Credit Agreement, dated as of November 10, 2011, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 17, 2011).
- 10.22 Fourth Amendment Agreement to Amended and Restated Credit Agreement, dated as of August 6, 2012, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 9, 2012).
- 10.23 Fifth Amendment Agreement to Amended and Restated Credit Agreement dated October 4, 2012 among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 5, 2012).
- 10.24 Sixth Amendment Agreement to Amended and Restated Credit Agreement, dated as of August 12, 2013, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 12, 2013).
- 10.25 Seventh Amendment Agreement to Amended and Restated Credit Agreement, dated as of August 16, 2013, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 16, 2013).
- 10.26 Eighth Amendment Agreement to Amended and Restated Credit Agreement, dated as of October 4, 2013, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 4, 2013).
- 10.27 Ninth Amendment Agreement to Amended and Restated Credit Agreement, dated as of October 31, 2014, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 30, 2014).
- 10.28 Tenth Amendment Agreement to the Amended and Restated Credit Agreement, dated as of May 8, 2015, among Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 15, 2015).
- 10.29 Amended and Restated Loan Proceeds Note, dated as of May 8, 2015, issued by Level 3 Communications, LLC to Level 3 Financing, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated May 15, 2015).
- 10.30 Amended and Restated Loan Proceeds Note, dated as of May 8, 2015, issued by Level 3 Communications, LLC to Level 3 Financing, Inc. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated May 15, 2015).
- 10.31 Standstill Agreement, dated as of May 20, 2011, between Level 3 Communications, Inc. and Southeastern Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 23, 2011).
- 10.32 Amendment to the Standstill Agreement, dated as of March 15, 2012, by and between Level 3 Communications, Inc. and Southeastern Asset Management Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 13, 2012).

10.33	Amendment No. 2 to the Standstill Agreement, dated as of July 21, 2014, by and between Level 3 Communications, Inc. and Southeastern Asset Management Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated July 21, 2014).
10.34	Exchange Agreement, dated as of March 13, 2012, by and among Level 3 Communications, Inc., Longleaf Partners Fund, a series of the Longleaf Partners Fund Trust, and solely with respect to Sections 3, 5.3 and 5.4 therein, Southeastern Asset Management Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 13, 2012).
12	Statements re computation of ratios.
21	List of subsidiaries of the Registrant.
23	Consent of KPMG LLP.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Interim Chief Executive Officer and Chief Financial Officer.
32.1	Certification of Interim Chief Executive Officer and 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 Annual Report on Form 10-K of Level 3 Communications, Inc. for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Stockholders' Equity and (vi) Notes to Consolidated Financial Statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**

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Schedules not indicated above have been omitted because of the absence of the condition under which they are required or because the information called for is shown in the Consolidated Financial Statements or in the notes hereto.

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Level 3 Communications, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado  
February 26, 2016

## Report of Independent Registered Public Accounting Firm

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

We have audited Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Level 3 Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Level 3 Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations,

comprehensive income (loss), cash flows and changes in stockholders' equity, for each of the years in the three-year period ended December 31, 2015, and our report dated February 26, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado  
February 26, 2016

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

(dollars in millions, except per share data)	2015	2014	2013
Revenue	\$ 8,229	\$ 6,777	\$ 6,313
<b>Costs and Expenses:</b>			
Network access costs	2,833	2,529	2,471
Network related expenses	1,432	1,246	1,214
Depreciation and amortization	1,166	808	800
Selling, general and administrative expenses	1,467	1,181	1,162
Total costs and expenses	6,898	5,764	5,647
Operating Income	1,331	1,013	666
<b>Other Income (Expense):</b>			
Interest income	1	1	—
Interest expense	(642)	(654)	(649)
Loss on modification and extinguishment of debt	(218)	(53)	(84)
Venezuela deconsolidation charge	(171)	—	—
Other, net	(18)	(69)	(4)
Total other expense	(1,048)	(775)	(737)
Income (Loss) Before Income Taxes	283	238	(71)
Income Tax Benefit (Expense)	3,150	76	(38)
Net Income (Loss)	\$ 3,433	\$ 314	\$ (109)
<b>Basic Earnings per Common Share</b>			
Net Income (Loss) Per Share	\$ 9.71	\$ 1.23	\$ (0.49)
Shares Used to Compute Basic Net Income (Loss) per Share (in thousands)	353,385	254,428	222,368
<b>Diluted Earnings per Common Share</b>			
Net Income (Loss) Per Share	\$ 9.58	\$ 1.21	\$ (0.49)
Shares Used to Compute Diluted Net Income (Loss) per Share (in thousands)	358,593	258,483	222,368

See accompanying notes to Consolidated Financial Statements.

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

<u>(dollars in millions)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net Income (Loss)	\$ 3,433	\$ 314	\$ (109)
Other Comprehensive Income (Loss) net of Tax:			
Foreign currency translation adjustments, net of tax effect of \$13, \$0, and \$0	(162)	(178)	11
Defined benefit pension plan adjustments, net of tax effect of (\$2), \$0, and \$0	8	(5)	(1)
Other Comprehensive Income (Loss) net of Tax	(154)	(183)	10
Comprehensive Income (Loss)	<u>\$ 3,279</u>	<u>\$ 131</u>	<u>\$ (99)</u>

See accompanying notes to Consolidated Financial Statements.

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

<b>(dollars in millions, except share data)</b>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 854	\$ 580
Restricted cash and securities	8	7
Receivables, less allowances for doubtful accounts of \$32 and \$30, respectively	757	737
Other	130	157
<b>Total Current Assets</b>	<b>1,749</b>	<b>1,481</b>
Property, Plant and Equipment, net of Accumulated Depreciation of \$10,365 and \$9,629, respectively	9,878	9,860
Restricted Cash and Securities	42	20
Goodwill	7,749	7,689
Other Intangibles, net	1,127	1,414
Deferred Tax Assets	3,441	300
Other Assets, net	159	183
<b>Total Assets</b>	<b>\$ 24,145</b>	<b>\$ 20,947</b>
<b>Liabilities and Stockholders' Equity:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 629	\$ 664
Current portion of long-term debt	15	349
Accrued payroll and employee benefits	218	273
Accrued interest	108	174
Current portion of deferred revenue	267	287
Other	179	159
<b>Total Current Liabilities</b>	<b>1,416</b>	<b>1,906</b>
Long-Term Debt, less current portion	10,994	10,984
Deferred Revenue, less current portion	977	921
Other Liabilities	632	773
<b>Total Liabilities</b>	<b>14,019</b>	<b>14,584</b>
<b>Commitments and Contingencies</b>	<b>—</b>	<b>—</b>
<b>Stockholders' Equity:</b>		
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; 356,374,473 shares issued and outstanding at December 31, 2015 and 341,361,420 shares issued and outstanding at December 31, 2014	4	3
Additional paid-in capital	19,642	19,159
Accumulated other comprehensive loss	(301)	(147)
Accumulated deficit	(9,219)	(12,652)
<b>Total Stockholders' Equity</b>	<b>10,126</b>	<b>6,363</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 24,145</b>	<b>\$ 20,947</b>

See accompanying notes to Consolidated Financial Statements.

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

(dollars in millions)	2015	2014	2013
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ 3,433	\$ 314	\$ (109)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,166	808	800
Loss on impairment	—	18	7
Non-cash compensation expense attributable to stock awards	141	73	151
Loss on modification and extinguishment of debt	218	53	84
Venezuela deconsolidation charge	171	—	—
Accretion of debt discount and amortization of debt issuance costs	24	36	36
Accrued interest on long-term debt, net	(57)	12	(49)
Non-cash tax adjustments	—	(7)	(42)
Deferred income taxes	(3,202)	(116)	(29)
Loss (gain) on sale of property, plant, and equipment and other assets	1	(3)	(2)
Other, net	35	(8)	(41)
Changes in working capital items:			
Receivables	(87)	9	30
Other current assets	(11)	2	3
Payables	4	(77)	(162)
Deferred revenue	88	6	28
Other current liabilities	(69)	41	8
<b>Net Cash Provided by Operating Activities</b>	<b>1,855</b>	<b>1,161</b>	<b>713</b>
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures	(1,229)	(910)	(760)
Cash related to deconsolidated Venezuela operations	(83)	—	—
Decrease (increase) in restricted cash and securities, net	(22)	(10)	13
Proceeds from sale of property, plant and equipment and other assets	4	3	—
Investment in tw telecom, net of cash acquired	—	(167)	—
Other	(14)	(2)	2
<b>Net Cash Used in Investing Activities</b>	<b>(1,344)</b>	<b>(1,086)</b>	<b>(745)</b>
<b>Cash Flows from Financing Activities:</b>			
Long-term debt borrowings, net of issuance costs	4,832	589	1,502
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(5,051)	(671)	(1,796)
<b>Net Cash Used in Financing Activities</b>	<b>(219)</b>	<b>(82)</b>	<b>(294)</b>
Effect of Exchange Rates on Cash and Cash Equivalents	(18)	(44)	(22)
<b>Net Change in Cash and Cash Equivalents</b>	<b>274</b>	<b>(51)</b>	<b>(348)</b>
Cash and Cash Equivalents at Beginning of Year	580	631	979
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 854</b>	<b>\$ 580</b>	<b>\$ 631</b>

Supplemental Disclosure of Cash Flow Information:

Cash interest paid	\$ 668	\$ 598	\$ 674
Income taxes paid, net of refunds	\$ 50	\$ 44	\$ 33
<b>Non-cash Investing and Financing Activities:</b>			
Capital lease obligations incurred	\$ 6	\$ 2	\$ 13
Note issued for property	\$ —	\$ —	\$ 12
Long-term debt conversion into equity	\$ 333	\$ 142	\$ 200
Accrued interest conversion into equity	\$ 10	\$ 2	\$ 3
Long-term debt issued and proceeds placed in escrow	\$ —	\$ 3,000	\$ —
Escrowed securities used in the acquisition of tw telecom	\$ —	\$ 3,014	\$ —

See accompanying notes to Consolidated Financial Statements.



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

(dollars in millions, except share data)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	\$				
Balance at January 1, 2013	218,380,070	\$ 2	\$ 14,000	\$ 26	\$ (12,857)	\$ 1,171
Common stock:						
Common stock issued under employee stock benefit plans and other	5,493,729	—	70	—	—	70
Stock-based compensation	—	—	69	—	—	69
Conversion of debt to equity	10,814,264	—	200	—	—	200
Net Loss	—	—	—	—	(109)	(109)
Other Comprehensive Income	—	—	—	10	—	10
Balance at December 31, 2013	234,688,063	\$ 2	\$ 14,339	\$ 36	\$ (12,966)	\$ 1,411
Common stock:						
Common stock issued under employee stock benefit plans and other	4,528,559	—	78	—	—	78
Stock-based compensation	—	—	55	—	—	55
tw telecom acquisition equity consideration	96,868,883	1	4,543	—	—	4,544
Conversion of debt to equity	5,275,915	—	144	—	—	144
Net Income	—	—	—	—	314	314
Other Comprehensive Loss	—	—	—	(183)	—	(183)
Balance at December 31, 2014	341,361,420	\$ 3	\$ 19,159	\$ (147)	\$ (12,652)	\$ 6,363
Common stock:						
Common stock issued under employee stock benefit plans and other	2,696,470	—	35	—	—	35
Stock-based compensation	—	—	106	—	—	106
Conversion of debt to equity	12,316,583	1	342	—	—	343
Net Income	—	—	—	—	3,433	3,433
Other Comprehensive Loss	—	—	—	(154)	—	(154)
Balance at December 31, 2015	356,374,473	\$ 4	\$ 19,642	\$ (301)	\$ (9,219)	\$ 10,126

See accompanying notes to Consolidated Financial Statements.

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

**(1) Organization and Summary of Significant Accounting Policies**

*Description of Business*

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

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

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 for the nine months ended September 30, 2015 and the years ended December 31, 2014 and 2013, respectively.

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 a variable interest in its Venezuelan subsidiary, in accordance with Accounting Standards Codification 810 -- Consolidation, the Company deconsolidated its Venezuelan subsidiary on September 30, 2015, and began accounting for its investment in its Venezuelan operations using the cost method of accounting. 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 that negatively affects its results of operations.

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. The Company's financial results no longer include the operating results of its Venezuelan operations. Any dividends from the Company's Venezuelan subsidiaries are 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.

#### *Foreign Currency Translation*

Local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes except for certain foreign subsidiaries in Latin America. For operations outside the United States that have functional currencies other than the U.S. dollar, assets and liabilities are translated to U.S. dollars at period-end exchange rates, and revenue, expenses and cash flows are translated using average exchange rates prevailing during the year. A significant portion of the Company's non-United States subsidiaries have either the British pound, the euro or the Brazilian real as the functional currency, each of which experienced significant fluctuations against the U.S. dollar during 2015, 2014 and 2013. Foreign currency translation gains and losses are recognized as a component of accumulated other comprehensive income (loss) in stockholders' equity and in the Consolidated Statements of Comprehensive Income (Loss) in accordance with accounting guidance for foreign currency translation. The Company considers the majority of its investments in its foreign subsidiaries to be long-term in nature. The Company's non-United States exchange transaction gains (losses), including where transactions with its non-United States subsidiaries are not considered to be long-term in nature, are included within other income (expense) in Other, net on the Consolidated Statements of Operations.

#### *Reclassifications*

Certain amounts in the prior year Consolidated Financial Statements and accompanying footnotes have been reclassified to conform to the current year's presentation primarily pursuant to the early adoption of Accounting Standards Update ("ASU") 2015-17. As of December 31, 2014, approximately \$8 million of current deferred tax assets has been reclassified to non-current deferred tax assets and approximately \$8 million of current deferred tax liabilities has been reclassified to non-current deferred tax liabilities.

#### *Use of Estimates*

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

## *Revenue*

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

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

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

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

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

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

## *Network Access Costs*

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

The Company recognizes the network access costs as they are incurred in accordance with contractual requirements. The Company disputes incorrect billings from its suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. The Company establishes appropriate network access costs reserves for

disputed supplier billings based on an analysis of its historical experience in resolving disputes with its suppliers and regulatory analysis regarding certain supplier billing matters. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and these differences could be material.

#### *Network Related Expenses*

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

#### *Selling, General and Administrative Expenses*

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

#### *USF and Gross Receipts Taxes*

The revenue recognition standards include guidance relating to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, gross receipts taxes and certain state regulatory fees. The Company records Universal Service Fund ("USF") contributions where the Company is the primary obligor for the taxes assessed in each jurisdiction where it does business on a gross basis in its Consolidated Statements of Operations, but generally records gross receipts taxes and certain state regulatory fees billed to its customers on a net basis in its Consolidated Statements of Operations. Total revenue and network access costs on the Consolidated Statements of Operations include USF contributions totaling \$323 million, \$234 million and \$194 million for the years ended December 31, 2015, 2014 and 2013, respectively.

#### *Stock-Based Compensation*

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

#### *Income Taxes*

The Company recognizes deferred tax assets and liabilities for its United States and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

### *Cash and Cash Equivalents*

The Company classifies investments as cash equivalents if they are readily convertible to cash and have original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist primarily of highly liquid investments in government and government agency securities and money market funds issued or managed by financial institutions in the United States, Europe and Latin America and commercial paper depending on liquidity requirements. As of December 31, 2015 and 2014, the carrying value of cash equivalents approximates fair value due to the short period of time to maturity.

### *Restricted Cash and Securities*

Restricted cash and securities consists primarily of cash and investments that serve to collateralize outstanding letters of credit and certain performance and operating obligations of the Company. Restricted cash and securities are recorded as current or non-current assets in the Consolidated Balance Sheets depending on the duration of the restriction and the purpose for which the restriction exists. Restricted securities are stated at cost which approximates fair value as of December 31, 2015 and 2014.

### *Allowance for Doubtful Accounts*

Trade accounts receivable are recorded at the invoiced amount and can bear interest. The Company establishes an allowance for doubtful accounts for accounts receivable amounts that may not be collectible. The Company determines the allowance for doubtful accounts based on the aging of its accounts receivable balances, the credit quality of its customers and an analysis of its historical experience of bad debt write-offs. Accounts receivable balances are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The Company recognized bad debt expense, net of recoveries, of approximately \$23 million in 2015, \$22 million in 2014 and \$ 17 million in 2013.

### *Property, Plant and Equipment*

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

Facility and Leasehold Improvements	15	-	40	years
Network Infrastructure (including fiber and conduit)	25	-	50	years
Operating Equipment	5	-	15	years
Furniture, Fixtures, Office Equipment and Other	3	-	7	years

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

determine that the period it expects to use certain assets is different than the remaining previously estimated useful lives. The Company completed an evaluation in the first quarter 2014 and revised its estimated useful lives for: IP equipment from its historical estimate of four years to a revised estimate of seven years; racks and cabinets from its historical estimate of seven years to a revised estimate of 15 years; and facility equipment from its historical estimate of 10 years to its revised estimate of 15 years. In determining the change in estimated useful lives, the Company, with input from its engineering team, considered its historical usage patterns and retirements, estimates of technological obsolescence and expected usage and maintenance. The change in the estimated useful lives of the Company's property, plant and equipment was accounted for as a change in accounting estimate on a prospective basis effective January 1, 2014 under the accounting standard related to changes in accounting estimates.

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

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

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

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

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

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

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

Capitalized labor and related costs associated with employees and contract labor working on capital projects were approximately \$244 million , \$ 187 million and \$ 164 million for the years ended December 31, 2015, 2014 and 2013 , respectively.

#### *Asset Retirement Obligations*

The Company recognizes a liability for the estimated fair value of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset in the period incurred. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life

of the associated asset. Increases to the asset retirement obligation liability due to the passage of time are recognized as accretion expense and included within network related expenses. Changes in the liability due to revisions to the amount or timing of future cash flows are recognized by increasing or decreasing the liability with the offset adjusting the carrying amount of the related long-lived asset. To the extent that the downward revisions exceed the carrying amount of the related long-lived asset initially recorded when the asset retirement obligation liability was established, the Company records the remaining adjustment as a reduction to depreciation expense, to the extent of historical depreciation of the related long-lived asset, and then to network related expenses.

#### *Goodwill and Acquired Indefinite-Lived Intangible Assets*

Accounting guidance prohibits the amortization of goodwill and purchased intangible assets with indefinite useful lives. The Company reviews goodwill and purchased intangible assets with indefinite lives for impairment annually as of October 1st and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

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

At the time of each impairment assessment date in 2015, 2014 and 2013, the Company's reporting units consisted of its three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. As a result of the deconsolidation of the Company's Venezuelan subsidiary, the Company completed an assessment of the Latin American and its other reporting units' goodwill as of September 30, 2015 and concluded there was no impairment in 2015. The Company conducted its annual goodwill impairment analysis as of October 1, 2014, and concluded that its goodwill was not impaired in 2014.

The Company's indefinite-lived intangible assets impairment review process compares the estimated fair value of the indefinite-lived intangible assets to their respective carrying values. If the fair value of the indefinite-lived intangible assets exceeds their carrying values, then the indefinite-lived intangible assets are not impaired. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting guidance, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value exceeds the carrying value prior to performing the two step evaluation. If it is determined that it is unlikely the carrying value exceeds the fair value, then the entity is not required to complete the two step indefinite-lived intangible assets impairment evaluation.

#### *Long-Lived Assets Including Finite-Lived Purchased Intangible Assets*

The Company amortizes acquired intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 2 to 12 years.

The Company evaluates long-lived assets, such as property, plant and equipment and acquired intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the assets based on the undiscounted future cash flows the asset groups are expected to generate and

recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the assets plus net proceeds expected from disposition of the assets, if any, are less than the carrying value of the assets. If an asset is deemed to be impaired, the amount of the impairment loss is the excess of the asset's carrying value over its estimated fair value.

The Company conducted a long-lived asset impairment analysis in 2015, 2014 and 2013 and in each case concluded that its long-lived assets, including finite-lived acquired intangible assets, were not impaired.

#### *Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable, restricted cash and securities and derivatives. The Company maintains its cash equivalents, restricted cash and securities and derivatives with various financial institutions. These financial institutions are primarily located in the United States, Europe and Latin America and the Company's policy is to limit exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company also has established guidelines relative to financial instrument credit ratings, diversification and maturities that seek to maintain safety and liquidity. The Company's investment strategy generally results in lower yields on investments but reduces the risk to principal in the short term prior to these funds being used in the Company's business. Notwithstanding the devaluation of the Venezuelan bolivar, the Company has not experienced any material losses on financial instruments held at financial institutions.

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

A relatively small number of customers account for a significant percentage of the Company's revenue. The Company's top ten customers accounted for approximately 16% , 17% and 17% of Level 3's revenue for the years ended December 31, 2015, 2014 and 2013 , respectively.

#### *Recently Issued Accounting Pronouncements*

In February 2016, the FASB issued ASU 2016-02, Leases (ASC Topic 842), which requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. This ASU will replace most existing leasing guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early application is permitted. The standard requires the use of a modified retrospective transition method. The Company is evaluating the effect that ASU 2016-02 will

have on its Consolidated Financial Statements and related disclosures, and expects the new guidance to significantly increase the reported assets and liabilities on its Consolidated Balance Sheets.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (ASC Topic 740). This ASU was issued to simplify the presentation of deferred income taxes to require that all deferred income tax assets and liabilities be classified as noncurrent in the balance sheet. Early application of ASU 2015-17 is permitted and the Company elected to adopt this ASU effective as of December 31, 2015, with retrospective application. The effect of the retrospective application did not have significant effect on the Company's financial position.

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 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. It will be effective for the Company on January 1, 2016, and, upon adoption, debt issuance costs capitalized in other current assets and other assets in the consolidated balance sheet will be reclassified and presented as a reduction to current and noncurrent long-term debt. As of December 31, 2015, debt issuance costs, net of accumulated amortization, recognized in the consolidated balance sheet totaled \$128 million, of which \$19 million is recorded in other current assets.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its Consolidated Financial Statements and related disclosures and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

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

In connection with the closing of the Merger, Level 3 Financing, Inc., a wholly owned subsidiary, amended its existing credit agreement to incur an additional \$2 billion of borrowings through an additional Tranche (the "Tranche B 2022 Term Loan"). The aggregate net proceeds of the Tranche B 2022 Term Loan were used to finance the cash portion of the merger consideration payable to tw telecom's stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger (see Note 11 — Long-Term Debt for additional information). In addition, the net proceeds from the issuance of \$1 billion of 5.375% Senior Notes due 2022 raised in August 2014 (see Note 11 — Long-Term Debt) were used to finance the cash portion of the merger consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger.

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

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

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

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

The combined results of operations of Level 3 and tw telecom are included in the Company's consolidated results of operations beginning in November 2014. 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, was completed in the fourth quarter of 2015. The following is the final allocation of the purchase price.

	<b>Purchase Price Allocation</b>	
	<b>(dollars in millions)</b>	
<b>Assets:</b>		
Cash, Cash Equivalents and Restricted Cash	\$	309
Property, Plant and Equipment		1,553
Goodwill		5,181
Identifiable Intangible Assets		1,263
Other Assets		140
<b>Total Assets</b>		<b>8,446</b>
<b>Liabilities:</b>		
Long-Term Debt		(2,099)
Deferred Revenue		(57)
Other Liabilities		(279)
<b>Total Liabilities</b>		<b>(2,435)</b>
<b>Total Consideration to be Allocated</b>	<b>\$</b>	<b>6,011</b>

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).

	Year Ended December 31,	
	2014	2013
Total Revenue	\$ 8,123	\$ 7,825
Net Income (Loss)	\$ 149	\$ (153)
Net Income (Loss) per Share - Basic	\$ 0.44	\$ (0.48)
Net Income (Loss) per Share - Diluted	\$ 0.44	\$ (0.48)

These pro forma results include certain adjustments, primarily due to increases in depreciation and amortization expense due to fair value adjustments of tangible and intangible assets, increases in interest expense due to Level 3's issuance of incremental debt to finance cash consideration, partially offset by the refinancing of tw telecom debt that had higher interest rates than the incremental financing, and to eliminate historical transactions between Level 3 and tw telecom. The unaudited pro forma information is not intended to represent or be indicative of the actual results of operations of Level 3 that would have been reported had the Merger been completed on January 1, 2013, nor is it representative of future operating results of the Company. The pro forma information does not include any operating efficiencies or cost savings that Level 3 achieved with respect to combining the companies.

Acquisition related costs include transaction costs such as legal, accounting, valuation and other professional services as well as integration costs such as severance and retention. Acquisition related costs have been recorded in Network Related Expenses and Selling, General and Administrative Expenses in the Company's Consolidated Statements of Operations. Level 3 incurred total acquisition related transaction and integration costs of approximately \$113 million through December 31, 2015.

### (3) Earnings (Loss) Per Share

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

The effect of approximately 17 million and 18 million shares issuable pursuant to the various series of convertible notes outstanding at December 31, 2014 and 2013, respectively, have not been included in the computation of diluted earnings (loss) per share because their inclusion would have been anti-dilutive to the computation. In addition, The effect of the approximately 6 million stock options, outperform stock appreciation rights ("OSOs"), and restricted stock units ("RSUs") and warrants outstanding at December 31, 2013, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

**(4) Property, Plant and Equipment**

The components of the Company's property, plant and equipment as of December 31, 2015 and 2014 are as follows (dollars in millions):

	Cost	Accumulated Depreciation	Net
<b>December 31, 2015</b>			
Land	\$ 180	\$ —	\$ 180
Land Improvements	76	(53)	23
Facility and Leasehold Improvements	2,582	(1,352)	1,230
Network Infrastructure	8,979	(3,669)	5,310
Operating Equipment	7,988	(5,079)	2,909
Furniture, Fixtures and Office Equipment	242	(189)	53
Other	28	(23)	5
Construction-in-Progress	168	—	168
	<u>\$ 20,243</u>	<u>\$ (10,365)</u>	<u>\$ 9,878</u>
<b>December 31, 2014</b>			
Land	\$ 192	\$ —	\$ 192
Land Improvements	73	(50)	23
Facility and Leasehold Improvements	2,489	(1,265)	1,224
Network Infrastructure	8,941	(3,447)	5,494
Operating Equipment	7,217	(4,669)	2,548
Furniture, Fixtures and Office Equipment	255	(177)	78
Other	29	(21)	8
Construction-in-Progress	293	—	293
	<u>\$ 19,489</u>	<u>\$ (9,629)</u>	<u>\$ 9,860</u>

Depreciation expense was \$939 million in 2015 , \$713 million in 2014 and \$727 million in 2013 .

**(5) Asset Retirement Obligations**

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

The following table provides asset retirement obligation activity for the years ended December 31, 2015 and 2014 (dollars in millions):

	<u>2015</u>	<u>2014</u>
Asset retirement obligation at January 1	\$ 85	\$ 56
Accretion expense	9	8
Liabilities assumed in tw telecom acquisition	—	22
Liabilities settled	(8)	(7)
Revision in estimated cash flows	5	7
Effect of foreign currency rate change	(1)	(1)
Asset retirement obligation at December 31	<u>\$ 90</u>	<u>\$ 85</u>

## (6) Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2015 and 2014 are as follows (dollars in millions):

	<b>Total</b>
Balance as of January 1, 2014	\$2,577
Goodwill adjustments including the effect of foreign currency rate change	(12)
Goodwill acquired in tw telecom acquisition	<u>5,124</u>
Balance as of December 31, 2014	7,689
Goodwill adjustments including the effect of foreign currency rate change	<u>60</u>
Balance as of December 31, 2015	<u>\$7,749</u>

## (7) Acquired Intangible Assets

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

	Gross Carrying Amount	Accumulated Amortization	Net
<b>December 31, 2015</b>			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 1,975	\$ (932)	\$ 1,043
Trademarks	55	(55)	—
Patents and Developed Technology	230	(161)	69
	2,260	(1,148)	1,112
<i>Indefinite-Lived Intangible Assets:</i>			
Trade Name	15	—	15
	\$ 2,275	\$ (1,148)	\$ 1,127
<b>December 31, 2014</b>			
<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
	2,320	(921)	1,399
<i>Indefinite-Lived Intangible Assets:</i>			
Trade Name	15	—	15
	\$ 2,335	\$ (921)	\$ 1,414

During the fourth quarter of 2015 and 2014, the Company conducted its long-lived assets and indefinite-lived intangible assets impairment analysis and concluded that there was no impairment in 2015 and there was impairment of \$17 million in its trade name indefinite-lived intangible asset in 2014.

Acquired finite-lived intangible assets amortization expense was \$227 million in 2015 , \$95 million in 2014 and \$73 million in 2013 .

At December 31, 2015 , the weighted average remaining useful lives of the Company's acquired finite-lived intangible assets was 5.9 years for customer contracts and relationships and 3.2 years for patents and developed technology.

As of December 31, 2015 , estimated amortization expense for the Company's finite-lived acquisition-related intangible assets over the next five years and thereafter is as follows (dollars in millions):

2016	\$	212
2017		196
2018		193
2019		181
2020		166
Thereafter		164
	\$	1,112

## **(8) Restructuring Charges**

### ***Employee Separations***

Changing economic and business conditions as well as organizational structure optimization efforts have caused the Company to initiate from time to time various workforce reductions resulting in involuntary employee terminations. The Company also has initiated workforce reductions resulting from the integration of previously acquired companies.

During 2015 and 2014, as part of the Merger and to improve organizational effectiveness, the Company initiated workforce reductions. During 2013, the Company initiated workforce reductions primarily focused on labor cost savings and improving organizational effectiveness. Restructuring charges totaled \$24 million, \$45 million and \$47 million in 2015, 2014 and 2013, respectively, of which \$8 million, \$11 million and \$12 million in 2015, 2014 and 2013, respectively, were recorded in Network Related Expenses and \$16 million, \$34 million and \$35 million in 2015, 2014 and 2013, respectively, were recorded in Selling, General and Administrative Expenses.

As of December 31, 2015 and 2014, the Company had \$4 million and \$37 million, respectively, of employee termination liabilities.

### ***Facility Closings***

The Company also has accrued contract termination costs of \$11 million and \$20 million as of December 31, 2015 and 2014, respectively, for facility lease costs that the Company continues to incur without economic benefit. Accrued contract termination costs are recorded in other liabilities (current and non-current) in the Consolidated Balance Sheets. The Company expects to pay the majority of these costs through 2025. The Company recognized a charge of approximately \$3 million, a charge of less than \$1 million and a charge of \$7 million in 2015, 2014 and 2013, respectively, as a result of facility lease costs. The Company records charges for contract termination costs within Selling, General and Administrative Expenses in the Consolidated Statements of Operations.

## **(9) Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, capital leases, other liabilities, interest rate swaps and long-term debt (including the current portion). The carrying values of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, capital leases and other liabilities approximated their fair values at December 31, 2015 and 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 nonperformance.

### ***Fair Value Hierarchy***

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

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

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

*Level 3* — Unobservable inputs for the asset or liability.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during each of the years ended December 31, 2015 and 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 December 31, 2015 and 2014 :

(dollars in millions)	Total Carrying Value in Consolidated Balance Sheets		Fair Value Measurement Using			
			Unadjusted Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 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	\$ 4,595	\$ 4,590	\$ 4,570	\$ 4,593	\$ —	\$ —
Senior Notes	6,215	6,203	6,298	6,481	—	—
Convertible Notes	—	333	—	—	—	868
Capital Leases and Other	199	207	—	—	199	207
Total Long-term Debt, including the current portion:	\$ 11,009	\$ 11,333	\$ 10,868	\$ 11,074	\$ 199	\$ 1,075

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

*Term Loans*

The fair value of the Term Loans referenced above was approximately \$4.6 billion and \$4.6 billion at December 31, 2015 and 2014 , respectively. The fair value of each loan is based on quoted prices. Each loan tranche is actively traded.

*Senior Notes*

The fair value of the Senior Notes referenced above was approximately \$6.3 billion and \$6.5 billion at December 31, 2015 and 2014 , respectively, based on quoted prices. 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 was based on a Black-Scholes valuation model and an income approach using discounted cash flows. The most significant inputs affecting the valuation were the pricing quotes provided by market participants that incorporated 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 was 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 are determined by discounting anticipated future cash flows derived from the contractual terms of the obligations and observable market interest and foreign exchange rates.

## **(10) Derivative Financial Instruments**

The Company has floating rate long-term debt (see Note 11 - Long-Term Debt). This type of debt exposes the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also generally decreases. The Company has used interest rate swaps, in an attempt to manage its exposure to fluctuations in interest rate movements. The Company's primary objective in managing interest rate risk was to decrease the volatility of its earnings and cash flows affected by changes in the underlying rates. The Company does not use derivative financial instruments for speculative purposes.

In March 2007, Level 3 Financing, Inc. entered into two interest rate swap agreements to hedge the interest payments on \$1 billion principal amount of floating rate debt. The Company had designated these interest rate swap agreements as cash flow hedges. The hedge designation was terminated in 2012 in connection with certain refinancing activities, and the instruments were settled upon maturity in 2014. Prior to the redesignation of the hedging relationship in 2012, the change in the fair value of the interest rate swap agreements was reflected in Accumulated Other Comprehensive Income (Loss) ("AOCI") and was subsequently reclassified into earnings through an interest expense yield adjustment, as interest expense on the hedged debt obligation was incurred.

After the redesignation in August 2012, the Company recorded the change in the fair value of the swaps in Other, net in its Consolidated Statement of Operations until maturity of the swaps in early 2014. The Company recognized a loss of zero and \$2 million for the year ended December 31, 2014 and 2013, respectively.

## (11) Long-Term Debt

The following table summarizes the Company's long-term debt (amounts in millions):

	Date of				December 31,	December 31,
	Issuance/Amendment	Maturity	Interest Payments	Interest Rate	2015	2014
					Amount	Amount
<b>Senior Secured Term Loans:</b>						
<i>Borrowed by Level 3 Financing, Inc.</i>						
Tranche B-III 2019 Term Loan (1)(4)	Aug 2013	Aug 2019	Quarterly	LIBOR +3.00%	815	815
Tranche B 2020 Term Loan (1)(4)	Oct 2013	Jan 2020	Quarterly	LIBOR +3.00%	1,796	1,796
Tranche B 2022 Term Loan (1)(4)	Oct 2014	Jan 2022	Quarterly	LIBOR +3.50%	—	2,000
Tranche B-II 2022 Term Loan (1)(4)	May 2015	May 2022	Quarterly	LIBOR +2.75%	2,000	—
<b>Senior Notes:</b>						
<i>Issued by Level 3 Financing, Inc.</i>						
Floating Rate Senior Notes due 2018 (2)(4)	Nov 2013	Jan 2018	May/Nov	6-Month LIBOR +3.50%	300	300
9.375% Senior Notes due 2019 (2)	Mar 2011	Apr 2019	Apr/Oct	9.375%	—	500
8.125% Senior Notes due 2019 (2)	Jul 2011	Jul 2019	Jan/Jul	8.125%	—	1,200
8.625% Senior Notes due 2020 (2)	Jan 2012	Jul 2020	Jan/Jul	8.625%	—	900
7% Senior Notes due 2020 (2)	Aug 2012	Jun 2020	Jun/Dec	7.000%	775	775
6.125% Senior Notes due 2021 (2)	Nov 2013	Jan 2021	Apr/Oct	6.125%	640	640
5.375% Senior Notes due 2022 (2)	Aug 2014	Aug 2022	May/Nov	5.375%	1,000	1,000
5.625% Senior Notes due 2023 (2)	Jan 2015	Feb 2023	Jun/Dec	5.625%	500	—
5.125% Senior Notes due 2023 (2)	Apr 2015	May 2023	Mar/Sept	5.125%	700	—
5.375% Senior Notes due 2025 (2)	Apr 2015	May 2025	Mar/Sept	5.375%	800	—
5.375% Senior Notes due 2024 (2)	Nov 2015	Jan 2024	Jan/Jul	5.375%	900	—
<i>Issued by Level 3 Communications, Inc.</i>						
8.875% Senior Notes due 2019 (3)	Aug 2012	Jun 2019	Jun/Dec	8.875%	—	300
5.75% Senior Notes due 2022 (3)	Dec 2014	Dec 2022	Mar/Sept	5.750%	600	600
7% Convertible Senior Notes Due 2015 (3)	Jun 2009	Mar 2015	Mar/Sept	7.000%	—	58
7% Convertible Senior Notes Due 2015 Series B (3)	Oct 2009	Mar 2015	Mar/Sept	7.000%	—	275
<b>Capital Leases and Other Debt</b>					199	207
Total Debt Obligations					11,025	11,366
Unamortized discounts					(16)	(33)
Current Portion					(15)	(349)
<b>Total Long-Term Debt</b>					10,994	10,984

(1) The term loans are secured obligations and guaranteed by the Company and Level 3 Communications, LLC and certain other subsidiaries.

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

(3) The notes were not guaranteed by any of the Company's subsidiaries.

(4) The Tranche B-III 2019 Term Loan and the Tranche B 2020 Term Loan each had an interest rate of 4.000% as of December 31, 2015 and 2014. The Tranche B-II 2022 Term Loan had an interest rate of 3.500% as of December 31, 2015 and the Tranche B 2022 Term Loan had an interest rate of 4.500% as of December 31, 2014. The Floating Rate Senior Notes due 2018 had an interest rate of 4.101% as of December 31, 2015 and 3.826% as of December 31, 2014. The interest rate on the Tranche B-III 2019 Term Loan, the Tranche B 2020 Term Loan and the Tranche B 2022 Term Loan are set with a minimum LIBOR of 1.00% , and the Tranche B-II 2022 Term Loan is set with a minimum LIBOR of 0.75% .

### **Senior Secured Term Loans**

As of January 1, 2014, Level 3 Financing, Inc., the Company's direct wholly owned subsidiary ("Level 3 Financing") had a senior credit facility consisting of \$815 million Tranche B-III Term Loan due 2019 and \$1.796 billion Tranche B Term Loan due 2020.

On October 31, 2014, Level 3 Financing entered into a ninth amendment agreement to the Existing Credit Agreement to incur \$2 billion in aggregate borrowings under the Existing Credit Agreement through the creation of a new Tranche B 2022 Term Loan (the "Tranche B 2022 Term Loan"). The Tranche B 2022 Term Loan included an upfront payment to the lenders of 0.75% of par and bears interest equal to LIBOR plus 3.50% with LIBOR set at a minimum of 1.00% .

On May 8, 2015, Level 3 Financing refinanced its existing \$2 billion senior secured Tranche B 2022 Term Loan under a tenth amendment agreement to its Existing Credit Agreement 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 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. As a result of this transaction, the Company recognized a loss on the refinancing of approximately \$27 million .

### **Senior Notes**

The Company completed several offerings and refinancing of senior notes in 2015 and 2014. All of the notes pay interest semiannually, and allow for the redemption of the notes at the option of the issuer upon not less than 30 or more than 60 days' prior notice by paying the greater of the principal amount or a "make-whole" amount, plus accrued interest. In addition, the following notes also have a provision that allows for an additional right of optional redemption using cash proceeds received from the sale of equity securities. For specific details of these features and requirements, including the applicable premiums and timing, refer to the indentures for the respective senior notes in connection with the original issuances.

#### **5.375% Senior Notes due 2022**

On August 12, 2014, Level 3 Escrow II, Inc. ("Level 3 Escrow"), an indirect, wholly owned subsidiary of Level 3 Communications, Inc., issued \$1.0 billion in aggregate principal amount of its 5.375% Senior Notes due 2022 (the "5.375% Senior Notes due 2022"). The 5.375% Senior Notes due 2022 were assumed by Level 3 Financing and the proceeds were used to refinance certain existing indebtedness of tw telecom.

#### **5.75% Senior Notes due 2022**

On December 1, 2014, Level 3 issued a total of \$600 million aggregate principal amount of its 5.75% Senior Notes due 2022 (the "5.75% Senior Notes"). The net proceeds from the offering of the notes, together with cash on hand were used to redeem all of the outstanding 11.875% Senior Notes due 2019 issued by Level 3 Financing, including the payment of accrued interest and applicable premiums, and in connection with that redemption, the indenture relating to the 11.875% Senior Notes due 2019 was discharged on December 31, 2014. Level 3 Financing redeemed its 11.875% Senior Notes due 2017 at a price of 106.859% of the principal amount and recognized a loss on extinguishment of debt of \$53 million .

**9.375% Senior Notes due 2019 and 5.625% Senior Notes due 2023**

In January 2015, 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 .

**8.125% Senior Notes due 2019, 8.875% Senior Notes due 2019, 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 due 2025"). The net proceeds from the offering of the 5.125% Senior Notes and 5.375% Senior Notes due 2025, 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. 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 and 5.375% Senior Notes due 2025 were not originally registered under the Securities Act of 1933, as amended. The registration rights agreement became effective as of December 10, 2015.

**8.625% Senior Notes due 2020 and 5.375% Senior Notes due 2024**

On November 13, 2015, Level 3 Financing issued \$900 million in aggregate principal amount of its 5.375% Senior Notes due 2024 (the "5.375% Senior Notes due 2024"). The net proceeds from the offering of the 5.375% Senior Notes due 2024, together with cash on hand, were used to redeem all \$900 million aggregate principal amount of Level 3 Financing's 8.625% Senior Notes due 2020. Total loss on modification and extinguishment of debt related to the 8.625% Senior Notes due 2020 was approximately \$55 million .

The 5.375% Senior Notes due 2024 are fully and unconditionally guaranteed on an unsubordinated unsecured basis by the Company and now Level 3 Communications, LLC as of February 2016.

**7% Convertible Senior Notes**

During the fourth quarter of 2014, certain holders converted approximately \$142 million of the 7% Convertible Senior Notes to common equity. Upon conversion, the Company issued an aggregate of approximately 5 million shares of Level 3 common stock, representing the approximately 37 shares per \$1,000 note into which the notes were then convertible.

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.

**Capital Leases**

As of December 31, 2015, the Company had \$199 million of capital leases. The Company leases property, equipment, certain dark fiber facilities and metro fiber under non-cancelable IRU agreements that are accounted for as capital leases. Interest rates on these capital leases approximated 5.9% on average as of December 31, 2015.

**Other Debt**

As of December 31, 2015, the Company had less than \$1 million of other debt with an average interest rate of 5.0% .

**Debt Issuance Costs**

For the years ended December 31, 2015, 2014 and 2013, the Company deferred debt issuance costs of \$50 million, \$49 million and \$27 million, respectively, in connection with debt issuances, that are being amortized to interest expense over the respective terms of the debt. At December 31, 2015 and 2014, there was \$128 million and \$145 million, respectively, of unamortized debt issuance costs.

**Covenant Compliance**

At December 31, 2015 and 2014, the Company was in compliance with the financial covenants on all outstanding debt issuances.

**Long-Term Debt Maturities**

Aggregate future contractual maturities of long-term debt and capital leases (excluding discounts and fair value adjustments) were as follows as of December 31, 2015 (dollars in millions):

2016	\$	15
2017		7
2018		307
2019		822
2020		2,579
Thereafter		7,295
	\$	<u>11,025</u>

**(12) Accumulated Other Comprehensive Income (Loss)**

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

(dollars in millions)	Net Foreign Currency Translation Adjustment	Net Defined Benefit Pension Plans	Total
Balance at January 1, 2013	\$ 56	\$ (30)	\$ 26
Other comprehensive income (loss) before reclassifications	11	(3)	8
Amounts reclassified from accumulated other comprehensive loss	—	2	2
Balance at December 31, 2013	67	(31)	36
Other comprehensive income (loss) before reclassifications	(178)	(9)	(187)
Amounts reclassified from accumulated other comprehensive loss	—	4	4
Balance at December 31, 2014	(111)	(36)	(147)
Other comprehensive income (loss) before reclassifications	(162)	6	(156)
Amounts reclassified from accumulated other comprehensive loss	—	2	2
Balance at December 31, 2015	<u>\$ (273)</u>	<u>\$ (28)</u>	<u>\$ (301)</u>

**(13) Employee Benefits and Stock-Based Compensation**

The Company records non-cash compensation expense for its outperform stock appreciation rights ("OSOs"), performance restricted stock units, restricted stock units, 401(k) matching contributions, and, prior to 2014, other stock-based compensation expense associated with the Company's discretionary bonus grants.

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for each of the three years ended December 31, 2015, 2014 and 2013 (dollars in millions):

	2015	2014	2013
OSOs	\$ 6	\$ 8	\$ 21
Restricted Stock Units	65	34	38
Performance Restricted Stock Units	35	14	—
401(k) Match Expense	36	23	24
Restricted Stock Unit Bonus Grant	—	(5)	59
Management Incentive and Retention Plan	—	—	10
	<u>142</u>	<u>74</u>	<u>152</u>
Capitalized Non-Cash Compensation	(1)	(1)	(1)
	<u>\$ 141</u>	<u>\$ 73</u>	<u>\$ 151</u>

The Company capitalizes non-cash compensation for those employees directly involved in the construction of the network, installation of services for customers or the development of business support systems.

OSOs and restricted stock units are granted under the Level 3 Communications, Inc. Stock Incentive Plan, as amended (the "Stock Plan"), which term extends through May 21, 2025. The Stock Plan provides for accelerated vesting of stock awards upon retirement if an employee meets certain age and years of

service requirements and certain other requirements. Under the Stock Compensation guidance, if an employee meets the age and years of service requirements under the accelerated vesting provision, the award would be expensed at grant or expensed over the period from the grant date to the date the employee meets the requirements, even if the employee has not actually retired. The Company recognized non-cash compensation expense for employees that met the age and years of service requirements for accelerated vesting at retirement of \$14 million, \$4 million and \$5 million in 2015, 2014 and 2013, respectively.

### **Outperform Stock Appreciation Rights**

OSOs were awarded through the end of 2013, and will continue to be outstanding through 2016. The Company's OSO program was designed so that the Company's stockholders would receive a market return on their investment before OSO holders receive any return on their OSOs. The Company believes that the OSO program directly aligned management's and stockholders' interests by basing stock option value on the Company's ability to outperform the market in general, as measured by the Standard & Poor's ("S&P") 500® Index. Participants in the OSO program do not realize any value from awards unless the Company's common stock price outperforms the S&P 500® Index during the life of the grant. When the stock price gain is greater than the corresponding gain on the S&P 500® Index, the value received for awards under the OSO plan is based on a formula involving a multiplier related to the level by which the Company's common stock outperforms the S&P 500® Index. To the extent that Level 3's common stock outperforms the S&P 500® Index, the value of OSO units to a holder may exceed the value of non-qualified stock options.

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

If Level 3 Stock Outperforms the S&P 500® Index by:	Then the Pre-multiplier Gain Multiplied by a Success Multiplier of:
0% or Less	—
More than 0% but Less than 11%	Outperformance percentage multiplied by 4/11
11% or More	4.00

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

Upon settlement of an OSO, the Company shall deliver or pay to the grantee the difference between the fair market value of a share of Level 3 common stock as of the day prior to the settlement date, less the Adjusted Strike Price (the "Exercise Consideration"). The Exercise Consideration may be paid in cash, Level 3 common stock or any combination of cash or Level 3 common stock at the Company's discretion. The number of shares of Level 3 common stock to be delivered by the Company to the grantee is determined by dividing the Exercise Consideration to be paid in Level 3 common stock by the fair market value of a share of Level 3 common stock as of the date prior to the settlement date. Fair market value was defined in the OSO agreement as the closing price per share of Level 3 common stock on the national securities exchange on which the common stock is traded. Settlement of the OSO units does not require any cash outlay by the employee.

OSO units have a three year life and vest 100% and are fully settled on the third anniversary of the date of the award. Recipients have no discretion on the timing to exercise OSO units, thus the expected life of all such OSO units was three years.

As of December 31, 2015, there was \$1 million of unamortized compensation expense related to granted OSO units. The weighted average period over which this cost will be recognized is 0.60 years.

The fair value of the OSO units last granted in 2013 was calculated by applying a modified Black-Scholes model with the assumptions identified below. The Company utilized a modified Black-Scholes model due to the additional variables required to calculate the effect of the market conditions and success multiplier of the OSO program. The Company believes that given the relative short life of the OSOs and the other variables used in the model, the modified Black-Scholes model provides a reasonable estimate of the fair value of the OSO units at the time of grant.

	Year Ended December 31, 2013
S&P 500 Expected Dividend Yield Rate	2.24%
Expected Life	3 years
S&P 500 Expected Volatility Rate	19%
Level 3 Common Stock Expected Volatility Rate	39%
Expected S&P 500 Correlation Factor	0.44
Calculated Theoretical Value	101%
Estimated Forfeiture Rate	15%

The fair value of each OSO unit equaled the calculated theoretical value multiplied by the Level 3 common stock price on the grant date.

As described above, recipients have no discretion on the timing to exercise OSO units. Thus the expected life of all such OSO units was three years. The Company estimates the stock price volatility using a combination of historical and implied volatility as Level 3 believes it is consistent with the approach most marketplace participants would consider using all available information to estimate expected volatility. The Company has determined that expected volatility is more reflective of market conditions and provides a more accurate indication of volatility than using solely historical volatility. In reaching this conclusion, the Company has considered many factors including the extent to which its future expectations of volatility over the respective term is likely to differ from historical measures.

The fair value for OSO units awarded to participants during the year ended December 31, 2013 was approximately \$17 million.

Transactions involving OSO units awarded are summarized in the table below. The Option Price Per Unit identified in the table below represents the initial strike price, as determined on the day prior to the OSO grant date for those grants.

	Units	Initial Strike Price Per Unit	Weighted Average Initial Strike Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (years)
(in millions)					
Balance January 1, 2013	2,066,419	\$ 14.10 - \$ 36.60	\$ 23.40	\$ 6.6	1.73
OSOs granted	748,481	\$ 20.29 - \$ 26.69	\$ 22.64		
OSOs forfeited	(271,883)	\$ 14.10 - \$ 36.60	\$ 22.33		
OSOs expired	(286,924)	\$ 16.35 - \$ 24.30	\$ 21.48		
OSOs exercised	(107,228)	\$ 14.10 - \$ 14.10	\$ 14.10		
Balance December 31, 2013	2,148,865	\$ 14.10 - \$ 36.60	\$ 23.99	\$ 31.6	1.46
OSOs granted	—	\$ — - \$ —	\$ —		
OSOs forfeited	(52,901)	\$ 16.99 - \$ 27.53	\$ 22.99		
OSOs expired	(106,844)	\$ 36.60 - \$ 36.60	\$ 36.60		
OSOs exercised	(771,251)	\$ 14.70 - \$ 27.53	\$ 24.26		
Balance December 31, 2014	1,217,869	\$ 16.99 - \$ 27.53	\$ 22.76	\$ 88.0	0.90
OSOs granted	—	\$ — - \$ —	\$ —		
OSOs forfeited	(12,945)	\$ 20.29 - \$ 26.69	\$ 22.81		
OSOs expired	—	\$ — - \$ —	\$ —		
OSOs exercised	(589,944)	\$ 22.15 - \$ 22.97	\$ 22.32		
Balance December 31, 2015	614,980	\$ 20.29 - \$ 26.69	\$ 22.77	\$ 48.5	0.37

Range of Exercise Prices	OSO Units Outstanding at December 31, 2015			OSO units Exercisable at December 31, 2015	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Initial Strike Price	Number Exercisable	Weighted Average Initial Strike Price
\$20.29 - \$ 26.69	614,980	0.37	\$ 22.77	—	\$ —

In the table above, the weighted average initial strike price represents the values used to calculate the theoretical value of OSO units on the grant date and the intrinsic value represents the value of OSO units that have outperformed the S&P 500® Index as of December 31, 2015, 2014 and 2013, respectively.

The total realized value of OSO units settled was \$13 million, \$19 million and \$2 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company issued 622,755, 732,593 and 90,879 shares of Level 3 common stock upon the exercise of OSO units for the years ended December 31, 2015, 2014 and 2013, respectively. The number of shares of Level 3 common stock issued upon settlement of an OSO unit varies based upon the relative performance of Level 3 stock price and the S&P 500® Index between the initial grant date and settlement date of the OSO unit.

**Restricted Stock and Units and Performance Restricted Stock Units**

Restricted stock units are generally granted annually on July 1 to certain eligible recipients, including the Board of Directors, at no cost. Restrictions on transfer lapse over one to four year periods.

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

PRSUs use a two -year performance measurement period and vest 50% on the second anniversary of the grant date (after the relevant performance has been measured) and the second 50% vest on the third anniversary of grant date.

The fair value of restricted stock units awarded totaled \$144 million , \$96 million and \$34 million for the years ended December 31, 2015, 2014 and 2013 , respectively. The fair value of these awards was calculated using the value of Level 3 common stock on the grant date and are being amortized over the periods in which the restrictions lapse. As of December 31, 2015 , unamortized compensation cost related to nonvested restricted stock and restricted stock units was \$109 million and the weighted average period over which this cost will be recognized is 2.17 years .

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

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	3,636,976	\$ 24.71
Stock and units granted	1,617,592	\$ 21.26
Lapse of restrictions	(1,841,757)	\$ 25.19
Stock and units forfeited	(488,461)	\$ 23.10
Nonvested at December 31, 2013	2,924,350	\$ 22.77
Stock and units granted	1,650,772	\$ 43.48
Lapse of restrictions	(1,150,080)	\$ 22.92
Stock and units forfeited	(206,305)	\$ 27.14
Nonvested at December 31, 2014	3,218,737	\$ 32.95
Stock and units granted	2,087,942	\$ 50.60
Lapse of restrictions	(1,194,519)	\$ 31.70
Stock and units forfeited	(358,227)	\$ 44.25
Nonvested at December 31, 2015	3,753,933	\$ 42.09

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

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	—	\$ —
Stock and units granted	605,111	\$ 39.30
Lapse of restrictions	(1,750)	\$ 39.14
Stock and units forfeited	(35,480)	\$ 39.14
Nonvested at December 31, 2014	567,881	\$ 39.31
Stock and units granted	713,657	\$ 53.82
Lapse of restrictions	—	\$ —
Stock and units forfeited	(53,073)	\$ 49.25
Nonvested at December 31, 2015	1,228,465	\$ 47.31

The total fair value of restricted stock and restricted stock units and PRSUs whose restrictions lapsed in the years ended December 31, 2015, 2014 and 2013 was \$38 million , \$27 million and \$46 million , respectively.

**Management Incentive and Retention Plan**

Effective March 2012, the Company adopted a Management Incentive and Retention Plan ("MIRP") as a means of encouraging key management personnel to remain employed with the Company or one of its subsidiaries and to reward the achievement of established performance criteria. The MIRP provided an opportunity to receive two types of awards: a retention award and an incentive award. Participants' retention and incentive awards had a cash component only or a cash component and an equity component. The equity component was granted in the form of restricted stock units under the Stock Plan. The MIRP has terminated pursuant to its terms and there are no remaining unamortized compensation costs related to MIRP.

A summary of the retention restricted stock units granted under the MIRP is shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	465,000	\$ 25.92
Stock and units granted	—	\$ —
Lapse of restrictions	(270,000)	\$ 25.92
Stock and units forfeited	—	\$ —
Nonvested at December 31, 2013	195,000	\$ 25.92
Stock and units granted	—	
Lapse of restrictions	(195,000)	\$ 25.92
Stock and units forfeited	—	
Nonvested at December 31, 2014	—	

No retention restricted stock units were awarded during the years ended December 31, 2015 and 2014 under the MIRP, and all prior awards were vested as of December 31, 2014.

### **Defined Contribution Plans**

The Company sponsors a number of defined contribution plans. The principal defined contribution plans are discussed individually below. Other defined contribution plans are not individually significant and therefore have been summarized in aggregate below.

The Company and its subsidiaries offer their qualified employees the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of Section 401(k) of the Internal Revenue Code ("401(k) Plan"). Each employee is eligible to contribute, on a tax deferred basis, a portion of annual earnings generally not to exceed \$18,000 in 2015 and \$18,000 in 2016. The Company matches 100% of employee contributions up to 4% of eligible earnings or applicable regulatory limits.

The Company's matching contributions are made with Level 3 common stock based on the closing stock price on each pay date. The Company's matching contributions are made through units in the Level 3 Stock Fund, which represent shares of Level 3 common stock. The Level 3 Stock Fund is the mechanism that is used for Level 3 to make employer matching and other contributions to employees through the Level 3 401(k) Plan. Prior to January 2016, employees were not able to purchase units in the Level 3 Stock Fund but effective January 2016, employees may allocate account balances to the Level 3 Stock Fund subject to a limitation on the total percentage of the employee's 401(K) account balances maintained in the Level 3 Stock Fund. Employees are able to diversify the Company's matching contribution as soon as it is made, even if they are not fully vested, subject to insider trading rules and regulations. The Company's matching contributions vest ratably over the first three years of service or over such shorter period until the employee has completed three years of service at such time the employee is then 100% vested in all Company matching contributions, including future contributions. The Company made 401(k) Plan matching contributions of \$36 million, \$23 million and \$24 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company's matching contributions are recorded as non-cash compensation and included in network related expenses of \$5 million, \$4 million and \$4 million for the years ended December 31, 2015, 2014 and 2013, respectively, and in selling, general and administrative expenses of \$31 million, \$19 million and \$20 million for the years ended December 31, 2015, 2014 and 2013, respectively. Former tw telecom employees became eligible to participate in the Level 3 401(k) Plan starting January 1, 2015.

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

Other defined contribution plans sponsored by the Company are individually not significant. On an aggregate basis the expenses recorded by the Company relating to these plans was approximately \$6 million, \$6 million and \$5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### **Defined Benefit Plans**

The Company has certain contributory and non-contributory employee pension plans, which are not significant to the financial position or operating results of the Company. The Company recognizes in its balance sheet the funded status of its defined benefit post-retirement plans, which is measured as the difference between the fair value of the plan assets and the plan benefit obligations. The Company is also required to recognize changes in the funded status within accumulated other comprehensive income, net of tax to the extent such changes are not recognized in earnings as components of periodic net benefit cost. The fair value of the plan assets was \$142 million and \$151 million as of December 31, 2015 and

2014, respectively. The total plan benefit obligations were \$158 million and \$176 million as of December 31, 2015 and 2014, respectively. Therefore, the total funded status was an obligation of \$16 million and \$25 million as of December 31, 2015 and 2014, respectively.

**Annual Discretionary Bonus Grant**

The Company's annual discretionary bonus program is intended to motivate employees to achieve the Company's financial and business goals. Each participant is provided a target award expressed as a percentage of base salary. Actual awards under the program are based on corporate results as well as achievement of specific individual performance criteria during the bonus plan period, and may be paid in cash, restricted stock units, or a combination of the two, at the sole discretion of the Compensation Committee of the Board of Directors. The annual discretionary bonus will be paid in cash for the 2015 bonus plan, was paid in cash for the 2014 bonus plan and was paid partially in cash and equity for the 2013 bonus plan. The Company paid out 1.4 million immediately-vested restricted stock units in 2014 for the 2013 bonus plan.

**(14) Income Taxes**

The following table summarizes the income tax benefit (expense) attributable to the income (loss) before income taxes for each of the three years ended December 31, 2015, 2014 and 2013 :

	2015	2014	2013
<b>(dollars in millions)</b>			
<b>Current:</b>			
United States Federal	\$ —	\$ —	\$ 9
State	(3)	(1)	(1)
Foreign	(33)	(40)	(37)
	<u>(36)</u>	<u>(41)</u>	<u>(29)</u>
<b>Deferred, net of changes in valuation allowances:</b>			
United States federal	2,941	6	(3)
State	246	15	—
Foreign	(1)	96	(6)
	<u>3,186</u>	<u>117</u>	<u>(9)</u>
Income Tax Benefit (Expense)	<u>\$ 3,150</u>	<u>\$ 76</u>	<u>\$ (38)</u>

The United States and Foreign components of income (loss) before income taxes for each of the three years ended December 31, 2015, 2014 and 2013 are as follows (some of the income (loss) is subject to taxation in multiple jurisdictions):

	2015	2014	2013
<b>(dollars in millions)</b>			
United States	\$ 401	\$ 207	\$ (122)
Foreign	(118)	31	51
	<u>\$ 283</u>	<u>\$ 238</u>	<u>\$ (71)</u>

A reconciliation of the actual income tax benefit (expense) and the tax computed by applying the U.S. federal rate ( 35% ) to the income (loss) before income taxes for each of the three years ended December 31, 2015, 2014 and 2013 is shown in the following table:

	2015	2014	2013
	(dollars in millions)		
Computed Tax (Expense) Benefit at Statutory Rate	\$ (99)	\$ (83)	\$ 25
Effect of Earnings in Jurisdictions outside of the United States	30	13	12
Change in Valuation Allowance	3,386	197	(27)
Disallowed Interest	(62)	(25)	(33)
Non-Deductible Deconsolidation Loss	(57)	—	—
Other Permanent Items	(25)	(19)	(11)
Indefinite-Lived Assets	—	2	(3)
Uncertain Tax Positions	(5)	3	9
Changes in Tax Rates	(20)	(7)	(7)
Other, net	2	(5)	(3)
Income Tax Benefit (Expense)	<u>\$ 3,150</u>	<u>\$ 76</u>	<u>\$ (38)</u>

The components of the net deferred tax assets (liabilities) as of December 31, 2015 and 2014 are as follows:

	2015	2014
	(dollars in millions)	
<b>Deferred Tax Assets:</b>		
Deferred revenue	351	322
Unutilized tax net operating loss carry forwards	4,959	5,218
Fixed assets	115	90
Intangible assets	—	—
Other	501	415
<b>Total Deferred Tax Assets</b>	<u>5,926</u>	<u>6,045</u>
<b>Deferred Tax Liabilities:</b>		
Deferred revenue	(58)	(73)
Fixed assets	(924)	(893)
Intangible assets	(399)	(486)
Other	(350)	(189)
<b>Total Deferred Tax Liabilities</b>	<u>(1,731)</u>	<u>(1,641)</u>
Net Deferred Tax Assets before Valuation Allowance	4,195	4,404
Valuation Allowance	(1,002)	(4,429)
<b>Net Deferred Tax Asset (Liability) after Valuation Allowance</b>	<u>\$ 3,193</u>	<u>\$ (25)</u>

On October 31, 2014, the Company completed its acquisition of tw telecom. The Merger qualified as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and therefore the Company assumed the carryover tax basis of the acquired assets and liabilities of tw telecom. As a result, the Company recorded a net deferred tax liability of \$15 million as the acquired

deferred tax assets, net of valuation allowance, were offset by the deferred tax liabilities created by the additional financial reporting basis of the identifiable intangible assets. Simultaneously, the Company released \$15 million of valuation allowance against its deferred tax assets as the acquired deferred tax liabilities serve as a source of taxable income to support such release.

As of December 31, 2015, the Company had available net operating loss carry forwards of approximately \$9.8 billion after taking into account the effects of Section 382 limitation of the Internal Revenue Code for U.S. federal income tax purposes, including \$1 billion from the tw telecom acquisition ( \$9.7 billion net of stock compensation excess benefit). Although the tw telecom acquisition triggered an ownership change under Section 382 of the Internal Revenue Code, the Company has determined that its loss carryforwards should not be mathematically limited based on its value at the time of the ownership change and the expiration dates of its net operating losses.

As a result of certain realization requirements of applicable accounting guidance, the table of deferred tax asset and liabilities shown above does not include certain deferred tax assets as of December 31, 2015 and December 31, 2014 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Equity will be increased if and when such deferred tax assets are ultimately realized. The Company uses the ordering rules prescribed by recent accounting guidance to determine when the stock compensation excess tax benefits have been realized. If actual future tax deductions are less than the amount recognized for financial reporting, the tax-effect of the difference may result in an increase to income tax expense.

The Company's loss carry forwards expire in future years through 2035 and are subject to examination by the tax authorities up to three years after the carry forwards are utilized. The U.S. net operating tax loss carry forwards available for federal income tax purposes expire as follows (dollars in millions):

Expiring December 31,	Amount
2023	\$ 239
2024	1,456
2025	1,267
2026	1,254
2027	1,644
2028	477
2029	694
2030	663
2031	833
2032	729
2033	172
2034	395
2035	3
	<u>\$ 9,826</u>

Under the rules prescribed by Internal Revenue Code Section 382 and applicable regulations, if certain transactions occur with respect to an entity's capital stock that result in a cumulative ownership shift of more than 50 percentage points by 5% stockholders over a three-year testing period, annual limitations are imposed with respect to the entity's ability to utilize its net operating loss carry forwards and certain current deductions against any taxable income the entity achieves in future periods and could result in a substantial income tax expense at the time of the shift. Level 3 extended the term of its

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

As of December 31, 2015, the Company had state net operating loss carry forwards of approximately \$9.9 billion that are subject to limitations on their utilization and have various expiration periods through 2035. The Company had approximately \$5.5 billion of foreign jurisdiction net operating loss carry forwards that are subject to limitations on their utilization. The majority of these foreign jurisdiction tax loss carry forwards have no expiration period.

The Company recognizes deferred tax assets and liabilities for its domestic and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The valuation 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 by tax jurisdiction. The Company has historically provided a valuation allowance to reduce its U.S. federal and state and foreign deferred tax assets to the amount that is more likely than not to be realized. The Company monitors its cumulative loss position and other evidence each quarter to determine the appropriateness of its valuation allowance. Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

In the fourth quarter 2015, the Company released the majority of the valuation allowance against its U.S. federal and state deferred tax assets, resulting in a non-cash benefit to income tax expense of approximately \$3.3 billion, \$3.1 billion of which was related to future years' earnings. In making the determination to release the valuation allowance against U.S. federal and state deferred tax assets, the Company took into consideration its movement into a cumulative income position for the most recent 3-year period, including pro forma adjustments for acquired entities, its 8 out of 9 consecutive quarters of pre-tax operating income, and forecasts of future earnings for its U.S. business. The Company expects to continue to generate income before taxes in the United States in future periods.

In 2014, the Company released approximately \$100 million of deferred tax valuation allowance primarily related to its business in the UK due to consolidation of legal entities whereby one UK entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets.

The Company continues to maintain its existing valuation allowance against net deferred tax assets in many of its state and foreign jurisdictions where it does not currently believe that the realization of its deferred tax assets is more likely than not.

The valuation allowance for deferred tax assets was approximately \$1.0 billion as of December 31, 2015 and \$4.4 billion as of December 31, 2014. The change in valuation allowance is primarily due to the release of the valuation allowance against U.S. federal and state deferred tax assets.

The Company provides for U.S. income taxes on the undistributed earnings and the other outside basis temporary differences of foreign corporations unless they are considered indefinitely reinvested outside the United States. The amount of temporary differences related to undistributed earnings and other outside basis temporary differences of investments in foreign subsidiaries upon which U.S. income taxes have not been provided was immaterial. With respect to the Company's foreign branches, it has established deferred tax liabilities for branches with an overall cumulative translation gain, but has not established deferred tax assets for those with an overall translation loss as it is necessary to demonstrate

that the temporary difference will reverse in the foreseeable future. The Company has no plans that would trigger such reversal.

The Company's liability for uncertain income tax positions totaled \$18 million at December 31, 2015 and \$17 million at December 31, 2014 . If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of \$17 million ( \$14 million as of December 31, 2014 ) and a reduction in the effective tax rate. The Company does not expect that the liability for uncertain tax positions will materially increase or decrease during the twelve months ended December 31, 2016 . A reconciliation of the beginning and ending balance of unrecognized income tax benefits follows (dollars in millions):

	<u>Amount</u>
Balance as of January 1, 2013	\$ 18
Gross increases - tax positions of prior years	—
Gross increases - tax positions during 2013	1
Gross decreases - lapse of statute of limitations	(6)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2013	<u>13</u>
Tax positions of prior years netted against deferred tax assets	5
Gross increases - tax positions of prior years	1
Gross increases - tax positions during 2014	—
Gross decreases - lapse of statute of limitations	(2)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2014	<u>17</u>
Tax positions of prior years netted against deferred tax assets	(2)
Gross increases - tax positions of prior years	3
Gross increases - tax positions during 2015	2
Gross decreases - lapse of statute of limitations	(2)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2015	<u>\$ 18</u>

The unrecognized tax benefits in the table above do not include accrued interest and penalties of \$16 million , \$17 million and \$18 million as of December 31, 2015, 2014 and 2013 , respectively. The Company's policy is to record interest and penalties related to uncertain tax positions in income tax expense. The Company recognized accrued interest and penalties related to uncertain tax positions in income tax expense in its Consolidated Statements of Operations of a benefit of less than \$1 million , a benefit of approximately \$1 million and a benefit of approximately \$4 million for the years ended December 31, 2015, 2014 and 2013 , respectively.

The Company, or at least one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carry forwards are available.

The Company incurs tax expense attributable to income in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. The Company also recognizes accrued interest and penalties in income tax expense related to uncertain tax benefits. Our tax rate is

volatile and may move up or down with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, changes in tax laws, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

## **(15) Segment Information**

Operating segments are defined under GAAP as components of an enterprise for which separate financial information is available and evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM is Jeff K. Storey, President and Chief Executive Officer. As a result of the Merger, Mr. Storey also monitored performance of the former tw telecom business. Therefore, the Company was comprised of the following four reportable segments for financial reporting purposes for the fourth quarter of 2014: 1) North America; 2) Europe, the Middle East and Africa (EMEA); 3) Latin America; and 4) tw telecom, which represents the standalone operations of the former tw telecom business. 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) 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. Historical presentation of segment information has been retrospectively reclassified to conform to the new geographical presentation.

The CODM measures and evaluates segment performance primarily based upon revenue, revenue growth and Adjusted EBITDA. Adjusted EBITDA, as defined by the Company, is equal to net income (loss) from the Consolidated Statements of Operations before (1) income tax benefit (expense), (2) total other income (expense), (3) non-cash impairment charges included within selling, general and administrative expenses and network related expenses, (4) depreciation and amortization expense, and (5) non-cash stock-based compensation expense included within selling, general and administrative expenses and network related expenses.

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

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

There are limitations to using non-GAAP financial measures such as Adjusted EBITDA, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from the Company's calculations. Additionally, this financial measure does not include certain significant items such as interest income, interest expense, income tax benefit (expense),

depreciation and amortization expense, non-cash impairment charges, non-cash stock-based compensation expense, and net other income (expense). Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Revenue and the related expenses are attributed to regions based on where services are provided. Revenue and costs for services provided in more than one region are allocated equally between the regions, and the Company does not otherwise charge for services between reportable segments. Therefore, segment results do not include any intercompany revenue. The operating activities of the separate regions along with the activities that are not attributable to a segment are interdependent, and the regional results in the tables below do not include all intercompany charges and allocations that would be necessary to report the regional results on a standalone basis.

Total revenue consists of:

- Core Network Services revenue from colocation and data center services; transport and fiber; IP and data services; and local and enterprise voice services.
- Wholesale Voice Services revenue from sales to other carriers of long distance voice services.

Core Network Services revenue represents higher profit services and Wholesale Voice Services 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 revenue. Management of the Company believes that growth in revenue from its Core Network Services is critical to the long-term success of its business. The Company also believes it must continue to effectively manage the profitability of the Wholesale Voice Services revenue. The Company believes that trends in its communications business are best gauged by analyzing revenue changes in Core Network Services.

The following table presents revenue by segment for each of the years ended December 31,

(dollars in millions)	2015	2014	2013
<b>Core Network Services Revenue:</b>			
North America	\$ 6,208	\$ 4,525	\$ 3,949
EMEA	835	891	888
Latin America	714	779	754
<b>Total Core Network Services Revenue</b>	<b>\$ 7,757</b>	<b>\$ 6,195</b>	<b>\$ 5,591</b>
<b>Wholesale Voice Services Revenue:</b>			
North America	\$ 446	\$ 530	\$ 681
EMEA	14	19	31
Latin America	12	33	10
<b>Total Wholesale Voice Services Revenue</b>	<b>\$ 472</b>	<b>\$ 582</b>	<b>\$ 722</b>
<b>Total Consolidated Revenue</b>	<b>\$ 8,229</b>	<b>\$ 6,777</b>	<b>\$ 6,313</b>

The following table presents Adjusted EBITDA by segment and reconciles Adjusted EBITDA to net income (loss) for each of the years ended December 31,

(dollars in millions)	2015	2014	2013
<b>Adjusted EBITDA:</b>			
North America	\$ 3,048	\$ 2,065	\$ 1,799
EMEA	235	214	226
Latin America	302	348	313
Unallocated Corporate Expenses	(947)	(732)	(714)
Consolidated Adjusted EBITDA	\$ 2,638	\$ 1,895	\$ 1,624
Income Tax Benefit (Expense)	3,150	76	(38)
Total Other Expense	(1,048)	(775)	(737)
Depreciation and Amortization	(1,166)	(808)	(800)
Non-Cash Stock Compensation	(141)	(73)	(151)
Non-Cash Impairment	—	(1)	(7)
Total Consolidated Net Income (Loss)	<u>\$ 3,433</u>	<u>\$ 314</u>	<u>\$ (109)</u>

The following table presents capital expenditures by segment and reconciles capital expenditures to consolidated capital expenditures for each of the years ended December 31:

(dollars in millions)	2015	2014	2013
<b>Capital Expenditures:</b>			
North America	\$ 752	\$ 495	\$ 398
EMEA	158	117	128
Latin America	155	153	134
Unallocated Corporate Capital Expenditures	164	145	100
Consolidated Capital Expenditures	<u>\$ 1,229</u>	<u>\$ 910</u>	<u>\$ 760</u>

The following table presents total assets by segment:

(dollars in millions)	As of December 31,	
	2015	2014
<b>Assets:</b>		
North America	\$ 19,961	\$ 16,242
EMEA	1,796	1,970
Latin America	2,131	2,451
Other	257	284
Total Consolidated Assets	<u>\$ 24,145</u>	<u>\$ 20,947</u>

#### (16) 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 \$129 million and are included in "Other" current liabilities and "Other liabilities" in the Company's Consolidated Balance Sheet at December 31, 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 December 31, 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 \$46 million at December 31, 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 \$42 million at December 31, 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 \$42 million at December 31, 2015 in excess of the accruals established for these matters.

### *Letters of Credit*

It is customary for the Company to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on behalf of the Company in accordance with specified terms and conditions. As of December 31, 2015 and December 31, 2014 , the Company 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. The Company does not believe exposure to loss related to its letters of credit is material.

**Operating Leases**

The Company is leasing rights-of-way, facilities and other assets under various operating leases which, in addition to rental payments, may require payments for insurance, maintenance, property taxes and other executory costs related to the lease. Certain leases provide for adjustments in lease cost based upon adjustments in various price indexes and increases in the landlord's management costs.

The right-of-way agreements have various expiration dates through 2060. Payments under these right-of-way agreements were \$211 million in 2015, \$173 million in 2014 and \$161 million in 2013.

The Company has obligations under non-cancelable operating leases for certain colocation, office facilities and other assets, including lease obligations for which facility related restructuring charges have been recorded. The lease agreements have various expiration dates through 2119. Rent expense, including common area maintenance, under non-cancelable lease agreements was \$357 million in 2015, \$318 million in 2014 and \$311 million in 2013.

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

Future minimum payments for the next five years and thereafter under network and related right-of-way agreements and non-cancelable operating leases for facilities and other assets consist of the following as of December 31, 2015 (dollars in millions):

	Right-of-Way Agreements	Operating Leases	Total	Future Minimum Sublease Receipts
2016	\$ 151	\$ 278	\$ 429	\$ 4
2017	72	245	317	4
2018	69	209	278	3
2019	59	157	216	2
2020	54	123	177	—
Thereafter	295	578	873	—
	<u>\$ 700</u>	<u>\$ 1,590</u>	<u>\$ 2,290</u>	<u>\$ 13</u>

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

Certain other right-of-way agreements are currently cancelable or can be terminated under certain conditions by the Company. The Company includes the payments under such cancelable right-of-way agreements in the table above for a period of 1 year from January 1, 2016, if the Company does not consider it likely that it will cancel the right of way agreement within the next year.

**Cost of Access and Third-Party Maintenance**

In addition, the Company has purchase commitments with third-party access vendors that require it to make payments to purchase network services, capacity and telecommunications equipment. Some of these access vendor commitments require the Company to maintain minimum monthly and/or annual billings, in certain cases based on usage. In addition, the Company has purchase commitments with third parties that require it to make payments for maintenance services for certain portions of its network.

The following table summarizes the Company's purchase commitments at December 31, 2015 (dollars in millions):

	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Cost of Access Services	\$ 930	\$ 497	\$ 402	\$ 24	\$ 7
Third-Party Maintenance Services	222	60	44	38	80
	<u>\$ 1,152</u>	<u>\$ 557</u>	<u>\$ 446</u>	<u>\$ 62</u>	<u>\$ 87</u>

#### (17) Condensed Consolidating Financial Information

Level 3 Financing has issued Senior Notes that are unsecured obligations of Level 3 Financing, Inc.; however, they are also fully and unconditionally and jointly and severally guaranteed on an unsecured senior basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

In conjunction with the registration of the Level 3 Financing, Inc. Senior Notes, the accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 "Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered."

The operating activities of the separate legal entities included in the Company's Consolidated Financial Statements are interdependent. The accompanying condensed consolidating financial information presents the statements of operations, balance sheets and statements of cash flows of each legal entity and, on an aggregate basis, the other non-guarantor subsidiaries based on amounts incurred by such entities, and is not intended to present the operating results of those legal entities on a stand-alone basis. Level 3 Communications, LLC leases equipment and certain facilities from other wholly owned subsidiaries of Level 3 Communications, Inc. These transactions are eliminated in the consolidated results of the Company.

**Condensed Consolidating Statements of Operations**  
**For the year ended December 31, 2015**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 3,325	\$ 5,077	\$ (173)	\$ 8,229
Costs and Expenses:						
Network access costs	—	—	1,243	1,763	(173)	2,833
Network related expenses	—	—	947	485	—	1,432
Depreciation and amortization	—	—	309	857	—	1,166
Selling, general and administrative expenses	4	—	1,064	399	—	1,467
Total costs and expenses	4	—	3,563	3,504	(173)	6,898
Operating Income (Loss)	(4)	—	(238)	1,573	—	1,331
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(51)	(574)	(3)	(14)	—	(642)
Interest income (expense) affiliates, net	1,310	1,984	(3,041)	(253)	—	—
Equity in net earnings (losses) of subsidiaries	2,162	(1,693)	177	—	(646)	—
Other, net	(18)	(200)	3	(192)	—	(407)
Total other expense	3,403	(483)	(2,864)	(458)	(646)	(1,048)
Income (Loss) before Income Taxes	3,399	(483)	(3,102)	1,115	(646)	283
Income Tax (Expense) Benefit	34	2,645	(1)	472	—	3,150
Net Income (Loss)	3,433	2,162	(3,103)	1,587	(646)	3,433
Other Comprehensive Income (Loss), Net of Income Taxes	(154)	—	—	154	(154)	(154)
Comprehensive Income (Loss)	\$ 3,279	\$ 2,162	\$ (3,103)	\$ 1,741	\$ (800)	\$ 3,279

**Condensed Consolidating Statements of Operations**  
**For the year ended December 31, 2014**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 3,073	\$ 3,918	\$ (214)	\$ 6,777
Costs and Expenses:						
Network access costs	—	—	1,177	1,566	(214)	2,529
Network related expenses	—	—	762	484	—	1,246
Depreciation and amortization	—	—	277	531	—	808
Selling, general and administrative expenses	21	2	735	423	—	1,181
Total costs and expenses	21	2	2,951	3,004	(214)	5,764
Operating Income (Loss)	(21)	(2)	122	914	—	1,013
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(143)	(492)	(2)	(17)	—	(654)
Interest income (expense) affiliates, net	1,227	1,827	(2,890)	(164)	—	—
Equity in net earnings (losses) of subsidiaries	(710)	(2,047)	663	—	2,094	—
Other, net	(53)	—	7	(76)	—	(122)
Total other expense	321	(712)	(2,222)	(256)	2,094	(775)
Income (Loss) before Income Taxes	300	(714)	(2,100)	658	2,094	238
Income Tax (Expense) Benefit	14	4	(1)	59	—	76
Net Income (Loss)	314	(710)	(2,101)	717	2,094	314
Other Comprehensive Income (Loss), Net of Income Taxes	(183)	—	—	(183)	183	(183)
Comprehensive Income (Loss)	\$ 131	\$ (710)	\$ (2,101)	\$ 534	\$ 2,277	\$ 131

**Condensed Consolidating Statements of Operations**  
**For the year ended December 31, 2013**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 2,825	\$ 3,734	\$ (246)	\$ 6,313
Costs and Expenses:						
Network access costs	—	—	1,068	1,649	(246)	2,471
Network related expenses	—	—	753	461	—	1,214
Depreciation and amortization	—	—	289	511	—	800
Selling, general and administrative expenses	3	1	791	367	—	1,162
Total costs and expenses	3	1	2,901	2,988	(246)	5,647
Operating Income (Loss)	(3)	(1)	(76)	746	—	666
Other Income (Expense):						
Interest income	—	—	—	—	—	—
Interest expense	(151)	(497)	(3)	2	—	(649)
Interest income (expense) affiliates, net	1,091	1,706	(2,679)	(118)	—	—
Equity in net earnings (losses) of subsidiaries	(1,039)	(2,164)	550	—	2,653	—
Other, net	—	(85)	4	(7)	—	(88)
Total other expense	(99)	(1,040)	(2,128)	(123)	2,653	(737)
Income (Loss) before Income Taxes	(102)	(1,041)	(2,204)	623	2,653	(71)
Income Tax (Expense) Benefit	(7)	2	—	(33)	—	(38)
Net Income (Loss)	(109)	(1,039)	(2,204)	590	2,653	(109)
Other Comprehensive Income (Loss), Net of Income Taxes	10	10	—	10	(20)	10
Comprehensive Income (Loss)	\$ (99)	\$ (1,029)	\$ (2,204)	\$ 600	\$ 2,633	\$ (99)

**Condensed Consolidating Balance Sheets**  
**December 31, 2015**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 12	\$ 6	\$ 727	\$ 109	\$ —	\$ 854
Restricted cash and securities	—	—	1	7	—	8
Receivables, less allowances for doubtful accounts	—	—	47	710	—	757
Due from affiliates	12,415	22,759	—	2,816	(37,990)	—
Other	1	18	56	55	—	130
<b>Total Current Assets</b>	<b>12,428</b>	<b>22,783</b>	<b>831</b>	<b>3,697</b>	<b>(37,990)</b>	<b>1,749</b>
Property, Plant, and Equipment, net	—	—	3,423	6,455	—	9,878
Restricted Cash and Securities	27	—	14	1	—	42
Goodwill and Other Intangibles, net	—	—	363	8,513	—	8,876
Investment in Subsidiaries	16,772	17,714	3,734	—	(38,220)	—
Deferred Tax Assets	38	2,847	—	556	—	3,441
Other Assets, net	8	100	12	39	—	159
<b>Total Assets</b>	<b>\$ 29,273</b>	<b>\$ 43,444</b>	<b>\$ 8,377</b>	<b>\$ 19,261</b>	<b>\$ (76,210)</b>	<b>\$ 24,145</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ —	\$ 1	\$ 195	\$ 433	\$ —	\$ 629
Current portion of long-term debt	—	—	2	13	—	15
Accrued payroll and employee benefits	—	—	186	32	—	218
Accrued interest	11	90	—	7	—	108
Current portion of deferred revenue	—	—	119	148	—	267
Due to affiliates	—	—	37,990	—	(37,990)	—
Other	—	—	115	64	—	179
<b>Total Current Liabilities</b>	<b>11</b>	<b>91</b>	<b>38,607</b>	<b>697</b>	<b>(37,990)</b>	<b>1,416</b>
Long-Term Debt, less current portion	600	10,210	15	169	—	10,994
Deferred Revenue, less current portion	—	—	680	297	—	977
Other Liabilities	15	—	133	484	—	632
Commitments and Contingencies						
Stockholders' Equity (Deficit)	28,647	33,143	(31,058)	17,614	(38,220)	10,126
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 29,273</b>	<b>\$ 43,444</b>	<b>\$ 8,377</b>	<b>\$ 19,261</b>	<b>\$ (76,210)</b>	<b>\$ 24,145</b>

**Condensed Consolidating Balance Sheets  
December 31, 2014**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
<b>Current Assets:</b>						
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	89	—	157
<b>Total Current Assets</b>	<b>14,531</b>	<b>21,296</b>	<b>387</b>	<b>1,059</b>	<b>(35,792)</b>	<b>1,481</b>
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)	—
Deferred Tax Assets	—	—	—	300	—	300
Other Assets, net	28	129	9	17	—	183
<b>Total Assets</b>	<b>\$ 31,248</b>	<b>\$ 36,202</b>	<b>\$ 7,666</b>	<b>\$ 16,815</b>	<b>\$ (70,984)</b>	<b>\$ 20,947</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>						
<b>Current Liabilities:</b>						
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	95	—	159
<b>Total Current Liabilities</b>	<b>345</b>	<b>160</b>	<b>34,973</b>	<b>2,220</b>	<b>(35,792)</b>	<b>1,906</b>
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	608	—	773
Commitments and Contingencies						
Stockholders' Equity (Deficit)	29,987	26,125	(28,065)	13,508	(35,192)	6,363
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 31,248</b>	<b>\$ 36,202</b>	<b>\$ 7,666</b>	<b>\$ 16,815</b>	<b>\$ (70,984)</b>	<b>\$ 20,947</b>

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2015**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ (40)	\$ (617)	\$ 193	\$ 2,319	\$ —	\$ 1,855
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(453)	(776)	—	(1,229)
Cash related to deconsolidated Venezuela operations	—	—	—	(83)	—	(83)
Change in restricted cash and securities, net	(25)	—	3	—	—	(22)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	4	—	4
Other	—	—	(14)	—	—	(14)
Net Cash Provided by (Used in) Investing Activities	(25)	—	(464)	(855)	—	(1,344)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	4,832	—	—	—	4,832
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(313)	(4,725)	(2)	(11)	—	(5,051)
Increase (decrease) due from/to affiliates, net	383	511	693	(1,587)	—	—
Net Cash Provided by (Used in) Financing Activities	70	618	691	(1,598)	—	(219)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(18)	—	(18)
Net Change in Cash and Cash Equivalents	5	1	420	(152)	—	274
Cash and Cash Equivalents at Beginning of Year	7	5	307	261	—	580
Cash and Cash Equivalents at End of Year	\$ 12	\$ 6	\$ 727	\$ 109	\$ —	\$ 854

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2014**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ (178)	\$ (458)	\$ 625	\$ 1,172	\$ —	\$ 1,161
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(362)	(548)	—	(910)
Change in restricted cash and securities, net	—	—	2	(12)	—	(10)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	3	—	3
Investment in tw telecom, net of cash acquired	(474)	—	—	307	—	(167)
Other	—	—	—	(2)	—	(2)
Net Cash Provided by (Used in) Investing Activities	(474)	—	(360)	(252)	—	(1,086)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	590	—	—	(1)	—	589
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(647)	—	—	(24)	—	(671)
Increase (decrease) due from/to affiliates, net	708	457	(305)	(860)	—	—
Net Cash Provided by (Used in) Financing Activities	651	457	(305)	(885)	—	(82)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(44)	—	(44)
Net Change in Cash and Cash Equivalents	(1)	(1)	(40)	(9)	—	(51)
Cash and Cash Equivalents at Beginning of Year	8	6	347	270	—	631
Cash and Cash Equivalents at End of Year	\$ 7	\$ 5	\$ 307	\$ 261	\$ —	\$ 580

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2013**

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ (169)	\$ (557)	\$ 710	\$ 729	\$ —	\$ 713
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(312)	(448)	—	(760)
Change in restricted cash and securities, net	9	—	(1)	5	—	13
Other	—	—	1	1	—	2
Net Cash Provided by (Used in) Investing Activities	9	—	(312)	(442)	—	(745)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	1,502	—	—	—	1,502
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(173)	(1,586)	(4)	(33)	—	(1,796)
Increase (decrease) due from affiliates, net	88	642	(433)	(297)	—	—
Net Cash Provided by (Used in) Financing Activities	(85)	558	(437)	(330)	—	(294)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(22)	—	(22)
Net Change in Cash and Cash Equivalents	(245)	1	(39)	(65)	—	(348)
Cash and Cash Equivalents at Beginning of Year	253	5	386	335	—	979
Cash and Cash Equivalents at End of Year	\$ 8	\$ 6	\$ 347	\$ 270	\$ —	\$ 631

**(18) Unaudited Quarterly Financial Data**

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>(dollars in millions except per share data)</b>								
Revenue	\$ 2,053	\$ 1,609	\$ 2,061	\$ 1,625	\$ 2,062	\$ 1,629	\$ 2,053	\$ 1,914
Costs and Expenses:								
Network Access Costs	723	614	696	613	706	607	708	695
Network Related Expenses	356	292	363	302	369	307	344	345
Depreciation and Amortization	288	184	288	187	296	187	294	250
Selling, General and Administrative Expenses	370	255	364	267	364	266	369	393
Total Costs and Expenses	1,737	1,345	1,711	1,369	1,735	1,367	1,715	1,683
Operating Income	316	264	350	256	327	262	338	231
Other Income (Expense):								
Interest Income	1	—	—	—	—	1	—	—
Interest Expense	(180)	(151)	(165)	(149)	(145)	(159)	(152)	(195)
Loss on Modification and Extinguishment of Debt	—	—	(163)	—	—	—	(55)	(53)
Venezuela Deconsolidation Charge	—	—	—	—	(171)	—	—	—
Other, net	(10)	6	(17)	(44)	6	(11)	3	(20)
Total Other Expense	(189)	(145)	(345)	(193)	(310)	(169)	(204)	(268)
Income (Loss) Before Income Taxes	127	119	5	63	17	93	134	(37)
Income Tax (Expense) Benefit	(5)	(7)	(18)	(12)	(16)	(8)	3,189	103
Net Income (Loss)	\$ 122	\$ 112	\$ (13)	\$ 51	\$ 1	\$ 85	\$ 3,323	\$ 66
Net Income (Loss) Per Share - Basic	\$ 0.35	\$ 0.48	\$ (0.04)	\$ 0.21	\$ —	\$ 0.36	\$ 9.33	\$ 0.22
Net Income (Loss) Per Share - Diluted	\$ 0.35	\$ 0.47	\$ (0.04)	\$ 0.21	\$ —	\$ 0.35	\$ 9.24	\$ 0.21

Net income (loss) per share for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while net income (loss) per share for the year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the income (loss) per share for each of the four quarters may not equal the net income (loss) per share for the year.

During the fourth quarter of 2015, the Company recognized a \$3.3 billion income tax benefit primarily related to the release of U.S. federal and state deferred tax valuation allowances.

During the fourth quarter of 2015, the Company recognized a loss on extinguishment of debt of \$55 million, related to the refinancing of the 8.625% Senior Notes due 2020.

During the second quarter of 2015, the Company recognized a loss on extinguishment of debt of \$36 million, related to the refinancing of the 9.375% Senior Notes due 2019.

During the second quarter of 2015, the Company recognized a loss on extinguishment of debt of \$82 million, related to the refinancing of the 8.125% Senior Notes due 2019.

During the second quarter of 2015, the Company recognized a loss on extinguishment of debt of \$18 million , related to the refinancing of the 8.875% Senior Notes due 2019.

During the second quarter of 2015, the Company recognized a loss on modification and extinguishment of debt of \$27 million , related to the refinancing of the senior secured Tranche B Term Loan due 2022.

During the fourth quarter of 2014, the Company recognized a loss on extinguishment of debt of \$53 million , related to the refinancing of the 11.875% Senior Notes due 2019.

During the fourth quarter of 2014, the Company completed its acquisition of tw telecom and therefore the results of operations for the fourth quarter of 2014 include the results of tw telecom for November and December. Additionally, the Company incurred \$70 million in expenses related to the acquisition of tw telecom that was recognized in Selling, General and Administrative Expenses .

During the fourth quarter of 2014, the Company increased its senior secured credit facility by adding a \$2 billion Tranche B 2022 Term Loan. The proceeds were used for the tw telecom acquisition.

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

During the third quarter of 2014, the Company entered into an indenture totaling \$1 billion for 5.375% Senior Notes due 2022. The proceeds were used for the tw telecom acquisition.

During the second quarter of 2014, the Company recognized a loss of approximately \$34 million resulting from the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate of 10.6 .

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this February 26, 2016

LEVEL 3 COMMUNICATIONS, INC.

By: /s/ Sunit S. Patel

Name: Sunit S. Patel

Title: Executive Vice President and Chief  
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James O. Ellis, Jr.</u> James O. Ellis, Jr.	Chairman of the Board	February 26, 2016
<u>Jeff K. Storey</u>	President and Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2016
<u>/s/ Sunit S. Patel</u> Sunit S. Patel	Interim Chief Executive Officer, Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2016
<u>/s/ Eric J. Mortensen</u> Eric J. Mortensen	Senior Vice President and Controller (Principal Accounting Officer)	February 26, 2016
<u>/s/ Kevin P. Chilton</u> Kevin P. Chilton	Director	February 26, 2016
<u>/s/ Steven T. Clontz</u> Steven T. Clontz	Director	February 26, 2016
<u>/s/ Irene M. Esteves</u> Irene M. Esteves	Director	February 26, 2016
<u>/s/ T. Michael Glenn</u> T. Michael Glenn	Director	February 26, 2016
<u>/s/ Spencer B. Hays</u> Spencer B. Hays	Director	February 26, 2016
<u>/s/ Michael J. Mahoney</u> Michael J. Mahoney	Director	February 26, 2016
<u>/s/ Kevin W. Mooney</u> Kevin W. Mooney	Director	February 26, 2016
<u>/s/ Peter Seah Lim Huat</u> Peter Seah Lim Huat	Director	February 26, 2016
<u>/s/ Peter van Oppen</u> Peter van Oppen	Director	February 26, 2016

**AMENDED AND RESTATED  
LEVEL 3 COMMUNICATIONS, INC. STOCK INCENTIVE PLAN  
RESTRICTED STOCK UNIT AND PERFORMANCE UNIT  
MASTER AWARD AGREEMENT**

THIS AMENDED AND RESTATED RESTRICTED STOCK UNIT AND PERFORMANCE UNIT MASTER AWARD AGREEMENT (the “**Agreement**”) is dated as of December 31, 2015 (the “**Effective Date**”) between Level 3 Communications, Inc., a Delaware corporation (the “**Company**”), and the individual whose name appears on the signature page to this Agreement (the “**Participant**”), an “Eligible Person” as defined in the Company’s Level 3 Communications, Inc. Stock Incentive Plan (as amended from time to time) (the “**Plan**”).

WHEREAS, the Company, pursuant to a grant of authority from the Compensation Committee of the Company’s Board of Directors (the “**Committee**”), may, from time to time, grant to the Participant one or more Restricted Stock Units (also referred to as “**RSUs**”) and/or Performance Units (also referred to as “**PRSUs**”) (each RSU and each PRSU grant being, an “**Award**”), as described below, pursuant to the Plan.

WHEREAS, the Company has previously entered into a certain Restricted Stock Unit and Performance Unit Master Award Agreement, dated as of July 1, 2015 (the “**July Agreement**”), and the terms as set forth in this Agreement will control with respect to any Award Letters for PRSUs and RSUs delivered pursuant to the July Agreement.

NOW, THEREFORE, the parties agree as follows:

**1. Definitions** . Capitalized terms used but not expressly defined in this Agreement will have the meanings ascribed to them in the Plan. The following capitalized terms as used in this Agreement shall have the meanings set forth below:

“**Good Reason**” means, without the Participant’s express written consent, the occurrence of any of the following events on or following a Change in Control:

- (i) a material diminution in the Participant’s authority, duties, or responsibilities, excluding for this purpose an isolated, insubstantial, inadvertent and immaterial action taken in good faith and that is remedied promptly after receipt of notice thereof given by the Participant;
- (ii) a material reduction in the Participant’s Base Salary or target short-term incentive award opportunity;
- (iii) a requirement imposed by the Company or its Affiliate that the Participant be based at any office or location that is more than 50 miles from the office or location where the Participant was employed immediately preceding the Change in Control;
- (iv) a material reduction in the kind or level of qualified retirement and welfare employee benefits from the like kind benefits to which the Participant was entitled immediately prior to a Change in Control with the result that the Participant’s overall benefits package is materially reduced without similar action occurring to other eligible comparably situated employees;
- (v) the failure to obtain a satisfactory agreement from any successor to the Company or any acquiror of any Affiliate or division of the Company to assume and agree to perform the Plan pursuant to Section 9 of this Agreement; and

(vi) the termination of the Participant's Award other than as contemplated and permitted by this Agreement, the Plan or any Award Agreement.

A Participant may terminate his or her employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within ninety (90) days following the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, the Participant's termination will be effective upon the expiration of such cure period. A Participant's right to terminate his or her employment for Good Reason shall not be affected by his or her incapacity due to physical or mental impairment. A Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder. For the avoidance of doubt, no Participant shall have Good Reason to terminate his or her employment due to the occurrence or non-occurrence of any events prior to a Change in Control.

"**Release Condition**" means the Participant's execution, delivery to the Company and non-revocation of a mutual liability release agreement in form and substance determined by the Company (and the expiration of any revocation period contained in such release agreement) within sixty (60) days following the effective date of the Participant's Termination.

"**Successor**" means any person, firm, corporation, or business entity that at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets, stock or business of the Company.

**2. Grants of Awards** . Pursuant to the provisions of the Plan, the Company, from time to time in its sole discretion, may grant Awards to the Participant relating to a specified number of RSUs and/or PRSUs that, under certain circumstances and in accordance with the terms hereof, may result in the Participant having the right to acquire shares of Stock (the "**Shares**"). Each Award will be evidenced by an Award Agreement (also referred to as an "**Award Letter**") in the form attached as **Exhibit A** (with respect to RSUs) and **Exhibit B** (with respect to PRSUs) (or such other forms as approved by the Company), which sets forth the date of the Award (the "**Award Date**"), the number of RSUs or PRSUs that are the subject of the Award, the Scheduled Vesting Dates (as defined in Section 3(a) below) for the Award, and the Performance Objectives (for PRSUs) for such Award.

### **3. Vesting of Awards** .

(a) *Time Based Vesting Conditions* . Subject to the terms and conditions of this Agreement, the RSUs and PRSUs shall satisfy the applicable time-based vesting conditions in installments on the date or dates set forth in each Award Letter (each such date, a "**Scheduled Vesting Date**"), if the Participant remains continuously employed by the Company or an Affiliate of the Company until the applicable Scheduled Vesting Date. Except as otherwise provided in this Agreement, if the Participant experiences a Termination for any reason (except as set forth below) prior to an applicable Scheduled Vesting Date, all RSUs and PRSUs that have not become vested previously in accordance with any Award Letter shall be immediately and irrevocably forfeited.

(b) *Performance-Based Vesting Criteria* . The performance-based vesting criteria shall be set forth in an Award Letter for each PRSU. For PRSUs, as soon as practicable following the end of each applicable Performance Period, the Committee shall make a determination of the level of attainment of the Performance Objective. The Committee may, in its sole discretion, adjust any Performance Objective as described in Section 9(f) of the Plan, and such adjustments, if made, shall be applied to determine not only the minimum acceptable level of achievement of the Performance Objective, but all levels of achievement for any Performance Objective specified in any Award Letter (from the minimum to the maximum level of achievement).

(c) *Death or Disability*. Notwithstanding Section 3(a), if a Termination occurs by reason of the Participant's death or Disability, all RSUs and PRSUs associated with any outstanding Award shall immediately vest and settle (after satisfaction of the Release Condition with respect to a termination for Disability) and be delivered to the Participant (or his or her estate) as soon as administratively practicable following such Termination. For purposes of calculating the number of Shares to be delivered in such event based on any Award of PRSUs where the Performance Period has not expired prior to the date of such Termination, the Performance Objective for any outstanding Awards for PRSUs shall be set at the target level (100%) set forth in each Award Letter. In the event that the Termination occurs after the Performance Period for any PRSU Award has expired, the Performance Objective shall be measured in accordance with the terms set forth in the Award Letter and the Award shall vest and settle in full as soon as practicable after the determination of the satisfaction of the Performance Objective.

(d) *Retirement*. Notwithstanding Section 3(a), if a Termination occurs by reason of the Participant's retirement pursuant to and in accordance with the then-current retirement practice of the Company, the Participant will retain a portion of all outstanding Awards, which shall be calculated as follows:

(i) for RSUs, the Participant will retain those RSUs that would have otherwise vested had the Participant remained continuously employed by the Company or an Affiliate of the Company for an additional 24 months following the effective date of the Participant's retirement (the "**Retirement Effective Date**"), and such Retirement Effective Date shall be set forth in the Participant's retirement notice, which the Participant must deliver to the Company pursuant to the Company's then effective retirement benefit procedures; and

(ii) for PRSUs, the Participant will retain a prorated portion of all outstanding PRSUs through the Retirement Effective Date, and such proration shall be based on the percentage of time that the Participant was employed during the Performance Period (the "**Pro Rata Portion**") as of the Retirement Effective Date (measured in each instance to the last day of the calendar month in which the Retirement Effective Date occurs). The actual number of PRSUs that will vest pursuant to this Section 3(d)(ii) will be the product of (i) the Pro Rata Portion, (ii) the number of PRSUs subject to the Award and (iii) the applicable performance percentage applicable to such PRSU (as determined pursuant to the terms of the applicable Award Letter) based on the actual achievement of the applicable Performance Objective during the entire Performance Period.

The portion of all RSUs that the Participant retains pursuant to Section 3(d)(i) shall (after satisfaction of the Release Condition) immediately vest and settle as soon as administratively practicable following such Termination. The prorated portion of all PRSUs, calculated in accordance with Section 3(d)(ii), associated with such outstanding Awards shall vest upon the certification of the applicable Performance Objectives for the applicable Performance Period and shall settle during the calendar year immediately following the calendar year during which the applicable Performance Period ends (with the intention of settling the PRSUs as soon as administrative practicable following the certification of the applicable Performance Objectives); provided, that, if the applicable Performance Objectives have been certified prior to the date on which such Termination occurs, the PRSUs will vest and settle within thirty (30) days following the date on which the applicable Termination occurs.

(e) *After a Change in Control*. Notwithstanding Section 3(a), if a Termination occurs after a Change in Control either (i) without Cause and initiated by the Company, or (ii) with Good Reason and initiated by the Participant, all RSUs and PRSUs associated with any outstanding Award shall (after satisfaction of the Release Condition) immediately vest and settle as soon as administratively practicable following such Termination. For purposes of calculating the number of Shares to be delivered in such event based on any Award of PRSUs where the Performance Period has not yet expired, the Performance Objective for any outstanding Awards for PRSUs shall be set at the target level (100%) set forth in each Award Letter. In the event that the Performance Period for any PRSU Award has expired as of the effective date of such Termination, the Performance Objective shall be measured in accordance

with the terms herein and the Award shall vest and settle at the same time as if the Termination had not occurred.

#### 4. Forfeiture of Shares .

(a) *Forfeiture of Shares on Violation of Agreement* . If, within one year after Termination, the Participant violates the terms of any release, confidentiality and non-solicitation agreement (including any executed upon Termination between the Company or an Affiliate and the Participant), then in addition to any other remedies available to the Company, the Participant shall be required to return to the Company all Shares or other consideration delivered to the Participant under this Agreement and any Award Letter issued hereunder which were provided to the Participant as a result of the Participant's Termination and in the twelve (12) months prior to the date of the Participant's Termination.

(b) *Clawback for PRSUs* . The Shares delivered pursuant to an Award of PRSUs are subject to recovery by the Company in the circumstances and manner provided in any Incentive-Based Compensation Recovery Policy that may be adopted or implemented by the Company and in effect from time to time after the date hereof, and the Participant shall effectuate any such recovery at such time and in such manner as the Company may specify. For purposes of this Agreement, the term "**Incentive-Based Compensation Recovery Policy**" means and includes any policy of the type contemplated by Section 10D of the Securities Exchange Act, any rules or regulations of the Securities and Exchange Commission adopted pursuant thereto, or any related rules or listing standards of any national securities exchange or national securities association applicable to the Company.

5. **Settlement of Awards** . Except as otherwise set forth in Sections 3(c), (d) or (e) above or an Award Letter, within thirty (30) days following the applicable Scheduled Vesting Date for an RSU or PRSU granted hereunder, the Participant shall receive the number of Shares associated with the RSUs and PRSUs covered by and determined in accordance with each Award Letter. With respect to any RSU or PRSU that is settled pursuant to Section 3(c), (d) or (e) above "as soon as administratively practicable following" an event (for example, a Termination), the Participant shall receive the number of Shares associated with the RSUs and PRSUs covered by and determined in accordance with each Award Letter during the period commencing on the date of Termination and ending on the later of (i) December 31st of the calendar year of such Termination, and (ii) the fifteenth (15<sup>th</sup>) day of the third calendar month following the calendar month of such Termination, with the actual date of delivery determined by the Company in its sole discretion. Notwithstanding anything in this Section 5 to the contrary, the Committee shall have the sole discretion to pay cash equal to the Fair Market Value of the Shares on the Scheduled Vesting Date (or any earlier settlement date as set forth in Section 3 above) that would otherwise be delivered to the Participant.

6. **No Employment or Benefit Guaranty** . Neither the execution of this Agreement nor the receipt of an Award Letter (or any modification or amendment thereof), nor the settlement or vesting of any Awards shall be construed as giving to the Participant or other person any legal or equitable right against the Company, any Affiliate or the Committee except as expressly provided herein. Under no circumstances shall this Agreement or any Award Letter constitute a contract of employment, nor shall the terms of employment of the Participant be modified or in any way affected hereby. Accordingly, neither execution of this Agreement nor the grant of an Award shall be held or construed to give the Participant a right to be retained in the employ of the Company or any Affiliate.

7. **Nonassignability** . Except as specifically allowed by the Committee in writing, an Award shall not be transferable other than by will or the laws of descent and distribution. More particularly (but without limiting the generality of the foregoing), except as provided above an Award may not be assigned, transferred, pledged or hypothecated in any way, shall not be assignable by operation of law, and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Award contrary to the provisions hereof and the

levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

**8. General** . Subject to the provisions of Section 5 with respect to the form of the payment for the settlement of any Award, the Company shall at all times during the term of this Agreement reserve and keep available such number of Shares, as determined by the Committee from time to time, as will be sufficient in the Committee's good faith determination to satisfy the requirements of this Agreement, shall pay all original issue and transfer taxes with respect to the issue and transfer of Shares pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

**9. Successors** . The Company will require any Successor (whether direct or indirect, by purchase, merger, consolidation, operation of law or otherwise) to unconditionally assume all of the obligations of the Company hereunder. In the event that the Committee determines that a Successor will not unconditionally assume all of the Company's obligations hereunder, the Committee may, in its sole discretion, determine to accelerate the Scheduled Vesting Dates and settlement of (and/or determine in its discretion the Performance Objective measurement for all PRSUs) all Awards granted hereunder as of a date prior to the effective date of any Change in Control (in which event no Participant shall have a cause of action against the Company for a violation of this Section).

**10. No Stockholder Rights** . The Participant shall not have any of the rights of a stockholder with respect to the Award Shares resulting from any Award prior to the issuance of Stock, if any, to the Participant on the Scheduled Vesting Date. Notwithstanding the foregoing, with respect to any Award granted hereunder, the Participant shall receive delivery of cash equal to the amount of the aggregate cash dividends (without interest), if any, that the Participant did not receive but would have received if, for the period beginning on the Award Date and ending on the applicable settlement date, the Participant had owned all of the Shares delivered (or that would have been delivered in the case of a cash payment) to the Participant on the applicable settlement date.

**11. The Plan** . The terms and provisions set forth in the Plan are incorporated herein by reference as if they were set forth herein; *provided* , *however* , that in the event of a direct conflict between the terms of the Plan and the terms of this Agreement, the terms of this Agreement shall govern. Reference to provisions of the Plan are to such provisions as they shall be subsequently amended or renumbered; provided that no amendment to the Plan which adversely affects an Award shall be effective as to that Award without the written consent of the Participant. The Participant acknowledges that a current version of the Plan is available on the Company's intranet site, and the Company agrees to supply to the Participant a paper copy of the current version of the Plan upon the Participant's request.

**12. Withholding** .

(a) As a condition to the issuance of any Shares or other consideration delivered hereunder in connection with the grant, vesting or settlement of any Award, the Participant (or his or her estate, in the event of the Participant's death) shall be required to pay all withholding taxes required to be collected by the Company under federal, state, local, or foreign law ("**Withholding Taxes**") pursuant to the procedures and processes set forth in subsection (b) or subsection (c) below. The Company shall be responsible for the determination of the amount of any Withholding Taxes based on the value of the consideration delivered to the Participant hereunder. The Company reserves the right to change its method with respect to the Participant for the collection of Withholding Taxes that may be owed by the Participant at any time in its sole discretion, upon notice to the Participant, which notice may be written or electronic notice.

(b) By the execution of this Agreement, the Participant hereby irrevocably instructs the Company and a broker of the Company's choosing, to sell on behalf of the Participant at the "market

price,” that number of Shares issuable upon satisfaction of the terms and conditions set forth in this Agreement, as are required to generate sufficient funds to equal the Withholding Taxes required to be paid by the Participant pursuant to this Section 12, whenever the consideration is delivered by the Company in the form of Shares, or to withhold a portion of the consideration issuable pursuant to this Agreement whenever the consideration is delivered by the Company in a form other than Shares; *provided* that if consideration is delivered by the Company in part in the form of Shares and in part in a form other than Shares, the Withholding Taxes shall be withheld or the Shares sold, as applicable, ratably from each form of consideration. The Participant represents to the Company and the broker that the Participant is entering into this Agreement in good faith and not as part of a plan or scheme to evade prohibitions against trading securities while in possession of material non-public information. The Participant shall have no ability to modify these instructions other than by the proper execution and timely delivery to the Company’s stock plan administrator of a Withholding Taxes Cash Payment Notification pursuant to subsection (e) below.

(c) Notwithstanding anything herein to the contrary, in the sole discretion of the Company, the Shares to be sold to cover the Participant’s Withholding Taxes pursuant to this Section may be retained by the Company, in which case the Company will satisfy the Withholding Taxes from the Company’s available cash.

(d) It is the Participant’s intention that these provisions comply with the requirements of Rule 10b5-1 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(e) Notwithstanding anything above to the contrary, the Company, in its sole discretion, may permit the Participant to pay any or all Withholding Taxes in cash or cash equivalents, but only if the Company has received a properly executed and delivered Withholding Taxes Cash Payment Notification from the Participant no less than ninety (90) days prior to the Scheduled Vesting Date of any Award issued under this Agreement, which Withholding Taxes Cash Payment Notification shall require, among other things, that the Participant represent and warrant to the Company that on the date of delivery of such Withholding Taxes Cash Payment Notification, the Participant is not in possession of material non-public information regarding the business or financial condition of the Company and its subsidiaries. To the extent that the Participant elects to pay the Withholding Taxes in cash or cash equivalents in accordance with the immediately preceding sentence, such payment must be received by the Company’s stock plan administrator no later than one (1) Business Day after the Settlement Date of any Award that is the subject of the Withholding Taxes Cash Payment Notification. By executing this Agreement, the Participant authorizes the Company and its Affiliates to withhold such amounts from any amounts otherwise owed to the Participant to satisfy any applicable Withholding Taxes.

**13. Code Section 409A .** To the extent applicable, and notwithstanding anything herein to the contrary, this Agreement and the Awards granted hereunder shall be interpreted in accordance with Section 409A of the Code and U.S. Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding anything herein to the contrary, (i) if the Participant is a “specified employee” (as defined in Section 409A of the Code), Shares deliverable or amounts otherwise payable hereunder as a result of the Participant’s Termination shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code and (ii) each delivery of Shares or payment in a series of deliveries or payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code. While each Award is intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any of its Affiliates be liable for any additional tax, interest, or penalties that may be imposed on the Participant as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code). To the extent that any Award constitutes “nonqualified deferred compensation” for purposes of Section 409A of the Code, any

settlement of the Award otherwise scheduled to occur prior to the sixtieth (60<sup>th</sup>) day following the Participant's Termination hereunder, but for the Release Condition, shall not be made until the sixtieth (60<sup>th</sup>) day.

**14. Exempt 162(m) Treatment** . If an Award is intended to constitute qualified performance-based compensation within the meaning of Section 162(m) of the Code, such Award shall be construed accordingly.

**15. Plan, Agreement and Award Letters Govern** . Although any information sent to or made available to the Participant concerning the Plan and this Agreement is intended to be an accurate summary of the terms and conditions of any Award, this Agreement, the Plan and the Award Letters are the authoritative documents governing the Award and any inconsistency between the Agreement, the Plan and the Award Letter, on one hand, and any other summary information, on the other hand, shall be resolved in favor of the Agreement, the Plan and the Award Letter.

LEVEL 3 COMMUNICATIONS, INC. [Name of Participant]

("Company") ("Participant")

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Form of RSU Award Letter

Personal & Confidential

[DATE]

[NAME]

[ADDRESS]

Dear [FIRST NAME]:

This Award Letter is delivered to you (the "**Participant**") pursuant to the Restricted Stock Unit and Performance Unit Master Award Agreement (the "**Master Agreement**") dated as of December 31, 2015, as well as the Plan (as defined in the Master Agreement).

The terms and conditions of this Award are set forth below and in the Master Agreement and the Plan, the provisions of which are incorporated herein by reference.

- A. The date of grant of this Award is \_\_\_\_\_ (the "**Award Date**").
- B. The number of RSUs subject to this Award is \_\_\_\_\_.
- C. The Scheduled Vesting Date(s) for this Award are:

LEVEL 3 COMMUNICATIONS, INC.

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

PARTICIPANT: \_\_\_\_\_

Form of PRSU Award Letter

Personal & Confidential

[DATE]

[NAME]

[ADDRESS]

Dear [FIRST NAME]:

This Award Letter is delivered to you (the "**Participant**") pursuant to the Amended and Restated Restricted Stock Unit and Performance Unit Master Award Agreement (the "**Master Agreement**") dated as of December 31, 2015, as well as the Plan (as defined in the Master Agreement).

The terms and conditions of this Award are set forth below and in the Master Agreement and the Plan, the provisions of which are incorporated herein by reference.

A. The date of grant of this Award is \_\_\_\_\_ (the "**Award Date**").

B. The number of PRSUs subject to this Award is \_\_\_\_\_.

C. The Scheduled Vesting Date(s) for this Award are:

[To be determined by the Committee for each Award Letter]

D. The Performance Period begins on \_\_\_\_\_ and ends on \_\_\_\_\_.

E. The Performance Objective:

[To be determined by the Committee for each Award Letter]

LEVEL 3 COMMUNICATIONS, INC.

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

PARTICIPANT: \_\_\_\_\_

## STATEMENTS RE COMPUTATION OF RATIOS

## STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

## LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

(In millions)	Fiscal Year Ended				
	2015	2014	2013	2012	2011
Income (Loss) from Continuing Operations Before Taxes	\$ 283	\$ 238	\$ (71)	\$ (374)	\$ (786)
Interest on Debt, Net of Capitalized Interest	642	654	649	733	716
Amortization of Capitalized Interest	—	—	—	—	—
Portion of rents deemed representative of the interest factor (1/3)	119	104	101	101	77
Earnings Available for Fixed Charges	<u>\$ 1,044</u>	<u>\$ 996</u>	<u>\$ 679</u>	<u>\$ 460</u>	<u>\$ 7</u>
Interest on Debt	\$ 642	\$ 654	\$ 649	\$ 733	\$ 716
Preferred Dividends	—	—	—	—	—
Interest Expense Portion of Rental Expense	119	104	101	101	77
Total Fixed Charges	<u>\$ 761</u>	<u>\$ 758</u>	<u>\$ 750</u>	<u>\$ 834</u>	<u>\$ 793</u>
Ratio of Earnings to Fixed Charges	<u>1.4</u>	<u>1.3</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deficiency	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (71)</u>	<u>\$ (374)</u>	<u>\$ (786)</u>

**Level 3 Communications, Inc.  
Subsidiaries of the Registrant**

<b><u>Entity Name</u></b>	<b><u>Jurisdiction</u></b>	<b><u>Country</u></b>
650 Townsend Facility Company, LLC	California	United States
ACME Grating Ventures, L.L.C.	Delaware	United States
Ameritel Management, Inc.	British Columbia	Canada
AmSoft Information Services Limited	Mauritius	Mauritius
Broadwing Communications, LLC	Delaware	United States
Broadwing, LLC	Delaware	United States
BTE Equipment, LLC	Delaware	United States
CCC Canada Holding, Inc.	Delaware	United States
Central Host, Inc.	California	United States
Continental Holdings Inc.	Wyoming	United States
Continental Level 3, Inc.	Delaware	United States
Continental Mineral Sales, Inc.	Delaware	United States
Corvis Canada Inc.	Federally Chartered	Canada
Corvis Gratings Company	Nova Scotia	Canada
Eldorado Acquisition Two, Inc.	Delaware	United States
Fibernet UK Limited	United Kingdom	United Kingdom
Front Range Insurance Company, Inc.	Hawaii	United States
FTV Communications, LLC	Delaware	United States
GC Impsat Holdings I Limited	United Kingdom	United Kingdom
GC Impsat Holdings II Limited	United Kingdom	United Kingdom
GC Pan European Crossing UK Limited	United Kingdom	United Kingdom
GC SAC Argentina S.R.L.	Argentina	Argentina
Global Crossing (Bidco) Limited	United Kingdom	United Kingdom
Global Crossing Americas Solutions Inc.	Delaware	United States
Global Crossing International Networks Ltd.	Bermuda	Bermuda
Global Crossing International, Ltd.	Bermuda	Bermuda
Global Crossing Local Services, Inc.	Michigan	United States
Global Crossing North America, Inc.	New York	United States
Global Crossing North American Holdings, Inc.	Delaware	United States
Global Crossing Telecommunications, Inc.	Michigan	United States
Global Crossing Telecommunications-Canada, Ltd.	Federally Chartered	Canada
Global Crossing Telemangement VA, LLC	Virginia	United States
Impsat Fiber Networks, Inc	Delaware	United States
IP Networks, Inc.	Delaware	United States
KMI Continental Lignite, Inc.	Delaware	United States
Legend Circle Holdings, Inc.	Delaware	United States
Level 3 Argentina, S.A.	Argentina	Argentina
Level 3 Asia, Inc.	Delaware	United States
Level 3 CDN Hong Kong Limited	Hong Kong	Hong Kong
Level 3 CDN International, Inc.	Delaware	United States

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Level 3 Chile S.A.	Chile	Chile
Level 3 Colombia S.A.	Colombia	Colombia
Level 3 Communications (Asia Pacific) Limited	Hong Kong	Hong Kong
Level 3 Communications (Austria) Limited	United Kingdom	United Kingdom
Level 3 Communications (IMPSAT) Nederland B.V.	Netherlands	Netherlands
Level 3 Communications (Ireland) Limited	Ireland	Ireland
Level 3 Communications A.B.	Sweden	Sweden
Level 3 Communications ApS	Denmark	Denmark
Level 3 Communications Australia Pty Ltd	Australia	Australia
Level 3 Communications Austria GmbH	Austria	Austria
Level 3 Communications Canada Co.	Nova Scotia	Canada
Level 3 Communications EOOD	Bulgaria	Bulgaria
Level 3 Communications España S.A.	Spain	Spain
Level 3 Communications Estonia OÜ	Estonia	Estonia
Level 3 Communications Europe Limited	United Kingdom	United Kingdom
Level 3 Communications France SARL	France	France
Level 3 Communications GmbH	Germany	Germany
Level 3 Communications Hong Kong Limited	Hong Kong	Hong Kong
Level 3 Communications Iceland ehf.	Iceland	Iceland
Level 3 Communications Italia S.R.L.	Italy	Italy
Level 3 Communications Japan KK	Japan	Japan
Level 3 Communications Kft	Hungary	Hungary
Level 3 Communications Limited	Ireland	Ireland
Level 3 Communications Limited	United Kingdom	United Kingdom
Level 3 Communications of Virginia, Inc.	Virginia	United States
Level 3 Communications Oy	Finland	Finland
Level 3 Communications PEC Ireland Limited	Ireland	Ireland
Level 3 Communications PEC Luxembourg I S.á.r.l.	Luxembourg	Luxembourg
Level 3 Communications PEC Luxembourg II S.á.r.l.	Luxembourg	Luxembourg
Level 3 Communications PEC Services Europe Limited	Ireland	Ireland
Level 3 Communications PEC Services Ireland Limited	Ireland	Ireland
Level 3 Communications PEC Telekomünikasyon Hizmetleri Limited Şirketi	Turkey	Turkey
Level 3 Communications PEC Ukraine LLC	Ukraine	Ukraine
Level 3 Communications RS d.o.o.	Serbia	Serbia
Level 3 Communications S.A.	Belgium	Belgium
Level 3 Communications S.R.L.	Romania	Romania
Level 3 Communications s.r.o.	Czech Republic	Czech Republic
Level 3 Communications Singapore Pte. Ltd.	Singapore	Singapore
Level 3 Communications South Africa (Pty) Limited	South Africa	South Africa
Level 3 Communications Sp. z o. o.	Poland	Poland
Level 3 Communications spol. s.r.o.	Slovakia	Slovak Republic
Level 3 Communications St. Croix, Inc.	Virgin Islands	United States

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Level 3 Communications Switzerland AG	Switzerland	Switzerland
Level 3 Communications UK Limited	United Kingdom	United Kingdom
Level 3 Communications, B.V.	Netherlands	Netherlands
Level 3 Communications, Inc.	Delaware	United States
Level 3 Communications, LLC	Delaware	United States
Level 3 Comunicacoes do Brasil Ltda.	Brazil	Brazil
Level 3 Ecuador LVLTA S.A.	Ecuador	Ecuador
Level 3 Enhanced Services, LLC	Delaware	United States
Level 3 EON, LLC	Delaware	United States
Level 3 Europe B.V.	Netherlands	Netherlands
Level 3 Financing, Inc.	Delaware	United States
Level 3 GC Limited	Bermuda	Bermuda
Level 3 Holdings, B.V.	Netherlands	Netherlands
Level 3 Holdings, Inc.	Delaware	United States
Level 3 International Services, Inc.	Delaware	United States
Level 3 International, Inc.	Delaware	United States
Level 3 Komunikacijske Usluge d.o.o. (doing business as: Hrvatska)	Croatia	Croatia
Level 3 Latin American Solutions, LLC	Delaware	United States
Level 3 Mexico II, S. de R.L. de C.V.	Mexico	Mexico
Level 3 Mexico Landing S. de R.L.	Mexico	Mexico
Level 3 Mexico Servicios, S. de R. L. de C. V.	Mexico	Mexico
Level 3 Mexico, S. de R.L. de C.V.	Mexico	Mexico
Level 3 Panama, Inc.	Panama	Panama
Level 3 Participacoes e Comercial Ltd.	Brazil	Brazil
Level 3 PEC Norge AS	Norway	Norway
Level 3 Peru S.A.	Peru	Peru
Level 3 telekomunikacijske d.o.o.	Slovenia	Slovenia
Level 3 Venezuela S.A.	Venezuela	Venezuela
Level Three Communications Costa Rica, S.R.L.	Costa Rica	Costa Rica
Level Three Communications Israel Ltd.	Israel	Israel
Level Three Communications Kenya Limited	Kenya	Kenya
Level 3 Communications S.a.r.l.	Luxembourg	Luxembourg
OOO "Level 3 Communications"	Russian Federation	Russian Federation
SAC Brasil Comunicações Ltda.	Brazil	Brazil
SAC Brasil Holding Ltda.	Brazil	Brazil
SAC Peru S.R.L.	Peru	Peru
TelCove of Pennsylvania, LLC	Delaware	United States
TelCove Operations, LLC	Delaware	United States
The IRC Company, Inc.	Delaware	United States
Level 3 Telecom Data Services, LLC	Delaware	United States
Level 3 Telecom Holdings II, LLC	Delaware	United States
Level 3 Telecom Holdings, LLC	Delaware	United States
Level 3 Telecom, LP	Delaware	United States
Level 3 Telecom Management Co. LLC	Delaware	United States

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Level 3 Telecom of Alabama, LLC	Delaware	United States
Level 3 Telecom of Arizona, LLC	Delaware	United States
Level 3 Telecom of Arkansas, LLC	Delaware	United States
Level 3 Telecom of California, LP	Delaware	United States
Level 3 Telecom of Colorado, LLC	Delaware	United States
Level 3 Telecom of D.C., LLC	Delaware	United States
Level 3 Telecom of Florida, LP	Delaware	United States
Level 3 Telecom of Georgia, LP	Delaware	United States
Level 3 Telecom of Hawaii, LP	Delaware	United States
Level 3 Telecom of Idaho, LLC	Delaware	United States
Level 3 Telecom of Illinois, LLC	Delaware	United States
Level 3 Telecom of Indiana, LP	Delaware	United States
Level 3 Telecom of Iowa, LLC	Delaware	United States
Level 3 Telecom of Kansas City, LLC	Delaware	United States
Level 3 Telecom of Kentucky, LLC	Delaware	United States
Level 3 Telecom of Louisiana, LLC	Delaware	United States
Level 3 Telecom of Maryland, LLC	Delaware	United States
Level 3 Telecom of Minnesota, LLC	Delaware	United States
Level 3 Telecom of Mississippi, LLC	Delaware	United States
Level 3 Telecom of Nevada, LLC	Delaware	United States
Level 3 Telecom of New Jersey, LP	Delaware	United States
Level 3 Telecom of New Mexico, LLC	Delaware	United States
Level 3 Telecom of New York, LP	Delaware	United States
Level 3 Telecom of North Carolina, LP	Delaware	United States
Level 3 Telecom of Ohio, LLC	Delaware	United States
Level 3 Telecom of Oklahoma, LLC	Delaware	United States
Level 3 Telecom of Oregon, LLC	Delaware	United States
Level 3 Telecom of South Carolina, LLC	Delaware	United States
Level 3 Telecom of Tennessee, LLC	Delaware	United States
Level 3 Telecom of Texas, LLC	Delaware	United States
Level 3 Telecom of Utah, LLC	Delaware	United States
Level 3 Telecom of Virginia, LLC	Virginia	United States
Level 3 Telecom of Washington, LLC	Delaware	United States
Level 3 Telecom of Wisconsin, LP	Delaware	United States
Level 3 Telecom, LLC	Delaware	United States
Vyvx, LLC	Delaware	United States
Williams Comunicaciones Chile Limitada	Chile	Chile
WiiTel Communications (Cayman) Limited	Cayman Islands	Cayman Islands
WiiTel Communications Network, Inc.	New Brunswick	Canada
WiiTel Communications Pty Limited	New South Wales	Australia
WiiTel Communications, LLC	Delaware	United States
WiiTel International Telecom (Chile) Limited	Cayman Islands	Cayman Islands
XCOM Technologies of New York, Inc.	New York	United States
Xspedius Management Co. International, LLC	Delaware	United States

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Level 3 Communications, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-53914, 333-156709, 333-160493, 333-162854, and 333-178060) on Form S-3 and the registration statements (Nos. 333-79533, 333-42465, 333-68447, 333-58691, 333-52697, 333-115472, 333-115751, 333-174354, 333-177977, 333-189832, 333-205075, and 333-208892) on Form S-8 of Level 3 Communications, Inc. of our reports dated February 26, 2016, with respect to the consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2015, and the effectiveness of internal control over financial reporting as of December 31, 2015, which reports appear in the December 31, 2015 annual report on Form 10-K of Level 3 Communications, Inc.

**/s/ KPMG LLP**

Denver, Colorado  
February 26, 2016

**CERTIFICATIONS\***

I, Sunit S. Patel, certify that:

1. I have reviewed this Form 10-K of Level 3 Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: February 26, 2016

/s/ Sunit S. Patel

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Sunit S. Patel

Interim Chief Executive Officer and Chief Financial Officer

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

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

In connection with the Annual Report on Form 10-K of Level 3 Communications, Inc. (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sunit S. Patel, Interim Chief Executive Officer and 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

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Sunit S. Patel

Interim Chief Executive Officer and Chief Financial Officer

February 26, 2016