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

# FORM 10-Q

**(Mark One)**

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

**For the Quarterly Period Ended September 30, 2016**

**or**

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

**For the transition period from to**

**Commission file number 001-35134**

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

| | |
|---|---|
| **Delaware** | **47-0210602** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| **1025 Eldorado Blvd., Broomfield, CO** | **80021-8869** |
| (Address of principal executive offices) | (Zip Code) |

**(720) 888-1000**
(Registrant's telephone number,
including area code)

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

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

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

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The number of shares outstanding of each class of the issuer's common stock, as of November 3, 2016 :

Common Stock: 359,925,515 shares.

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

**Part I - Financial Information**
**ITEM 1. FINANCIAL STATEMENTS**

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

| (dollars in millions, except per share data) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Revenue | $ 2,033 | $ 2,062 | $ 6,140 | $ 6,176 |
| Costs and Expenses: | | | | |
| Network access costs | 675 | 706 | 2,045 | 2,125 |
| Network related expenses | 337 | 369 | 1,014 | 1,088 |
| Depreciation and amortization | 319 | 296 | 930 | 872 |
| Selling, general and administrative expenses | 348 | 364 | 1,061 | 1,098 |
| Total Costs and Expenses | 1,679 | 1,735 | 5,050 | 5,183 |
| Operating Income | 354 | 327 | 1,090 | 993 |
| Other Income (Expense): | | | | |
| Interest income | 1 | — | 3 | 1 |
| Interest expense | (139) | (145) | (414) | (490) |
| Loss on modification and extinguishment of debt | — | — | (40) | (163) |
| Venezuela deconsolidation charge | — | (171) | — | (171) |
| Other, net | 1 | 6 | (14) | (21) |
| Total Other Expense | (137) | (310) | (465) | (844) |
| Income Before Income Taxes | 217 | 17 | 625 | 149 |
| Income Tax Expense | (74) | (16) | (198) | (39) |
| Net Income | $ 143 | $ 1 | $ 427 | $ 110 |
| | | | | |
| **Basic Earnings per Common Share** | | | | |
| Net Income Per Share | $ 0.40 | $ — | $ 1.19 | $ 0.31 |
| Weighted-Average Shares Outstanding (in thousands) | 359,561 | 355,791 | 358,097 | 352,411 |
| | | | | |
| **Diluted Earnings per Common Share** | | | | |
| Net Income Per Share | $ 0.39 | $ — | $ 1.18 | $ 0.31 |
| Weighted-Average Shares Outstanding (in thousands) | 361,907 | 358,714 | 361,072 | 355,453 |

See accompanying notes to unaudited Consolidated Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (dollars in millions) | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net Income | $ 143 | $ 1 | $ 427 | $ 110 |
| Other Comprehensive Income (Loss) net of Tax: | | | | |
| Foreign currency translation adjustments, net of tax effect of $6, $0, $30 and $0 | (15) | (73) | 9 | (130) |
| Defined benefit pension plan adjustments, net of tax effect of ($1), $0, ($2) and $0 | — | 1 | (1) | 2 |
| Other Comprehensive Income (Loss), net of Tax | (15) | (72) | 8 | (128) |
| Comprehensive Income (Loss) | $ 128 | $ (71) | $ 435 | $ (18) |

See accompanying notes to unaudited Consolidated Financial Statements.

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

| (dollars in millions, except per share data) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets: | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,569 | $ 854 |
| Restricted cash and securities | 8 | 8 |
| Receivables, less allowances for doubtful accounts of $34 and $32, respectively | 749 | 757 |
| Other | 131 | 111 |
| Total Current Assets | 2,457 | 1,730 |
| Property, Plant and Equipment, net of accumulated depreciation of $11,070 and $10,365, respectively | 10,167 | 9,878 |
| Restricted Cash and Securities | 31 | 42 |
| Goodwill | 7,736 | 7,749 |
| Other Intangibles, net | 967 | 1,127 |
| Deferred Tax Assets | 3,339 | 3,441 |
| Other Assets, net | 49 | 50 |
| Total Assets | $ 24,746 | $ 24,017 |
| Liabilities and Stockholders' Equity: | | |
| Current Liabilities: | | |
| Accounts payable | $ 728 | $ 629 |
| Current portion of long-term debt | 7 | 15 |
| Accrued payroll and employee benefits | 194 | 218 |
| Accrued interest | 135 | 108 |
| Current portion of deferred revenue | 263 | 267 |
| Other | 180 | 179 |
| Total Current Liabilities | 1,507 | 1,416 |
| Long-Term Debt, less current portion | 10,875 | 10,866 |
| Deferred Revenue, less current portion | 1,010 | 977 |
| Other Liabilities | 630 | 632 |
| Total Liabilities | 14,022 | 13,891 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, $.01 par value, authorized 10,000,000 shares: no shares issued or outstanding | — | — |
| Common stock, $.01 par value, authorized 433,333,333 shares in both periods; 359,687,815 issued and outstanding at September 30, 2016 and 356,374,473 issued and outstanding at December 31, 2015 | 4 | 4 |
| Additional paid-in capital | 19,763 | 19,642 |
| Accumulated other comprehensive loss | (293) | (301) |
| Accumulated deficit | (8,750) | (9,219) |
| Total Stockholders' Equity | 10,724 | 10,126 |
| Total Liabilities and Stockholders' Equity | $ 24,746 | $ 24,017 |

See accompanying notes to unaudited Consolidated Financial Statements.

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

| | Nine Months Ended | |
|---|---|---|
| (dollars in millions) | September 30, 2016 | September 30, 2015 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 427 | $ 110 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 930 | 872 |
| Non-cash compensation expense attributable to stock awards | 121 | 92 |
| Loss on modification and extinguishment of debt | 40 | 163 |
| Venezuela deconsolidation charge | — | 171 |
| Accretion of debt discount and amortization of debt issuance costs | 15 | 18 |
| Accrued interest on long-term debt, net | 27 | (28) |
| Deferred income taxes | 163 | 5 |
| (Gain) Loss on sale of property, plant and equipment and other assets | (1) | 1 |
| Other, net | (7) | 32 |
| Changes in working capital items: | | |
| Receivables | 16 | (130) |
| Other current assets | (40) | (21) |
| Accounts payable | 99 | (1) |
| Deferred revenue | 21 | 59 |
| Other current liabilities | (25) | (44) |
| Net Cash Provided by Operating Activities | 1,786 | 1,299 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (1,028) | (899) |
| Cash related to deconsolidated Venezuela operations | — | (83) |
| Change in restricted cash and securities, net | 11 | (24) |
| Proceeds from sale of property, plant and equipment and other assets | 1 | 3 |
| Other | — | (14) |
| Net Cash Used in Investing Activities | (1,016) | (1,017) |
| Cash Flows from Financing Activities: | | |
| Long-term debt borrowings, net of issuance costs | 764 | 3,947 |
| Payments on and repurchases of long-term debt and capital leases | (818) | (4,102) |
| Net Cash Used in Financing Activities | (54) | (155) |
| Effect of Exchange Rates on Cash and Cash Equivalents | (1) | (16) |
| Net Change in Cash and Cash Equivalents | 715 | 111 |
| Cash and Cash Equivalents at Beginning of Period | 854 | 580 |
| Cash and Cash Equivalents at End of Period | $ 1,569 | $ 691 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash interest paid | $ 372 | $ 495 |
| Income taxes paid, net of refunds | $ 26 | $ 40 |
| Non-cash Financing Activities: | | |
| Capital lease obligations incurred | $ 1 | $ 6 |
| Long-term debt conversion into equity | $ — | $ 333 |
| Accrued interest conversion into equity | $ — | $ 10 |

See accompanying notes to unaudited Consolidated Financial Statements.

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

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

*Description of Business*

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

*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 was in the Latin America segment and had total revenue of $25 million and $72 million , with Adjusted EBITDA of $16 million and $46 million , for the three and nine months ended September 30, 2015, respectively. For more information on the Company's segments and non-GAAP measures see Note 9 - Segment Information.

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 and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of the Company's Venezuelan operations and access the resulting liquidity provided by those earnings in U.S. dollars. The Company expects that this condition will continue for the foreseeable future. Additionally, government regulations affecting the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an acute degradation in the Company's ability to make key operational decisions for its Venezuelan operations. This lack of exchangeability into U.S. dollars and the degradation in the Company's ability to control key operational decisions has resulted in a lack of control over the Company's Venezuelan subsidiary for U.S. accounting purposes. Therefore, while continuing to wholly own its Venezuelan subsidiary, the Company concluded it no longer met the accounting criteria for consolidation and deconsolidated its Venezuelan subsidiary on September 30, 2015, and began accounting for its variable interest investment in its Venezuelan operations using the cost method of accounting. The factors that led to the Company's conclusions at the end of the third quarter of 2015 continued to exist through the end of the third quarter of 2016. Any dividends from the Company's Venezuelan subsidiary are recorded as other income upon receipt of the cash in U.S. dollars. Prior period results have not been adjusted to reflect the deconsolidation of the Company's Venezuelan subsidiary.

The accompanying Consolidated Balance Sheet as of December 31, 2015 , which was derived from audited Consolidated Financial Statements, and the unaudited interim Consolidated Financial Statements as of September 30, 2016 and for the nine months ended September 30, 2016 and 2015 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP for complete financial statements. These financial statements should be read in conjunction with the Company’s audited Consolidated Financial Statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2015 . In the opinion of the Company’s management, these financial statements contain all adjustments necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the interim periods presented herein. The results of operations for an interim period are not necessarily indicative of the results of operations expected for a full fiscal year.

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates under different assumptions or conditions and such differences could be material.

*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 adoption of Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs* . As of December 31, 2015, approximately $19 million of current debt issuance costs have been reclassified from other current assets to long-term debt, less current portion and approximately $109 million of non-current debt issuance costs have been reclassified from other non-current assets to long-term debt, less current portion.

*Recently Issued Accounting Pronouncements*

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, *Improvements to Employee Share-Based Payment Accounting* , as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, but all of the amendments must be adopted in the same period.

The Company elected to early adopt ASU 2016-09 in the third quarter of 2016, which requires adjustments to be reflected as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of $42 million recorded to accumulated deficit as of January 1, 2016.

This ASU amended the definition of assumed proceeds when applying the treasury stock method of computing earnings per share to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital. This amendment increased the amount of Diluted Weighted-Average Shares Outstanding, as noted in the table below.

The new presentation requirements for excess tax benefits to be shown on the statement of cash flows as an operating activity and presenting employee taxes paid where the employer withholds shares for tax-withholding purposes as a financing activity had no effect to any of the periods presented in the Company's consolidated cash flows statements as there had been no such activities in the statements of cash flow. The Company has elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Adoption of the new standard also resulted in the recognition of excess tax benefits as a reduction to income tax expense of $10 million and $21 million for the three and nine months ended September 30, 2016, respectively, and adjusted the Company's previously reported quarterly results for 2016 as follows:

| | Three Months Ended March 31, 2016 | | Three Months Ended June 30, 2016 | |
|---|---|---|---|---|
| (dollars in millions, except per share data) | As Reported | As Adjusted | As Reported | As Adjusted |
| Net Income | $ 124 | $ 128 | $ 149 | $ 156 |
| Basic Earnings Per Common Share | $ 0.35 | $ 0.36 | $ 0.42 | $ 0.44 |
| Diluted Earnings Per Common Share | $ 0.34 | $ 0.36 | $ 0.41 | $ 0.43 |
| Diluted Weighted-Average Shares Outstanding (in thousands) | 360,339 | 360,745 | 360,867 | 361,250 |

| | March 31, 2016 | | June 30, 2016 | |
|---|---|---|---|---|
| **(dollars in millions)** | As Reported | As Adjusted | As Reported | As Adjusted |
| Accumulated deficit | $ (9,095) | $ (9,049) | $ (8,946) | $ (8,893) |

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 May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ASC Topic 606), 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) CenturyLink Merger**

On October 31, 2016 , the Company entered into an agreement and plan of merger (the "Merger Agreement") with CenturyLink, Inc. ("CenturyLink"), Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect wholly-owned subsidiary of CenturyLink ("Merger Sub 1"), and WWG Merger Sub LLC, a Delaware limited liability company and an indirect wholly-owned subsidiary of CenturyLink ("Merger Sub 2"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, the Company will be acquired by CenturyLink in a cash and stock transaction, including the assumption of the Company's debt (the "CenturyLink Merger").

Under the Merger Agreement, at the effective time of the merger of Merger Sub 1 with and into the Company (the "Initial Merger"), (i) each issued and outstanding share of common stock of the Company, will be converted into 1.4286 shares (the "Stock Consideration") of CenturyLink's common stock par value $1.00 per share and (ii) the right to receive $26.50 in cash (the "Cash Consideration" and, together with the Stock Consideration, the "Merger Consideration"). In addition, the Merger Agreement provides that at the effective time of the CenturyLink Merger, each issued and outstanding restricted stock unit award granted prior to April 1, 2014 and each restricted stock unit award granted to a non-employee member of the Company's Board of Directors will be exchanged for the Merger Consideration. Further, at the effective time of the CenturyLink Merger, each issued and outstanding restricted stock unit award granted on or after April 1, 2014, other than those granted to non-employee members of the Company's Board of Directors, will be assumed and converted automatically into a restricted stock unit award of CenturyLink common stock that will be subject to the same service-based vesting conditions as applicable to such awards prior to the transaction (but not any performance-based vesting conditions, which will be deemed satisfied based on forecasted and adjusted results through the closing of the transaction (as determined by Compensation Committee of the Company's Board of Directors)). The CenturyLink Merger is subject to the receipt of certain regulatory approvals, including expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, review by the U.S. Federal Communications Commission, certain state regulatory approvals and other customary closing conditions. The transaction is also subject to the approval of CenturyLink shareholders and Level 3 stockholders. CenturyLink has entered into a voting agreement with STT Crossing Ltd. (a wholly owned subsidiary of ST Telemedia), holder of approximately 18 percent of Level 3's outstanding common stock, pursuant to which it will vote its Level 3 shares in favor of the transaction. All existing indebtedness of Level 3 is expected to remain in place at Level 3 and Level 3 will not incur any incremental indebtedness or guarantee any indebtedness of CenturyLink to finance the transaction.

**(3) Earnings Per Share**

The Company computes basic earnings per share by dividing net income for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing the net income for the period by the weighted average number of shares of common stock outstanding during the period and including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding convertible notes and stock-based compensation awards.

The effects of approximately 2 million and 3 million total outperform stock appreciation rights ("OSOs"), restricted stock units ("RSUs"), and performance restricted stock units ("PRSUs") outstanding at September 30, 2016 have been included in the computation of diluted earnings per share for the three and nine months ended September 30, 2016 , respectively. Approximately 1 million of PRSUs granted in 2015 and 2016 were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2016, as they were contingently issuable and no shares would have been issued if these periods were the end of the contingency period. The effect of approximately 4 million total OSOs and RSUs outstanding at September 30, 2015 has been included in the computation of diluted earnings per share for the three months and nine months ended September 30, 2015 . PRSUs were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2015, as they were contingently issuable and no shares would have been issued if these periods were the end of the contingency period.

**(4) Other Intangible Assets**

Other intangible assets as of September 30, 2016 and December 31, 2015 were as follows (dollars in millions):

| | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| **September 30, 2016** | | | |
| *Finite-Lived Intangible Assets:* | | | |
| Customer Contracts and Relationships | $ 1,974 | $ (1,069) | $ 905 |
| Trademarks | 55 | (55) | — |
| Patents and Developed Technology | 230 | (183) | 47 |
| | 2,259 | (1,307) | 952 |
| *Indefinite-Lived Intangible Assets:* | | | |
| Trade Name | 15 | — | 15 |
| | $ 2,274 | $ (1,307) | $ 967 |
| **December 31, 2015** | | | |
| *Finite-Lived Intangible Assets:* | | | |
| 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 |
| *Indefinite-Lived Intangible Assets:* | | | |
| Trade Name | 15 | — | 15 |
| | $ 2,275 | $ (1,148) | $ 1,127 |

Finite-lived intangible asset amortization expense was $53 million and $159 million for the three and nine months ended September 30, 2016 and $58 million and $172 million for the three and nine months ended September 30, 2015 .

At September 30, 2016 , the weighted average remaining useful lives of the Company's finite-lived intangible assets was 5.0 years in total; 5.2 years for customer contracts and relationships, and 2.9 years for patents and developed technology.

As of September 30, 2016 , estimated amortization expense for the Company’s finite-lived intangible assets over the next five years is as follows (dollars in millions):

| | |
|---|---|
| 2016 (remaining three months) | $ 52 |
| 2017 | 196 |
| 2018 | 193 |
| 2019 | 181 |
| 2020 | 166 |
| 2021 | 143 |
| Thereafter | 21 |
| | $ 952 |

**(5) Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, restricted cash and securities, receivables, accounts payable, capital leases, other liabilities and long-term debt (including the current portion). The carrying values of cash and cash equivalents, restricted cash and securities, receivables, accounts payable, capital leases and other liabilities approximated their fair values at September 30, 2016 and December 31, 2015 .

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

*Fair Value Hierarchy*

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

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

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

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

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period. There were no transfers within the fair value hierarchy during each of the nine months ended September 30, 2016 and September 30, 2015 .

The table below presents the fair values for the Company's long-term debt as well as the input levels used to determine these fair values as of September 30, 2016 and December 31, 2015 :

| | | | Fair Value Measurement Using | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Value in Consolidated Balance Sheets | | Unadjusted Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | | Significant Other Observable Inputs (Level 2) | |
| (dollars in millions) | September 30, 2016 | December 31, 2015 | September 30, 2016 | December 31, 2015 | September 30, 2016 | December 31, 2015 |
| *Liabilities Not Recorded at Fair Value in the Financial Statements:* | | | | | | |
| Long-term Debt, including the current portion: | | | | | | |
| Term Loans | $ 4,564 | $ 4,556 | $ 4,636 | $ 4,570 | $ — | $ — |
| Senior Notes | 6,131 | 6,126 | 6,439 | 6,298 | — | — |
| Capital Leases and Other | 187 | 199 | — | — | 187 | 199 |
| Total Long-term Debt, including the current portion | $ 10,882 | $ 10,881 | $ 11,075 | $ 10,868 | $ 187 | $ 199 |

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

*Term Loans*

The fair value of the Term Loans referenced above was approximately $4.6 billion at both September 30, 2016 and December 31, 2015 . The fair value of each loan is based on quoted prices for identical terms and maturities. Each loan tranche is actively traded.

*Senior Notes*

The fair value of the Senior Notes referenced above was approximately $6.4 billion at September 30, 2016 and $6.3 billion at December 31, 2015 , respectively, based on quoted prices for identical terms and maturities. Each series of notes is actively traded.

*Capital Leases*

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

## (6) Long-Term Debt

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

| | Date of | | | | September 30, 2016 | December 31, 2015 |
|---|---|---|---|---|---|---|
| | Issuance/Amendment | Maturity | Interest Payments | Interest Rate | Amount | Amount |
| **Senior Secured Term Loans:** | | | | | | |
| *Borrowed by Level 3 Financing, Inc.* | | | | | | |
| 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-II 2022 Term Loan (1)(4) | May 2015 | May 2022 | Quarterly | LIBOR +2.75% | 2,000 | 2,000 |
| **Senior Notes:** | | | | | | |
| *Issued by Level 3 Financing, Inc.* | | | | | | |
| Floating Rate Senior Notes due 2018 (2)(4) | Nov 2013 | Jan 2018 | May/Nov | 6-Month LIBOR +3.50% | 300 | 300 |
| 7% Senior Notes due 2020 (2) | Aug 2012 | Jun 2020 | Jun/Dec | 7.000% | — | 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 | 500 |
| 5.125% Senior Notes due 2023 (2) | Apr 2015 | May 2023 | Mar/Sept | 5.125% | 700 | 700 |
| 5.375% Senior Notes due 2025 (2) | Apr 2015 | May 2025 | Mar/Sept | 5.375% | 800 | 800 |
| 5.375% Senior Notes due 2024 (2) | Nov 2015 | Jan 2024 | Jan/Jul | 5.375% | 900 | 900 |
| 5.25% Senior Notes due 2026 (2) | Mar 2016 | Mar 2026 | Apr/Oct | 5.250% | 775 | — |
| *Issued by Level 3 Communications, Inc.* | | | | | | |
| 5.75% Senior Notes due 2022 (3) | Dec 2014 | Dec 2022 | Mar/Sept | 5.750% | 600 | 600 |
| **Capital Leases** | | | | | 187 | 199 |
| **Total Debt Obligations** | | | | | 11,013 | 11,025 |
| Unamortized discounts | | | | | (14) | (16) |
| Unamortized debt issuance costs | | | | | (117) | (128) |
| Current portion of long-term debt | | | | | (7) | (15) |
| **Total Long-Term Debt** | | | | | $ 10,875 | $ 10,866 |

(1) The term loans are secured obligations and guaranteed by Level 3 Communications, Inc. and Level 3 Communications, LLC and certain other subsidiaries.
(2) The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.
(3) The notes were not guaranteed by any of Level 3 Communications, Inc.'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 September 30, 2016 and December 31, 2015 . The Tranche B-II 2022 Term Loan had an interest rate of 3.500% as of September 30, 2016 and December 31, 2015 . The Floating Rate Senior Notes due 2018 had an interest rate of 4.407% as of September 30, 2016 and 4.101% as of December 31, 2015 . The interest rate on the Tranche B-III 2019 Term Loan, and the Tranche B 2020 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 September 30, 2016 , Level 3 Financing, Inc., Level 3 Communications, Inc.'s direct wholly owned subsidiary ("Level 3 Financing") had a senior secured credit facility consisting of $815 million Tranche B-III Term Loan due 2019, $1.796 billion Tranche B Term Loan due 2020 and $2 billion Tranche B-II Term Loan due 2022.

### *Senior Notes*

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 101% of the principal amount or a "make-whole" amount, plus accrued interest. In addition, the 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.

### *7% Senior Notes due 2020 and 5.25% Senior Notes due 2026*

On March 22, 2016, Level 3 Financing issued $775 million in aggregate principal amount of its 5.25% Senior Notes due 2026 (the "5.25% Senior Notes due 2026"). The 5.25% Senior Notes due 2026 are fully and unconditionally guaranteed on an unsubordinated unsecured basis by Level 3 Communications, Inc. and now Level 3 Communications, LLC as of September 30, 2016.

The 5.25% Senior Notes due 2026 were not originally registered under the Securities Act of 1933, as amended. A registration rights agreement with respect to these notes became effective as of March 22, 2016.

On April 21, 2016, all of the outstanding principal amount of the 7% Senior Notes Due 2020 was redeemed at a redemption price equal to 104.138% of the principal amount, along with accrued and unpaid interest to but excluding the redemption date. To fund the redemption of these notes, Level 3 Financing used the net proceeds, along with cash on hand, from the March 22, 2016 issuance of its 5.25% Senior Notes due 2026. The Company recognized a loss on modification and extinguishment of debt of approximately $40 million in Other Expense in the second quarter of 2016 as a result of the redemption of the 7% Senior Notes due 2020.

### *Capital Leases*

As of September 30, 2016 , the Company had $187 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. The average interest rate on these capital leases approximated 5.8% as of September 30, 2016 .

### *Covenant Compliance*

At September 30, 2016 and December 31, 2015 , 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 debt issuance costs) were as follows as of September 30, 2016 (dollars in millions):

| | |
|---|---|
| 2016 (remaining three months) | $ 2 |
| 2017 | 7 |
| 2018 | 307 |
| 2019 | 822 |
| 2020 | 1,804 |
| 2021 | 650 |
| Thereafter | 7,421 |
| | $ 11,013 |

**(7) Accumulated Other Comprehensive Loss**

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

| (dollars in millions) | Net Foreign Currency Translation Adjustment | Defined Benefit Pension Plans | Total |
|---|---|---|---|
| Balance at December 31, 2014 | $ (111) | $ (36) | $ (147) |
| Other comprehensive loss before reclassifications | (130) | — | (130) |
| Amounts reclassified from accumulated other comprehensive loss | — | 2 | 2 |
| Balance at September 30, 2015 | $ (241) | $ (34) | $ (275) |
| | | | |
| Balance at December 31, 2015 | $ (273) | $ (28) | $ (301) |
| Other comprehensive income (loss) before reclassifications | 9 | (2) | 7 |
| Amounts reclassified from accumulated other comprehensive loss | — | 1 | 1 |
| Balance at September 30, 2016 | $ (264) | $ (29) | $ (293) |

**(8) Stock-Based Compensation**

The following table summarizes non-cash compensation expense attributable to stock-based awards for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Outperform Stock Appreciation Rights | $ — | $ 1 | $ 2 | $ 4 |
| Restricted Stock Units | 26 | 15 | 60 | 37 |
| Performance Restricted Stock Units | 9 | 10 | 33 | 23 |
| 401(k) Match Expense | 8 | 8 | 27 | 29 |
| | 43 | 34 | 122 | 93 |
| Capitalized Non-Cash Compensation | — | — | (1) | (1) |
| | $ 43 | $ 34 | $ 121 | $ 92 |

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

As of September 30, 2016 , there were less than 1 million OSOs outstanding, and approximately 5 million total restricted stock and performance restricted stock units outstanding.

**(9) Segment Information**

Operating segments are defined under GAAP as components of an enterprise for which separate financial information is available and evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's reportable segments consist of 1) North America, 2) Europe, the Middle East and Africa (EMEA) and 3) Latin America. Other separate business interests that are not segments include interest, certain corporate assets and overhead costs, and certain other general and administrative costs that are not allocated to any of the operating segments.

The CODM measures and evaluates segment performance primarily based upon revenue, revenue growth and Adjusted EBITDA. Adjusted EBITDA, as defined by the Company, is equal to net income from the Consolidated Statements of Income before (1) income tax expense, (2) total other 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 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 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 expense, depreciation and amortization expense, non-cash impairment charges, non-cash stock-based compensation expense, and net other expense. Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

The following table presents revenue by segment:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| **(dollars in millions)** | **September 30, 2016** | **September 30, 2015** | **September 30, 2016** | **September 30, 2015** |
| Core Network Services Revenue: | | | | |
| North America | $ 1,572 | $ 1,551 | $ 4,778 | $ 4,636 |
| EMEA | 182 | 211 | 564 | 623 |
| Latin America | 176 | 183 | 491 | 555 |
| Total Core Network Services Revenue | 1,930 | 1,945 | 5,833 | 5,814 |
| Wholesale Voice Services Revenue: | | | | |
| North America | 99 | 110 | 293 | 342 |
| EMEA | 2 | 3 | 8 | 10 |
| Latin America | 2 | 4 | 6 | 10 |
| Total Wholesale Voice Services Revenue | 103 | 117 | 307 | 362 |
| Total Revenue | $ 2,033 | $ 2,062 | $ 6,140 | $ 6,176 |

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

| (dollars in millions) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Adjusted EBITDA: | | | | |
| North America | $ 784 | $ 760 | $ 2,415 | $ 2,267 |
| EMEA | 56 | 63 | 162 | 176 |
| Latin America | 80 | 78 | 218 | 237 |
| Unallocated Corporate Expenses | (204) | (244) | (654) | (723) |
| Adjusted EBITDA | 716 | 657 | 2,141 | 1,957 |
| Income Tax Expense | (74) | (16) | (198) | (39) |
| Total Other Expense | (137) | (310) | (465) | (844) |
| Depreciation and Amortization | (319) | (296) | (930) | (872) |
| Non-Cash Stock Compensation Attributable to Stock Awards | (43) | (34) | (121) | (92) |
| Net Income | $ 143 | $ 1 | $ 427 | $ 110 |

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

| (dollars in millions) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Capital Expenditures: | | | | |
| North America | $ 245 | $ 202 | $ 677 | $ 560 |
| EMEA | 38 | 41 | 117 | 114 |
| Latin America | 44 | 48 | 118 | 122 |
| Unallocated Corporate Capital Expenditures | 37 | 37 | 116 | 103 |
| Total Capital Expenditures | $ 364 | $ 328 | $ 1,028 | $ 899 |

The following table presents total assets by segment:

| (dollars in millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets: | | |
| North America | $ 20,618 | $ 19,961 |
| EMEA | 1,760 | 1,796 |
| Latin America | 2,238 | 2,131 |
| Other | 130 | 129 |
| Total Assets | $ 24,746 | $ 24,017 |

The changes in the carrying amount of goodwill by segment during the nine months ended September 30, 2016 were as follows (in millions):

| | North America | EMEA | Latin America | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ 7,024 | $ 129 | $ 596 | $ 7,749 |
| Effect of foreign currency rate change | — | (13) | — | (13) |
| Balance at September 30, 2016 | $ 7,024 | $ 116 | $ 596 | $ 7,736 |

There were no events or changes in circumstances during the first nine months of 2016 that indicated the carrying value of goodwill may not be recoverable.

**(10) Commitments, Contingencies and Other Items**

The Company is subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect its financial condition, future results of operations or cash flows. Amounts accrued for such contingencies aggregate to $113 million and are included in “Other” current liabilities and “Other Liabilities” in the Company's Consolidated Balance Sheet at September 30, 2016 . The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued would have no effect on the Company's results of operations but could materially adversely affect its cash flows for the affected period.

The Company reviews its accruals at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Below is a description of material legal proceedings and other contingencies pending at September 30, 2016 . 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 all but one of the applicable states and the parties are actively engaged in, or have completed, the claims process for the vast majority of the applicable states, including payment of claims. The Company continues to seek approval in the remaining two states.

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. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, the total amount of exposure is $29 million at September 30, 2016 .

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 April 2016, the first judicial level rendered a decision in the Company’s favor on the central issue underlying the assessments. SUNAT has appealed the substantive issue to the next judicial level. The Company also appealed certain procedural points.

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 appealed the court’s decision to the next judicial level. In April 2016, the court of appeal rendered a decision that declared null the April 2015 decision and remanded the case to the first judicial court for further development of the facts and legal analysis supporting its decision.

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. Under local practice, notification of an appeal can take several months. Counsel confirmed in the first quarter of 2016 that SUNAT has not filed an appeal to the resolution. Nevertheless, SUNAT retains the right to reissue the assessments declared null or start a new audit. However, the Company is under no obligation to provide additional information and any fine issued by SUNAT based on the same information that it has already used in the past would be declared null. Accordingly, in March 2016, the Company released an accrual of approximately $15 million for an assessment and associated interest.

*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 $29 million at September 30, 2016 .

*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 an accrual 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 an accrual of $3 million of tax corresponding to the ICMS applicable on the provision of Internet access services in the fourth quarter of 2014.

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 $48 million at September 30, 2016 in excess of the accruals established for these matters.

*Letters of Credit*

It is customary for Level 3 to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on behalf of Level 3 in accordance with specified terms and conditions. As of September 30, 2016 and December 31, 2015 , Level 3 had outstanding letters of credit or other similar obligations of approximately $39 million and $46 million , respectively, of which $33 million and $43 million are collateralized by cash that is reflected on the Consolidated Balance Sheets as restricted cash and securities. The Company does not believe exposure to loss related to its letters of credit is material.

**(11) Condensed Consolidating Financial Information**

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

In conjunction with the registration of the senior notes, the accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 “Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered.”

The operating activities of the separate legal entities included in the Company’s Consolidated Financial Statements are interdependent. The accompanying condensed consolidating financial information presents the results of operations, financial position and cash flows of each legal entity and, on an aggregate basis, the other non-guarantor subsidiaries based on amounts incurred by such entities, and is not intended to present the operating results of those legal entities on a stand-alone basis. Level 3 Communications, LLC leases equipment and certain facilities from other wholly owned subsidiaries of Level 3 Communications, Inc. These transactions are eliminated in the consolidated results of the Company.

## Condensed Consolidating Statements of Comprehensive Income (Loss)
## Three Months Ended September 30, 2016

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| Revenue | $ — | $ — | $ 907 | $ 1,160 | $ (34) | $ 2,033 |
| Costs and Expense: | | | | | | |
| Network Access Costs | — | — | 330 | 379 | (34) | 675 |
| Network Related Expenses | — | — | 242 | 95 | — | 337 |
| Depreciation and Amortization | — | — | 100 | 219 | — | 319 |
| Selling, General and Administrative Expenses | 1 | 1 | 262 | 84 | — | 348 |
| Total Costs and Expenses | 1 | 1 | 934 | 777 | (34) | 1,679 |
| Operating Income (Loss) | (1) | (1) | (27) | 383 | — | 354 |
| Other Income (Expense): | | | | | | |
| Interest income | — | — | 1 | — | — | 1 |
| Interest expense | (9) | (124) | (1) | (5) | — | (139) |
| Interest income (expense) affiliates, net | 342 | 526 | (804) | (64) | — | — |
| Equity in net earnings (losses) of subsidiaries | (193) | (539) | 169 | — | 563 | — |
| Other, net | — | — | (1) | 2 | — | 1 |
| Total Other Income (Expense) | 140 | (137) | (636) | (67) | 563 | (137) |
| Income (Loss) before Income Taxes | 139 | (138) | (663) | 316 | 563 | 217 |
| Income Tax Benefit (Expense) | 4 | (55) | — | (23) | — | (74) |
| Net Income (Loss) | 143 | (193) | (663) | 293 | 563 | 143 |
| Other Comprehensive Income (Loss), Net of Income Taxes | (15) | — | — | (15) | 15 | (15) |
| Comprehensive Income (Loss) | $ 128 | $ (193) | $ (663) | $ 278 | $ 578 | $ 128 |

## Condensed Consolidating Statements of Comprehensive Income (Loss)
## Nine Months Ended September 30, 2016

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| Revenue | $ — | $ — | $ 2,652 | $ 3,590 | $ (102) | $ 6,140 |
| Costs and Expense: | | | | | | |
| Network Access Costs | — | — | 965 | 1,182 | (102) | 2,045 |
| Network Related Expenses | — | — | 716 | 298 | — | 1,014 |
| Depreciation and Amortization | — | — | 280 | 650 | — | 930 |
| Selling, General and Administrative Expenses | 3 | 4 | 775 | 279 | — | 1,061 |
| Total Costs and Expenses | 3 | 4 | 2,736 | 2,409 | (102) | 5,050 |
| Operating Income (Loss) | (3) | (4) | (84) | 1,181 | — | 1,090 |
| Other Income (Expense): | | | | | | |
| Interest income | — | — | 2 | 1 | — | 3 |
| Interest expense | (27) | (380) | (2) | (5) | — | (414) |
| Interest income (expense) affiliates, net | 1,027 | 1,585 | (2,407) | (205) | — | — |
| Equity in net earnings (losses) of subsidiaries | (581) | (1,568) | 569 | — | 1,580 | — |
| Other, net | — | (39) | 2 | (17) | — | (54) |
| Total Other Income (Expense) | 419 | (402) | (1,836) | (226) | 1,580 | (465) |
| Income (Loss) before Income Taxes | 416 | (406) | (1,920) | 955 | 1,580 | 625 |
| Income Tax Benefit (Expense) | 11 | (175) | (2) | (32) | — | (198) |
| Net Income (Loss) | 427 | (581) | (1,922) | 923 | 1,580 | 427 |
| Other Comprehensive Income (Loss), Net of Income Taxes | 8 | — | — | 8 | (8) | 8 |
| Comprehensive Income (Loss) | $ 435 | $ (581) | $ (1,922) | $ 931 | $ 1,572 | $ 435 |

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

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | (dollars in millions) | | | | | |
| Revenue | $ — | $ — | $ 830 | $ 1,271 | $ (39) | $ 2,062 |
| Costs and Expense: | | | | | | |
| Network access costs | — | — | 300 | 445 | (39) | 706 |
| Network related expenses | — | — | 252 | 117 | — | 369 |
| Depreciation and amortization | — | — | 78 | 218 | — | 296 |
| Selling, general and administrative expenses | 1 | — | 274 | 89 | — | 364 |
| Total Costs and Expenses | 1 | — | 904 | 869 | (39) | 1,735 |
| Operating (Loss) Income | (1) | — | (74) | 402 | — | 327 |
| Other Income (Expense): | | | | | | |
| Interest income | — | — | — | — | — | — |
| Interest expense | (9) | (135) | — | (1) | — | (145) |
| Interest income (expense) affiliates, net | 320 | 498 | (762) | (56) | — | — |
| Equity in net earnings (losses) of subsidiaries | (309) | (671) | (186) | — | 1,166 | — |
| Other, net | — | — | 3 | (168) | — | (165) |
| Total Other Income (Expense) | 2 | (308) | (945) | (225) | 1,166 | (310) |
| Income (Loss) before Income Taxes | 1 | (308) | (1,019) | 177 | 1,166 | 17 |
| Income Tax Expense | — | (1) | — | (15) | — | (16) |
| Net Income (Loss) | 1 | (309) | (1,019) | 162 | 1,166 | 1 |
| Other Comprehensive Income (Loss), Net of Income Taxes | (72) | — | — | (72) | 72 | (72) |
| Comprehensive Income (Loss) | $ (71) | $ (309) | $ (1,019) | $ 90 | $ 1,238 | $ (71) |

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

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | (dollars in millions) | | | | | |
| Revenue | $ — | $ — | $ 2,480 | $ 3,832 | $ (136) | $ 6,176 |
| Costs and Expense: | | | | | | |
| Network access costs | — | — | 919 | 1,342 | (136) | 2,125 |
| Network related expenses | — | — | 713 | 375 | — | 1,088 |
| Depreciation and amortization | — | — | 227 | 645 | — | 872 |
| Selling, general and administrative expenses | 3 | — | 789 | 306 | — | 1,098 |
| Total Costs and Expenses | 3 | — | 2,648 | 2,668 | (136) | 5,183 |
| Operating (Loss) Income | (3) | — | (168) | 1,164 | — | 993 |
| Other Income (Expense): | | | | | | |
| Interest income | — | — | — | 1 | — | 1 |
| Interest expense | (42) | (436) | (2) | (10) | — | (490) |
| Interest income (expense) affiliates, net | 984 | 1,495 | (2,297) | (182) | — | — |
| Equity in net earnings (losses) of subsidiaries | (811) | (1,723) | 174 | — | 2,360 | — |
| Other, net | (18) | (145) | 2 | (194) | — | (355) |
| Total Other Income (Expense) | 113 | (809) | (2,123) | (385) | 2,360 | (844) |
| Income (Loss) before Income Taxes | 110 | (809) | (2,291) | 779 | 2,360 | 149 |
| Income Tax Expense | — | (2) | — | (37) | — | (39) |
| Net Income (Loss) | 110 | (811) | (2,291) | 742 | 2,360 | 110 |
| Other Comprehensive Income (Loss), Net of Income Taxes | (128) | — | — | (128) | 128 | (128) |
| Comprehensive Income (Loss) | $ (18) | $ (811) | $ (2,291) | $ 614 | $ 2,488 | $ (18) |

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## Condensed Consolidating Balance Sheets
## September 30, 2016

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 16 | $ — | $ 1,482 | $ 71 | $ — | $ 1,569 |
| Restricted cash and securities | — | — | 1 | 7 | — | 8 |
| Receivables, less allowances for doubtful accounts | — | — | 41 | 708 | — | 749 |
| Due from affiliates | 16,717 | 20,980 | — | 2,854 | (40,551) | — |
| Other | — | — | 89 | 42 | — | 131 |
| Total Current Assets | 16,733 | 20,980 | 1,613 | 3,682 | (40,551) | 2,457 |
| Property, Plant, and Equipment, net | — | — | 3,780 | 6,387 | — | 10,167 |
| Restricted Cash and Securities | 22 | — | 9 | — | — | 31 |
| Goodwill and Other Intangibles, net | — | — | 355 | 8,348 | — | 8,703 |
| Investment in Subsidiaries | 16,846 | 17,692 | 3,691 | — | (38,229) | — |
| Deferred Tax Assets | 48 | 2,713 | — | 578 | — | 3,339 |
| Other Assets, net | — | — | 12 | 37 | — | 49 |
| Total Assets | $ 33,649 | $ 41,385 | $ 9,460 | $ 19,032 | $ (78,780) | $ 24,746 |
| | | | | | | |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | $ — | $ — | $ 367 | $ 361 | $ — | $ 728 |
| Current portion of long-term debt | — | — | 2 | 5 | — | 7 |
| Accrued payroll and employee benefits | — | — | 160 | 34 | — | 194 |
| Accrued interest | 3 | 124 | — | 8 | — | 135 |
| Current portion of deferred revenue | — | — | 113 | 150 | — | 263 |
| Due to affiliates | — | — | 40,551 | — | (40,551) | — |
| Other | — | — | 138 | 42 | — | 180 |
| Total Current Liabilities | 3 | 124 | 41,331 | 600 | (40,551) | 1,507 |
| Long-Term Debt, less current portion | 592 | 10,103 | 13 | 167 | — | 10,875 |
| Deferred Revenue, less current portion | — | — | 724 | 286 | — | 1,010 |
| Other Liabilities | 15 | — | 148 | 467 | — | 630 |
| Commitments and Contingencies | | | | | | |
| Stockholders' Equity (Deficit) | 33,039 | 31,158 | (32,756) | 17,512 | (38,229) | 10,724 |
| Total Liabilities and Stockholders' Equity (Deficit) | $ 33,649 | $ 41,385 | $ 9,460 | $ 19,032 | $ (78,780) | $ 24,746 |

## Condensed Consolidating Balance Sheets
## December 31, 2015

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 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 | — | — | 56 | 55 | — | 111 |
| Total Current Assets | 12,427 | 22,765 | 831 | 3,697 | (37,990) | 1,730 |
| 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 | — | — | 12 | 38 | — | 50 |
| Total Assets | $ 29,264 | $ 43,326 | $ 8,377 | $ 19,260 | $ (76,210) | $ 24,017 |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | |
| Current Liabilities: | | | | | | |
| 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 |
| Total Current Liabilities | 11 | 91 | 38,607 | 697 | (37,990) | 1,416 |
| Long-Term Debt, less current portion | 591 | 10,092 | 15 | 168 | — | 10,866 |
| 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 |
| Total Liabilities and Stockholders' Equity (Deficit) | $ 29,264 | $ 43,326 | $ 8,377 | $ 19,260 | $ (76,210) | $ 24,017 |

## Condensed Consolidating Statements of Cash Flows
## Nine Months Ended September 30, 2016

| | Level 3 Communications, Inc. | Level 3 Financing, Inc. | Level 3 Communications, LLC | Other Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| Net Cash Provided by (Used in) Operating Activities | $ (35) | $ (332) | $ 489 | $ 1,664 | $ — | $ 1,786 |
| Cash Flows from Investing Activities: | | | | | | |
| Capital expenditures | — | — | (537) | (491) | — | (1,028) |
| Decrease in restricted cash and securities, net | 5 | — | 6 | — | — | 11 |
| Proceeds from the sale of property, plant and equipment and other assets | — | — | — | 1 | — | 1 |
| Net Cash Provided by (Used in) Investing Activities | 5 | — | (531) | (490) | — | (1,016) |
| Cash Flows from Financing Activities: | | | | | | |
| Long-term debt borrowings, net of issuance costs | — | 764 | — | — | — | 764 |
| Payments on and repurchases of long-term debt and capital leases | — | (806) | (1) | (11) | — | (818) |
| Increase (decrease) due from/to affiliates, net | 34 | 368 | 798 | (1,200) | — | — |
| Net Cash Provided by (Used in) Financing Activities | 34 | 326 | 797 | (1,211) | — | (54) |
| Effect of Exchange Rates on Cash and Cash Equivalents | — | — | — | (1) | — | (1) |
| Net Change in Cash and Cash Equivalents | 4 | (6) | 755 | (38) | — | 715 |
| Cash and Cash Equivalents at Beginning of Period | 12 | 6 | 727 | 109 | — | 854 |
| Cash and Cash Equivalents at End of Period | $ 16 | $ — | $ 1,482 | $ 71 | $ — | $ 1,569 |

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## Condensed Consolidating Statements of Cash Flows
## Nine Months Ended September 30, 2015

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

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

The following discussion should be read in conjunction with the Level 3 Communications, Inc. and its subsidiaries (“Level 3” or the “Company”) Consolidated Financial Statements (including the notes thereto), included elsewhere herein and the Company's Form 10-K for the year ended December 31, 2015 , filed with the Securities and Exchange Commission.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words “anticipate”, “believe”, “plan”, “estimate” and “expect” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. For a more detailed description of these risks and factors, please see the Company's Form 10-K for the year ended December 31, 2015 , filed with the Securities and Exchange Commission and Item 1A in Part II of this Form 10-Q.

### Executive Summary

*Overview*

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

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. 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 unaudited 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” as discussed in its Form 10-K for the year ended December 31, 2015 . 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 interactions with its mid-market enterprise customers, including leveraging our existing network assets;
- concentrating its capital expenditures on those technologies and assets that enable the Company to develop its Core Network Services;
- managing Wholesale Voice Services for profit contribution; and
- refinancing its future debt maturities.

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

The Company has also been focused on improving its liquidity and financial condition, and extending the maturity dates of certain debt.

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

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.

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 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.

For a detailed description of the Company's broad range of communications services, please see Item 1. "Business - Our Service Offerings" of the Company's Form 10-K for the year ended December 31, 2015 , filed with the Securities and Exchange Commission.

*Seasonality and Fluctuations*

The Company continues to expect business fluctuations to affect sequential quarterly trends in revenue, costs and cash flow. This includes the timing, as well as any seasonality of sales and service installations, usage, rate changes and repricing for contract renewals. Historically, the Company's revenue and expense in the first quarter has been affected by the slowing of our customers' purchasing activities during the holidays and the resetting of payroll taxes in the new year. The Company conducts a portion of its business in currencies other than the U.S. dollar, the currency in which the Company's Consolidated Financial Statements are reported. Accordingly, the Company's operating results could also be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar.

The Company's historical experience with quarterly fluctuations may not necessarily be indicative of future results. Because revenue subject to billing disputes where collection is uncertain is not recognized until the dispute is resolved, the timing of dispute resolutions and settlements may positively or negatively affect the Company's revenue in a particular quarter. The timing of disconnections may also affect the Company's results in a particular quarter, with disconnections early in the quarter generally having a greater effect. The timing of capital and other expenditures may affect our 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 accruals 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 accruals 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

*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 non-U.S. deferred tax assets to the amount that is more likely than not to be realized; however, in the fourth quarter of 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 earnings. Given the Company’s current level of pre-tax income, and assuming the Company maintains this current level of pre-tax income at a minimum, the Company expects to generate income before taxes in the United States in future periods at a level that would fully utilize its U.S. federal and the majority of its state net operating loss carryforward balances. The Company continues to maintain a valuation allowance of approximately $0.9 billion as of September 30, 2016 , against net deferred tax assets, primarily in non-U.S. and certain of its state jurisdictions where it does not currently believe that the realization of its deferred tax assets is more likely than not.

The Company evaluates its deferred tax assets quarterly to determine whether adjustments to the valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in expected future pre-tax earnings, tax law, interactions with taxing authorities and developments in case law. In making this evaluation, the Company relies on its recent history of pre-tax earnings. The Company's material assumptions are its forecasts of future pre-tax earnings and the nature and timing of future deductions and income represented by the deferred tax assets and liabilities, all of which involve the exercise of significant judgment.

The Company had a valuation allowance on many of its non-U.S. jurisdictions as of September 30, 2016 . The Company monitors its cumulative loss position in these non-U.S. jurisdictions and other evidence each quarter to determine the appropriateness of its valuation allowance. In the second quarter of 2016, the Company recognized approximately $40 million net income tax benefit related to the release of its German deferred tax valuation allowance. The release was driven by recapitalization of the Company’s German subsidiary, as a result of which management projects future profitability of that business. In the third quarter of 2016, the Company also recognized approximately $7 million net income tax benefit related to the release of its deferred tax valuation allowance primarily in Mexico.

As the Company expects to generate income before taxes in certain of its non-U.S. jurisdictions in future periods and based on the anticipated level of future profitability, it is reasonably possible that it could release a relatively insignificant portion of the valuation allowance related to certain of its non-U.S. deferred tax assets in the remaining three months of 2016.

Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

Refer to Item 7 of the Company's Form 10-K for the year ended December 31, 2015 for a description of the Company's other critical accounting policies.

**Results of Operations for the Three and Nine Months Ended September 30, 2016 vs. 2015**

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| **(dollars in millions)** | **2016** | **2015** | **Change %** | **2016** | **2015** | **Change %** |
| Revenue | $ 2,033 | $ 2,062 | (1)% | $ 6,140 | $ 6,176 | (1)% |
| Network access costs | 675 | 706 | (4)% | 2,045 | 2,125 | (4)% |
| Network related expenses | 337 | 369 | (9)% | 1,014 | 1,088 | (7)% |
| Depreciation and amortization | 319 | 296 | 8 % | 930 | 872 | 7 % |
| Selling, general and administrative expenses | 348 | 364 | (4)% | 1,061 | 1,098 | (3)% |
| Total Costs and Expenses | 1,679 | 1,735 | (3)% | 5,050 | 5,183 | (3)% |
| Operating Income | 354 | 327 | 8 % | 1,090 | 993 | 10 % |
| Other Income (Expense): | | | | | | |
| Interest income | 1 | — | NM | 3 | 1 | NM |
| Interest expense | (139) | (145) | (4)% | (414) | (490) | (16)% |
| Loss on modification and extinguishment of debt | — | — | NM | (40) | (163) | (75)% |
| Venezuela deconsolidation charge | — | (171) | NM | — | (171) | NM |
| Other, net | 1 | 6 | (83)% | (14) | (21) | (33)% |
| Total Other Expense | (137) | (310) | (56)% | (465) | (844) | (45)% |
| Income Before Income Taxes | 217 | 17 | NM | 625 | 149 | NM |
| Income Tax Expense | (74) | (16) | NM | (198) | (39) | NM |
| Net Income | $ 143 | $ 1 | NM | $ 427 | $ 110 | NM |

NM — Not meaningful

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**Discussion of all significant variances:**

*Revenue by Channel:*

| (dollars in millions) | Three Months Ended September 30, 2016 | 2015 | Change % | Nine Months Ended September 30, 2016 | 2015 | Change % |
|---|---|---|---|---|---|---|
| Core Network Services Revenue: | | | | | | |
| North America - Wholesale Channel | $ 412 | $ 426 | (3)% | $ 1,289 | $ 1,316 | (2)% |
| North America - Enterprise Channel | 1,160 | 1,125 | 3 % | 3,489 | 3,320 | 5 % |
| EMEA - Wholesale Channel | 61 | 70 | (13)% | 189 | 210 | (10)% |
| EMEA - Enterprise Channel | 121 | 141 | (14)% | 375 | 413 | (9)% |
| Latin America - Wholesale Channel | 37 | 45 | (18)% | 113 | 141 | (20)% |
| Latin America - Enterprise Channel | 139 | 138 | 1 % | 378 | 414 | (9)% |
| Total Core Network Services Revenue | 1,930 | 1,945 | (1)% | 5,833 | 5,814 | — % |
| Wholesale Voice Services | 103 | 117 | (12)% | 307 | 362 | (15)% |
| Total Revenue | $ 2,033 | $ 2,062 | (1)% | $ 6,140 | $ 6,176 | (1)% |

*Revenue by Service and Product Offering:*

| (dollars in millions) | Three Months Ended September 30, 2016 | 2015 | Change % | Nine Months Ended September 30, 2016 | 2015 | Change % |
|---|---|---|---|---|---|---|
| Core Network Services Revenue: | | | | | | |
| Colocation and Datacenter Services | $ 147 | $ 152 | (3)% | $ 458 | $ 457 | — % |
| Transport and Fiber | 577 | 590 | (2)% | 1,731 | 1,761 | (2)% |
| IP and Data Services | 910 | 905 | 1 % | 2,743 | 2,682 | 2 % |
| Voice Services (Local and Enterprise) | 296 | 298 | (1)% | 901 | 914 | (1)% |
| Total Core Network Services Revenue | 1,930 | 1,945 | (1)% | 5,833 | 5,814 | — % |
| Wholesale Voice Services | 103 | 117 | (12)% | 307 | 362 | (15)% |
| Total Revenue | $ 2,033 | $ 2,062 | (1)% | $ 6,140 | $ 6,176 | (1)% |

**Revenue** decreased 1% to $2.033 billion in the three months ended September 30, 2016 compared to $2.062 billion in the same period of 2015 and decreased 1% to $6.140 billion in the nine months ended September 30, 2016 compared to $6.176 billion in the same period of 2015. Core Network Services revenue decreased 1% in the three months ended September 30, 2016 , compared to the same period in 2015, consisting of a $16 million increase in enterprise channel revenue, partially offset by a $31 million decrease in wholesale channel revenue. Core Network Services revenue remained essentially flat at $5.833 billion in the nine months ended September 30, 2016 , compared to the same period in 2015, although enterprise channel revenue increased $95 million , partially offset by a $76 million decrease in wholesale channel revenue.

Enterprise channel revenue increased $35 million and $169 million in North America in the three and nine months ended September 30, 2016 , respectively, compared to the same period in 2015, primarily due to growth in VPN services provided to enterprise customers offset by an increase in churn from a number of smaller customers during the three months ended September 30, 2016 . This growth was partially offset by Latin America, where enterprise channel revenue was essentially flat and declined $36 million in the three and nine months ended September 30, 2016, respectively, compared to the same period of 2015, primarily due to the effect of the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary of $20 million and $57 million, respectively. Enterprise channel revenue in EMEA decreased $20 million and $38 million in the three and nine months ended September 30, 2016 , respectively, compared to the same period of 2015, primarily due to the effect of the stronger U.S. dollar against European currencies and decreased U.K. Government revenue.

Wholesale channel revenue decreased $8 million and $28 million in Latin America in the three and nine months ended September 30, 2016 , compared to the same period in 2015 , respectively, primarily due to the effect of the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary of $5 million and $15 million, respectively, and the strengthening of the U.S. dollar against local currencies through the nine months ended September 30, 2016 compared to the exchange rates in the first nine months of 2015 . North America wholesale channel revenue decreased $14 million and $27 million in the three and nine months ended September 30, 2016 , respectively, compared to the same period in 2015, primarily due to industry consolidation that took place over the last couple of years that caused increased customer disconnects. EMEA wholesale channel revenue decreased $9 million and $21 million in the three and nine months ended September 30, 2016 , respectively, compared to the same period in 2015 , primarily due to certain large disconnects and the strengthening of the U.S. dollar against local currencies through the nine months ended September 30, 2016 compared to the exchange rates in the first nine months of 2015 .

From a service and product offering perspective, the Company continued to grow its IP and data services by $5 million and $61 million , in the three and nine months ended September 30, 2016 , respectively, compared to the same period of 2015 , driven primarily by end user customer demand for VPN and bandwidth in the enterprise channel; however, this growth was partially offset by a decrease of $17 million and $47 million in the three and nine months ended September 30, 2016, respectively, compared to the same period in 2015, due to the effect of the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary. Colocation and Datacenter Services decreased $5 million and remained essentially flat, for the three and nine months ended September 30, 2016, respectively, compared to the same period in 2015, primarily due to a decrease of $3 million and $11 million in the three and nine months ended September 30, 2016, respectively, compared to the same period in 2015, due to the effect of the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary. The nine months ended September 30, 2016 was also favorably affected by higher dispute settlements when compared to the same period in 2015. Transport and Fiber revenue decreased $13 million for the three months ended September 30, 2016 compared to the same period in 2015. Transport and Fiber revenue declined $30 million for the nine months ended September 30, 2016 compared to the same period in 2015 driven by Private Line, and decreases of $5 million and $14 million in the three and nine months ended September 30, 2016, respectively, compared to the same period in 2015, due to the effect of the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary, partially offset by increases in Wavelengths and Dark Fiber. Voice Services declined $2 million and $13 million in the three and nine months ended September 30, 2016 , respectively, compared to the same period of 2015, due to competitive pressures.

Wholesale Voice Services revenue decreased by a total of $14 million and $55 million , in the three and nine months ended September 30, 2016 , respectively, compared to the same period in 2015, primarily due to competitive pressures caused by industry consolidation and the Company's focus on maintaining or growing Wholesale Voice Services profitability.

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

Network Access Costs as a percentage of total revenue was 33% in both of the three and nine months ended September 30, 2016 , respectively, compared to 34% in both of the same periods of 2015. The decrease in both periods 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.

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

Network Related Expenses decreased to $337 million in the three months ended September 30, 2016, from $369 million in the three months ended September 30, 2015 . The decrease was primarily related to decreased employee-related expenses of $14 million as the Company continuously evaluates opportunities to drive greater operational efficiencies to meet the needs of its business and to drive it closer to its customers. 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.

Network Related Expenses decreased to $1,014 million in the nine months ended September 30, 2016 , from $1,088 million in the nine months ended September 30, 2015 . The decrease was primarily related to decreased employee-related expenses of $44 million and facilities and network-based expenses of $23 million as the Company continued to optimize its workforce and facilities. As noted above, the nine months ended September 30, 2015 also includes approximately $8 million of restructuring charges recorded in Network Related Expenses.

**Depreciation and Amortization** increased 8% to $319 million in the three months ended September 30, 2016 from $296 million in the same period of 2015. The increase is primarily attributable to $25 million of depreciation and amortization charges associated with additional capital expenditures primarily driven by increased demand for dark fiber and wavelength services, net of fully depreciated assets, partially offset by $2 million of foreign currency exchange rate changes in EMEA and Latin America.

Depreciation and Amortization increased 7% to $930 million in the nine months ended September 30, 2016 from $872 million in the same period of 2015. The increase is primarily attributable to $72 million of depreciation and amortization charges associated with additional capital expenditures primarily driven by increased demand for dark fiber and wavelength services, net of fully depreciated assets, partially offset by $14 million of foreign currency exchange rate changes in EMEA and Latin America.

**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 decreased 4% to $348 million in the three months ended September 30, 2016 compared to $364 million in the same period of 2015 and 3% to $1,061 million in the nine months ended September 30, 2016 compared to $1,098 million in the same period of 2015 . The decrease in the three months ended September 30, 2016 was primarily related to certain workforce reductions the Company implemented in the third quarter of 2015, resulting in approximately $16 million of restructuring charges recorded in SG&A expenses and the timing of certain marketing events of $5 million. The decrease in the nine months ended September 30, 2016 was primarily related to decreased employee-related expenses of $16 million as the Company continued to drive greater operational efficiencies as well as the timing of certain marketing events and other expenses for $16 million. In the nine months ended September 30, 2016 , the Company also released an accrual for an assessment of $8 million and associated interest of $7 million corresponding to Peruvian tax litigation. See Note 10 — Commitments, Contingencies and Other Items in the notes to unaudited Consolidated Financial Statements for additional information. Additionally, as noted above, in the third quarter of 2015, the Company implemented certain workforce reductions, resulting in approximately $16 million of restructuring charges recorded in SG&A expenses. These decreases were partially offset by an increase in non-cash stock-based compensation of $8 million and $26 million for the three and nine months ended September 30, 2016 , respectively, compared to the same period in 2015.

Non-cash stock-based compensation expense, which is included in both SG&A and Network Related Expenses, is related to outperform stock appreciation rights ("OSO"), performance restricted stock units ("PRSU"), restricted stock units, and shares issued for the Company's matching contribution to its 401(k) plan. Non-cash stock-based compensation expense for the three months ended September 30, 2016 and 2015 was $43 million and $34 million , respectively. Non-cash stock-based compensation expense for the nine months ended September 30, 2016 and 2015 was $121 million and $92 million , respectively. The increase for the nine months ended September 30, 2016 compared to the same period of 2015 was primarily related to additional grants of restricted stock units and PRSUs in April and July of 2015 and April and July of 2016, partially offset by a reduction in OSOs as these awards became fully vested in 2016, and a reduction in expense relating to the matching contribution to the 401(k) plan. Approximately $37 million and $29 million of non-cash stock-based compensation expense was recorded in SG&A Expenses during the three months ended September 30, 2016 and 2015 , respectively, and approximately $104 million and $78 million of non-cash stock-based compensation expense was recorded in SG&A Expenses during the nine months ended September 30, 2016 and 2015 , respectively. Approximately $6 million and $5 million of non-cash stock-based compensation expense was recorded in Network Related Expenses during the three months ended September 30, 2016 and 2015 , respectively, and approximately $17 million and $14 million of non-cash stock-based compensation expense was recorded in Network Related Expenses during the nine months ended September 30, 2016 and 2015 , respectively.

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

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

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income tax 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 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 expense, depreciation and amortization expense, non-cash impairment charges, non-cash stock compensation expense and net other expense. Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in millions)** | **2016** | **2015** | **2016** | **2015** |
| Net Income | $ 143 | $ 1 | $ 427 | $ 110 |
| Income Tax Expense | 74 | 16 | 198 | 39 |
| Total Other Expense | 137 | 310 | 465 | 844 |
| Depreciation and Amortization | 319 | 296 | 930 | 872 |
| Non-Cash Stock Compensation Attributable to Stock Awards | 43 | 34 | 121 | 92 |
| Adjusted EBITDA | $ 716 | $ 657 | $ 2,141 | $ 1,957 |
| | | | | |
| North America | $ 784 | $ 760 | $ 2,415 | $ 2,267 |
| EMEA | 56 | 63 | 162 | 176 |
| Latin America | 80 | 78 | 218 | 237 |
| Unallocated Corporate Expenses | (204) | (244) | (654) | (723) |
| Adjusted EBITDA | $ 716 | $ 657 | $ 2,141 | $ 1,957 |

Adjusted EBITDA was $716 million in the three months ended September 30, 2016 compared to $657 million in the same period of 2015 and $2.141 billion in the nine months ended September 30, 2016 compared to $1.957 billion in the same period of 2015 . The increase in Adjusted EBITDA is attributable to growth in the Company’s higher incremental profit Core Network Services revenue and continued improvements in network access costs as a percentage of revenue and lower network related and SG&A Expenses, partially offset by lower wholesale voice revenue and the September 30, 2015 deconsolidation of the Company's Venezuelan subsidiary, which had Adjusted EBITDA of $16 million and $46 million for the three and nine months ended September 30, 2015, respectively. See Note 9 — Segment Information in the notes to unaudited Consolidated Financial Statements for additional information on Adjusted EBITDA by region.

Adjusted EBITDA increased $24 million and $148 million in the North America region in the three and nine months ended September 30, 2016 , compared to the same periods of 2015 , respectively, primarily due to increased Core Network Services revenue of $21 million and $142 million , partially offset by wholesale voice revenue in the three and nine months ended September 30, 2016 , as discussed further above, and initiatives resulting in reduced fixed and variable network access costs. Network access costs decreased $15 million and $39 million in the three and nine months ended September 30, 2016 , respectively, compared to the same periods of 2015.

Adjusted EBITDA decreased $7 million and $14 million in the EMEA region in the three and nine months ended September 30, 2016 , respectively, compared to the same periods of 2015 as a result of the $29 million and $59 million decreases in Core Network Services revenue in the three and nine months ended September 30, 2016 , respectively, as discussed further above. Network access costs in EMEA decreased $12 million and $24 million in the three and nine months ended September 30, 2016 , respectively, compared to the same periods of 2015. EMEA Adjusted EBITDA was effected by initiatives that reduced fixed and variable network access costs.

Adjusted EBITDA increased $2 million in the Latin American region in the three months ended September 30, 2016, compared to the same period in 2015 primarily due to the network access costs efficiencies noted below, partially offset by $16 million decrease from the deconsolidation of the Company's Venezuelan subsidiary on September 30, 2015. Adjusted EBITDA decreased $19 million in the Latin American region in the nine months ended September 30, 2016 , compared to the same period of 2015 , respectively, primarily as a result of the $46 million decrease in connection with the deconsolidation of the Company's Venezuelan subsidiary on September 30, 2015, and the effect of the stronger U.S. dollar against Latin American currencies. Adjusted EBITDA was favorably affected by initiatives that reduced fixed and variable network access costs. Excluding our Venezuelan subsidiary, network access costs decreased $1 million and $6 million in the three and nine months ended September 30, 2016 , respectively, compared to the same periods of 2015.

**Interest Expense** decreased 4% to $139 million in the three months ended September 30, 2016 from $145 million in the same period of 2015 and 16% to $414 million in the nine months ended September 30, 2016 from $490 million in the same period of 2015. Interest expense decreased primarily due to a lower weighted average interest cost of debt of 4.7% at September 30, 2016 compared to 5.1% at September 30, 2015 due to refinancing activities in 2015 and 2016.

The Company expects annual interest expense in 2016 of approximately $555 million.

**Loss on Modification and Extinguishment of Debt**

In the second quarter of 2016, the Company recorded a charge of approximately $40 million related to its April 2016 redemption of the 7% Senior Notes due 2020.

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

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

The net proceeds from the offering of the 2023 Notes and 2025 Notes together with cash on hand, were used to redeem all $1.2 billion aggregate principal amount of Level 3 Financing’s 8.125% Senior Notes due 2019 and all $300 million aggregate principal amount of the Company's 8.875% Senior

Notes due 2019. In the second quarter 2015, the Company recognized a loss on extinguishment of debt of $100 million as a result of these redemptions.

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

**Other, net** is primarily comprised of gains and losses on the sale of non-operating assets, foreign currency gains and losses and other income and expense.

Other, net was $1 million of income in the three months ended September 30, 2016 compared to $6 million of income in the same period of 2015 and $14 million of expense in the nine months ended September 30, 2016 compared to $21 million of expense in the same period of 2015. The decreases in Other, net in the nine months ended September 30, 2016 and 2015 was primarily due to lower foreign currency losses attributable to the appreciation of the U.S. dollar and other currencies for certain intercompany balances denominated in the local currency of foreign subsidiaries in EMEA and Latin America that are not considered to be long-term in nature.

**Income Tax Expense** was $74 million in the three months ended September 30, 2016 compared to $16 million in the same period of 2015 and $198 million in the nine months ended September 30, 2016 compared to $39 million in the nine months ended September 30, 2015 . Income tax expense in the three months ended September 30, 2016 consists of a $7 million net benefit related to the release of its deferred tax valuation allowance primarily in Mexico, a $10 million net benefit related to the early adoption of ASU 2016-09, $6 million of tax expense related to tax rate changes, $12 million of taxes in non-U.S. jurisdictions and $73 million of deferred tax expense primarily due to utilization of the Company's U.S. federal net operating loss carryforwards. Income tax expense in the nine months ended September 30, 2016 consists of a $47 million net benefit related to the release of its deferred tax valuation allowance primarily in Germany and Mexico, a $21 million net benefit related to the early adoption of ASU 2016-09, $6 million of tax expense related to tax rate changes, $38 million of taxes in non-U.S. jurisdictions and $222 million of deferred tax expense primarily due to utilization of the Company's U.S. federal net operating loss carryforwards. The Company's effective tax rate is lower than the statutory rate primarily due to the income tax benefit on the foreign valuation allowance releases, the early adoption of ASU 2016-09, partially offset by limitations on certain deductions, tax rate changes as well as inability to recognize tax benefits on losses incurred in certain jurisdictions due to maintenance of valuation allowances against deferred taxes in those jurisdictions and other discrete items. The income tax expense in the three and nine months ended September 30, 2015 is primarily related to taxes in non-U.S. jurisdictions.

The Company incurs tax expense attributable to income in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. The Company also recognizes accrued interest and penalties in income tax expense related to uncertain tax benefits. The Company's effective 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, the Company concluded it no longer met the accounting criteria for consolidation and 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. The factors that led to the Company's conclusions at the end of the third quarter of 2015 continued to exist through the end of the third quarter of 2016. Any dividends from the Company's Venezuelan subsidiaries will be recorded as other income upon receipt of the cash in U.S. dollars. While the Company does not expect to enter into material transactions with its subsidiary in Venezuela that would result in the creation of additional intercompany receivable balances, if any such transactions were completed, the Company would evaluate collectability of the intercompany receivable balance at that time which could result in a charge negatively affecting its results of operations. Please see Note 1 to the accompanying unaudited 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 approximately 3% of consolidated operating income for the same period.

**Financial Condition— For the Nine Months Ended September 30, 2016 and 2015**

Cash flows from operating activities, investing activities and financing activities for the nine months ended September 30, 2016 and 2015 are summarized as follows:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| **(dollars in millions)** | **2016** | **2015** | **Change** |
| Net Cash Provided by Operating Activities | $ 1,786 | $ 1,299 | $ 487 |
| Net Cash Used in Investing Activities | (1,016) | (1,017) | 1 |
| Net Cash Used in Financing Activities | (54) | (155) | 101 |
| Effect of Exchange Rates on Cash and Cash Equivalents | (1) | (16) | 15 |
| Net Change in Cash and Cash Equivalents | $ 715 | $ 111 | $ 604 |

*Operating Activities*

Cash provided by operating activities was $1,786 million for the nine months ended September 30, 2016 compared to cash provided by operating activities of $1,299 million in the same period of 2015 . The increase in cash provided by operating activities was primarily due to increased net income, a decrease in cash used for working capital, and reduced cash interest paid. 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 was flat in the nine months ended September 30, 2016 compared to the same period of 2015 primarily as a result capital expenditures, which totaled $1,028 million in the nine months ended September 30, 2016 and $899 million in the same period of 2015 . The nine months ended September 30, 2015 was also negatively impacted by the cash related to the deconsolidated Venezuela operations of $83 million.

*Financing Activities*

Cash used in financing activities of $54 million in the nine months ended September 30, 2016 , decreased compared to $155 million used in financing activities in the same period of 2015 . See Note 6 - Long-Term Debt in the notes to the unaudited Consolidated Financial Statements for more details regarding the Company's debt transactions during the nine months ended September 30, 2016 .

*Effect of Exchange Rates on Cash and Cash Equivalents*

The effect of exchange rates on cash and cash equivalents in the nine months ended September 30, 2016 was a reduction in cash of $1 million. The effect of exchange rates on cash and cash equivalents of $16 million in the nine months ended September 30, 2015 was primarily due to the fluctuations of the U.S. dollar against currencies in EMEA and Latin America, including Venezuela prior to its deconsolidation.

**Liquidity and Capital Resources**

The Company had $1.569 billion of cash and cash equivalents on hand at September 30, 2016 . The Company also had $39 million of current and non-current restricted cash and securities at September 30, 2016 used to collateralize outstanding letters of credit and certain performance and operating obligations of the Company and other deposits.

Free Cash Flow is defined by the Company as net cash provided by 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, receivables 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:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (dollars in millions) | 2016 | 2015 | Change |
| Net Cash Provided by Operating Activities | $ 1,786 | $ 1,299 | $ 487 |
| Capital Expenditures | (1,028) | (899) | (129) |
| Free Cash Flow | $ 758 | $ 400 | $ 358 |

Free Cash Flow was $758 million for the nine months ended September 30, 2016 compared to $400 million for the same period of 2015 , reflecting a $358 million improvement driven by $487 million of higher cash provided by operating activities offset by $129 million of higher spending on capital expenditures in the nine months ended September 30, 2016 . 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 16% of revenue, up from 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.

Net cash interest payments are expected to decrease to approximately $510 million in 2016 from $668 million in 2015 based on current interest rates on the Company's debt outstanding as of September 30, 2016 .

As of September 30, 2016 , the Company had contractual debt obligations, including capital lease obligations, and excluding interest, discounts on debt issuance, debt issuance costs, and fair value adjustments, of $2 million that mature in the remaining three months of 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. The Company has no material restrictions on its ability to repatriate to the United States foreign cash and cash equivalents. The Company had approximately $28 million of non-U.S. denominated cash and cash equivalents at September 30, 2016 .

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.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk*

Level 3 is subject to market risks arising from changes in interest rates. As of September 30, 2016 , the Company had borrowed a total of approximately $4.9 billion primarily under a Senior Secured Term Loan (excluding discounts and debt issuance costs) and Floating Rate Senior Notes due 2018 that bear interest at LIBOR rates plus an applicable margin. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the debt instruments, unless LIBOR rates are below the minimum LIBOR rate for a particular Senior Secured Term Loan. The weighted average interest rate on the variable rate instruments at September 30, 2016 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 2-Month and 3-Month LIBOR rates for the senior secured credit facility was approximately 0.65% and 0.85% at September 30, 2016 , respectively, which were below the fixed minimum rates. Declines in LIBOR below the fixed minimum rates or increases up to the fixed minimum rates 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 $44 million as of September 30, 2016 .

At September 30, 2016 , the Company had $6.1 billion (excluding discounts and debt issuance costs) of fixed rate debt bearing a weighted average interest rate of 5.5%. 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.

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

**ITEM 4. CONTROLS AND PROCEDURES**

(a) *Disclosure controls and procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2016 . Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal controls.* 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 third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II - Other Information

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in Level 3’s Form 10-K for the year ended December 31, 2015 , which could materially affect Level 3’s business, financial condition or future results. The risks described herein and in Level 3’s Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to Level 3 or that it currently deems to be immaterial also may materially adversely affect Level 3’s business, financial condition and/or operating results. The Risk Factors included in the Company’s Form 10-K for the year ended December 31, 2015 have not materially changed other than as highlighted below in connection with the execution of the Merger Agreement with CenturyLink, Merger Sub 1, and Merger Sub 2.

***Our pending merger with CenturyLink may cause disruption to our business.***

On October 31, 2016, we entered into an agreement and plan of merger with CenturyLink, pursuant to which the Company will, subject to the satisfaction or waiver of the stated closing conditions, merge with a wholly owned subsidiary of CenturyLink in a stock-and-cash transaction. The merger agreement generally requires us to operate our business in the ordinary course pending consummation of the proposed merger and restricts us, without CenturyLink’s consent, from taking certain specified actions until the merger is completed. These restrictions may affect our ability to execute our business strategies and attain our financial and other goals and may impact our financial condition, results of operations and cash flows. The pursuit of the merger and the preparation for the integration of our business with CenturyLink’s business may place a significant burden on management and internal resources. The diversion of management’s attention away from day-to-day business concerns could adversely affect our financial results.

We could also be subject to litigation related to the CenturyLink merger, which could result in significant costs and expenses. In addition to potential litigation-related expenses, we have incurred and will continue to incur other significant costs, expenses and fees for professional services and other transaction costs in connection with the CenturyLink merger, and many of these fees and costs are payable regardless of whether or not the CenturyLink merger is consummated.

***Uncertainty regarding the completion of the CenturyLink merger may cause customers to delay or defer decisions concerning us and may adversely affect our ability to attract and retain key employees.***

The CenturyLink merger will be consummated only if stated conditions are met, including, among others, the approval and adoption of the Merger Agreement and approval of the merger by our stockholders, the approval of CenturyLink’s proposed stock issuance in connection with the CenturyLink merger by CenturyLink’s shareholders and the receipt of regulatory approvals. Many of the conditions are beyond our control. As a result, there may be uncertainty regarding the completion of the CenturyLink merger. This uncertainty, along with potential customer uncertainty regarding the service to be provided by the combined company following the CenturyLink merger, may cause customers to delay or defer decisions concerning purchases from us or affect our customer retention initiatives, which could negatively affect our revenue, earnings and cash flow, regardless of whether the CenturyLink merger is ultimately completed.

Uncertainty regarding the completion of the CenturyLink merger may also foster uncertainty among employees about their future roles. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or desire not to remain with the combined company following the combination. This may adversely affect our ability to attract and retain key management, sales, marketing, operational and technical personnel, which could have an adverse effect on our ability to generate revenue at anticipated levels prior to the completion of the CenturyLink merger.

***Our pending merger with CenturyLink is subject to conditions, including certain conditions that may not be satisfied, and may not be completed on a timely basis, or at all. Failure to complete the CenturyLink merger and the transactions contemplated thereby could have material and adverse effects on us.***

The completion of our pending merger with CenturyLink is subject to a number of conditions, including the receipt of required regulatory approvals, the approval and adoption of the Merger Agreement and the approval of the CenturyLink merger by our stockholders, and the approval of CenturyLink's stock issuance in connection with the CenturyLink merger by CenturyLink's shareholders, which make the completion and timing of the completion of the CenturyLink merger uncertain. Also, either we or CenturyLink may terminate the Merger Agreement if the CenturyLink merger has not been completed by October 31, 2017 (subject to extension to January 31, 2018 under certain circumstances) unless the failure of the CenturyLink merger to be completed has resulted from the failure of the party seeking to terminate the Merger Agreement to perform its obligations.

If the CenturyLink merger is not completed on a timely basis, or at all, our ongoing business may be adversely affected. Additionally, in the event the CenturyLink merger is not completed, we will be subject to a number of risks without realizing any of the benefits of having completed the CenturyLink merger, including the following:

- We may be required to pay to CenturyLink a termination fee of $737.5 million (less any previously reimbursed expenses), and in some cases, expenses of CenturyLink up to $75 million if the CenturyLink merger is terminated under qualifying circumstances, as described in the Merger Agreement;
- We will be required, subject to certain exceptions, to pay our costs relating to the CenturyLink merger, such as financial advisor, legal, accounting and printing fees, whether or not the CenturyLink merger is completed;
- Time and resources committed by management to matters relating to the CenturyLink merger (including integration planning) could otherwise have been devoted to pursuing other beneficial opportunities;
- The market price of our common stock could decline to the extent that the current market price reflects a market assumption that the CenturyLink merger will be completed; and
- If the Merger Agreement is terminated and our Board of Directors subsequently seeks another business combination, our stockholders cannot be certain that we will be able to find a party willing to enter into a merger agreement on terms equivalent to or more attractive than the terms that CenturyLink has agreed to in the CenturyLink merger.

***The merger agreement contains provisions that could discourage a potential competing acquirer of the Company.***

The merger agreement contains "no shop" provisions that, subject to limited exceptions, restrict our ability to solicit, initiate, or knowingly encourage and facilitate competing third-party proposals for the acquisition of our stock or assets. In addition, before our board of directors withdraws, qualifies or modifies its recommendation of the proposed merger with CenturyLink or terminates the merger agreement to enter into a third-party acquisition proposal, CenturyLink generally has an opportunity to offer to modify the terms of the proposed merger. In some circumstances, upon termination of the merger agreement, we will be required to pay a termination fee of $737.5 million. These provisions could discourage a potential third-party acquirer that might have an interest in acquiring all or a significant portion of the Company from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than the market value proposed to be received or realized in the merger, or might otherwise result in a potential third-party acquirer proposing to pay a lower price to our stockholders than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

**ITEM 6. EXHIBITS**

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| (a) | Exhibits incorporated by reference are indicated in parentheses. |
| 3.1 | Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2016). |
| 4.1 | Supplemental Indenture, dated as of September 16, 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 5.25% Senior Notes due 2026 of Level 3 Financing, Inc. (incorporated by reference to exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 9, 2016). |
| 4.2 | Supplemental Indenture, dated as of September 16, 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 5.25% Senior Notes due 2026 of Level 3 Financing, Inc. (incorporated by reference to exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 9, 2016). |
| 10.1 | Level 3 Communications, Inc. Stock Incentive Plan. |
| 12 | Statements re computation of ratios. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from the Quarterly Report on Form 10-Q of Level 3 Communications, Inc. for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Unaudited Consolidated Financial Statements. |

## SIGNATURES

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

LEVEL 3 COMMUNICATIONS, INC.

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| Dated: | November 7, 2016 | /s/ Eric J. Mortensen |
| | | Eric J. Mortensen |
| | | Senior Vice President, Controller and Principal Accounting Officer |

# LEVEL 3 COMMUNICATIONS, INC.

## STOCK INCENTIVE PLAN

1. **Purpose.**

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

2. **Definitions.**

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

(a) " Affiliate " means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person.

(b) " Award " means any Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Award (including any Cash Award), or other Stock-based award granted under the Plan.

(c) " Award Agreement " means an Option Agreement, a Restricted Stock Agreement, an RSU Agreement, an SAR Agreement, a Performance Award Agreement, or an agreement governing the grant of any other Stock-based Award granted under the Plan.

(d) " Board " means the Board of Directors of the Company.

(e) " Cash Award " means a Performance Award representing the right to receive a future cash payment, the payment of which is subject to the achievement of Performance Objectives during a Performance Period.

(f) " Cause " means, with respect to any Participant and in the absence of an Award Agreement or Participant Agreement otherwise defining Cause, (1) the Participant's plea of *nolo contendere* , conviction of or indictment for any crime (whether or not involving the Company or its Affiliates) (i) constituting a felony or (ii) that has, or could reasonably be expected to result in, an adverse effect on the performance of the Participant's duties to the Service Recipient, or otherwise has, or could reasonably be expected to result in, an adverse effect on the business or reputation of the Company or its Affiliates, (2) conduct of the Participant, in connection with his or her employment or service, that has resulted, or could reasonably be expected to result, in an adverse effect on the business or reputation of the Company or any of its Affiliates, (3) any material violation of the policies of the Company or its Affiliates, including but not limited to those relating to sexual harassment or the disclosure or misuse of confidential information, or those set forth in the manuals or statements of policy of the Company or any of its Affiliates, (4) the Participant's act(s) of gross negligence or willful misconduct in the course of his or her employment or service with the Service Recipient; (5) misappropriation by the Participant of any assets or business opportunities of the Company or any of its Affiliates; (6) embezzlement or fraud committed by the Participant, at the Participant's direction, or with the Participant's prior actual knowledge; or (7) willful neglect in the performance of the Participant's duties for the Service Recipient or willful or repeated failure or refusal to perform such duties. If, subsequent to the Termination of a Participant for any reason other than by the Service Recipient for Cause, it is discovered that the Participant's employment or service could have been terminated for Cause, such Participant's employment or service shall, at the discretion of the Committee, be deemed to have been terminated by the Service Recipient for Cause for all purposes under the Plan, and the Participant shall be required to repay to the Company all amounts received by him or her in connection with Awards following such Termination that would have been forfeited under the Plan had such Termination been by the Service Recipient for Cause. In the event that there is an Award Agreement or Participant Agreement otherwise defining Cause, " Cause " shall have the meaning provided in such agreement, and a Termination by the Service Recipient for Cause hereunder shall not be deemed to have occurred unless all applicable notice and cure periods in such Award Agreement or Participant Agreement are complied with.

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

(1) a change in ownership or control of the Company effected through a transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission or pursuant to a Non-Control Transaction) whereby any "person" (as defined in Section 3(a)(9) of the Exchange Act) or any two or more persons deemed to be one "person" (as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), other than the Company or any of its Affiliates, an employee benefit plan sponsored or maintained by the Company or any of its Affiliates (or

its related trust), or any underwriter temporarily holding securities pursuant to an offering of such securities, directly or indirectly acquire "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's securities eligible to vote in the election of the Board (the " Company Voting Securities ");

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

(3) the consummation of a merger, consolidation, share exchange, or similar form of corporate transaction involving the Company or any of its Affiliates that requires the approval of the Company's stockholders (whether for such transaction or the issuance of securities in the transaction or otherwise) (a " Reorganization "), unless immediately following such Reorganization (i) more than fifty percent (50%) of the total voting power of (A) the corporation resulting from such Reorganization (the " Surviving Company ") or (B) if applicable, the ultimate parent corporation that has, directly or indirectly, beneficial ownership of one hundred percent (100%) of the voting securities of the Surviving Company (the " Parent Company "), is represented by Company Voting Securities that were outstanding immediately prior to such Reorganization (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Reorganization), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among holders thereof immediately prior to the Reorganization, (ii) no person, other than an employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company (or its related trust), is or becomes the beneficial owner, directly or indirectly, of fifty percent (50%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Company, or if there is no Parent Company, the Surviving Company, and (iii) at least a majority of the members of the board of directors of the Parent Company, or if there is no Parent Company, the Surviving Company, following the consummation of the Reorganization are members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization (any Reorganization which satisfies all of the criteria specified in (i), (ii), and (iii) above shall be a " Non-Control Transaction "); or

(4) the sale or disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any "person" (as defined in Section 3(a)(9) of the Exchange Act) or to any two or more persons deemed to be one "person" (as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Company's Affiliates.

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

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

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

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

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

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

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

(n) " Disability " means, in the absence of an Award Agreement or Participant Agreement otherwise defining Disability, that an individual (a) is, in the sole judgement of the Company, unable to engage in any substantial gainful activity or otherwise fully and effectively perform in the role that he or she serves with the Company by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months, and (b) solely in connection with any Award that is subject to the requirements of Section 409A of the Code, has received income replacement benefits under a Company provided disability plan for a minimum period of 90 days.

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

(p) " Effective Date " means May 21, 2015, which is the date on which the Plan was first approved by the Company's stockholders.

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

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

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

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

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

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

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

(x) " Nonqualified Stock Option " means an Option not intended to qualify as an Incentive Stock Option.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ax) " Stock " means the Company's common stock, par value $0.01 per share, and such other securities as may be substituted for such stock pursuant to Section 11 hereof.

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

(az) " Surviving Company " has the meaning set forth in Section 2(g)(3) above.

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

3. **Administration.**

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

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

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

(d) Section 409A. All Awards made under the Plan that are intended to be "deferred compensation" subject to Section 409A shall be interpreted, administered and construed to comply with Section 409A, and all Awards made under the Plan that are intended to be exempt from Section 409A shall be interpreted, administered and construed to comply with and preserve such exemption. The Committee shall have full authority to give effect to the intent of the foregoing sentence. To the extent necessary to give effect to this intent, in the case of any conflict or potential inconsistency between the Plan and a provision of any Award or Award Agreement with respect to an Award, the Plan shall govern. Notwithstanding the foregoing, neither the Company nor the Committee shall have any liability to any person in the event Section 409A applies to any Award in a manner that results in adverse tax consequences for the Participant or any of his or her beneficiaries or transferees.

4. **Shares Available Under the Plan.**

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

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

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

(1) Notwithstanding anything to the contrary herein, during any time that the Company is subject to Section 162(m) of the Code, the maximum number of shares of Stock with respect to which Options, Stock Appreciation Rights, and Performance Awards, in each case and to the extent intended to qualify as a Qualified Performance-Based Award, may be granted to any individual in any one calendar year shall not exceed 3,000,000 (subject to adjustment as provided in Section 11 hereof). The maximum value of the aggregate payment that any individual may receive with respect to a Qualified Performance-Based Award that is valued in dollars in respect of any annual Performance Period is $10,000,000, and for any Performance Period in excess of one (1) year, such amount multiplied by a fraction, the numerator of which is the number of months in the Performance Period and the denominator of which is twelve (12). No Qualified Performance-Based Awards may be granted hereunder following the first (1 st ) meeting of the Company's stockholder that occurs in the fifth (5 th ) year following the year in which the Company's stockholders most recently approved the terms of the Plan for purposes of satisfying the "qualified performance-based compensation" exemption under Section 162(m)(4)(C) of the Code.

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

5. **Options.**

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

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

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

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

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

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

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

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

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

(g) Special Provisions Applicable to Incentive Stock Options.

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

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

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

6. **Restricted Stock.**

(a) General. Restricted Stock may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Awards of Restricted Stock shall be set forth in separate Restricted Stock Agreements, which agreements need not be identical. Subject to the restrictions set forth in Section 6(b), and except as otherwise set forth in the applicable Restricted Stock Agreement, the Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock. Unless otherwise set forth in a Participant's Restricted Stock Agreement, cash dividends and stock dividends, if any, with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and shall be subject to forfeiture to the same degree as the shares of Restricted Stock to which such dividends relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any cash dividends withheld.

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

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

7. **Restricted Stock Units.**

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

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

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

(d) Termination of Employment or Service. Except as provided by the Committee in an RSU Agreement, Participant Agreement or otherwise, in the event of a Participant's Termination for any reason prior to the time that such Participant's Restricted Stock Units have been settled, (1) all vesting with respect to such Participant's Restricted Stock Units shall cease, (2) each of such Participant's outstanding unvested Restricted Stock Units shall be forfeited for no consideration as of the date of such Termination, and (3) any shares remaining undelivered with respect to vested Restricted Stock Units then held by such Participant shall be delivered on the delivery date or dates specified in the RSU Agreement.

8. **Stock Appreciation Rights.**

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

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

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

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

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

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

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

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

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

9. **Performance Awards.**

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

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

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

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

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

(f) Performance Objectives .

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

(2) Performance Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of an individual Participant, the specific Service Recipient, or a division, department, region or function within the Company or the Service Recipient. Performance Objectives may be measured on an absolute or relative basis. Relative performance may be measured by comparison to a group of peer companies or to a financial market index. With respect to Qualified Performance-Based Awards, Performance Objectives shall be limited to specified levels of or increases in one or more of the following (alone or in combination with any other criterion, whether gross or net, before or after taxes, and/or before or after adjustments, as determined by the Committee): (i) earnings, including net earnings, total earnings, operating earnings, earnings growth, operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth, or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, return on equity, financial return ratios, or internal rates of return; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (discounted or otherwise), net cash provided by operations or cash flow in excess of cost of capital, working capital turnover; (xi) implementation or completion of critical projects or processes; (xii) economic value created; (xiii) balance sheet measurements (including, but not limited to, receivable turnover); (xiv) cumulative earnings per share growth; (xv) operating margin, profit margin, or gross margin; (xvi) stock price or total stockholder return; (xvii) cost or expense targets, reductions and savings, productivity and efficiencies; (xviii) sales or sales growth; (xix) economic value added; (xx) earnings measures/ratios; (xxi) inventory turns; (xxii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, market share, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures, and similar transactions, and budget comparisons; (xxiii) increase in the fair market value per share; and (xxiv) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, the formation of joint ventures, research or development collaborations, and the completion of other corporate transactions. Performance Objectives may be established on a Company-wide basis, project or geographical basis or, as the context permits, with respect to one or more business units,

divisions, lines of business, subsidiaries, products, or other operational units or administrative departments of the Company (or in combination thereof) or may be related to the performance of an individual Participant and may be expressed in absolute terms, or relative or comparative to (A) current internal targets or budgets, (B) the past performance of the Company (including the performance of one or more subsidiaries, divisions, or operating units), (C) the performance of one or more similarly situated companies, (D) the performance of an index covering multiple companies, or (E) other external measures of the selected performance criteria. Performance Objectives may be in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies.

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

10. **Other Stock-Based Awards.**

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

11. **Adjustment for Recapitalization, Merger, etc.**

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

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

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

achievement of Performance Objectives or similar performance criteria, such Performance Objectives or similar performance criteria shall be adjusted appropriately to reflect the Corporate Event;

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

(3) The cancellation of any or all Awards (whether vested or unvested) as of the consummation of such Corporate Event, together with the payment to the Participants holding vested Awards (including any Awards that would vest upon the Corporate Event but for such cancellation) so canceled of an amount in respect of cancellation equal to the amount payable pursuant to any Cash Award or, with respect to other Awards, an amount based upon the per-share consideration being paid for the Stock in connection with such Corporate Event, less, in the case of Options, Stock Appreciation Rights, and other Awards subject to exercise, the applicable exercise or base price; *provided, however* , that holders of Options, Stock Appreciation Rights, and other Awards subject to exercise shall be entitled to consideration in respect of cancellation of such Awards only if the per-share consideration less the applicable exercise or base price is greater than zero dollars ($0), and to the extent that the per-share consideration is less than or equal to the applicable exercise or base price, such Awards shall be canceled for no consideration;

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

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

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

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

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

12. **Use of Proceeds.**

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

13. **Rights and Privileges as a Stockholder.**

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

14. **Transferability of Awards.**

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

15. **Employment or Service Rights.**

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

16. **Compliance with Laws.**

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

17. **Withholding Obligations.**

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

18. **Amendment of the Plan or Awards.**

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

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

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

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

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

19. **Termination or Suspension of the Plan.**

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

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

The Plan is effective as of the Effective Date.

21. **Miscellaneous.**

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

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

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

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

(e) Data Privacy . As a condition of receipt of any Award, each Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering, and managing the Plan and Awards and the Participant's participation in the Plan. In furtherance of such implementation, administration, and management, the Company and its Affiliates may hold certain personal information about a Participant, including, but not limited to, the Participant's name, home address, telephone number, date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its Affiliates, and details of all Awards (the " Data "). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan, the Company and its Affiliates may each transfer the Data to any third parties assisting the Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan. Recipients of the Data may be located in the Participant's country or elsewhere, and the Participant's country and any given recipient's country may have different data privacy laws and protections. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of Stock. The Data related to a Participant will be held only as long as is necessary to implement, administer, and manage the Plan and Awards and the Participant's participation in the Plan. A Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. The Company may cancel the Participant's eligibility to participate in the Plan, and in the Committee's discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents described herein. For more information on the consequences of refusal to consent or withdrawal of consent, Participants may contact their local human resources representative.

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

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

(h) No Liability of Committee Members . Neither any member of the Committee nor any of the Committee's permitted delegates shall be liable personally by reason of any contract or other instrument executed by such member or on his or her behalf in his or her capacity as a member of the Committee or for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer, or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against all costs and expenses (including counsel fees) and liabilities (including sums paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan, unless arising out of such person's own fraud or willful misconduct; *provided, however* , that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate or articles of incorporation or bylaws, each as may be amended from time to time, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

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

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

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

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

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

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

* * *

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

This Plan was approved by the Company’s stockholders on May 21, 2015.

**Exhibit 12**

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

| | Nine Months Ended September 30, | | Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| **(dollars in millions)** | **2016** | **2015** | **2015** | **2014** | **2013** | **2012** | **2011** |
| Income (Loss) from Continuing Operations Before Income Taxes | $ 625 | $ 149 | $ 283 | $ 238 | $ (71) | $ (374) | $ (786) |
| Interest on Debt, Net of Capitalized Interest | 414 | 490 | 642 | 654 | 649 | 733 | 716 |
| Amortization of Capitalized Interest | — | — | — | — | — | — | — |
| Portion of rents deemed representative of the interest factor (1/3) | 87 | 88 | 119 | 104 | 101 | 101 | 77 |
| Earnings Available for Fixed Charges | $ 1,126 | $ 727 | $ 1,044 | $ 996 | $ 679 | $ 460 | $ 7 |
| Interest on Debt | 414 | 490 | 642 | 654 | 649 | 733 | 716 |
| Preferred Dividends | — | — | — | — | — | — | — |
| Interest Expense Portion of Rental Expense | 87 | 88 | 119 | 104 | 101 | 101 | 77 |
| Total Fixed Charges | $ 501 | $ 578 | $ 761 | $ 758 | $ 750 | $ 834 | $ 793 |
| Ratio of Earnings to Fixed Charges | 2.2 | 1.3 | 1.4 | 1.3 | — | — | — |
| Deficiency | $ — | $ — | $ — | $ — | $ (71) | $ (374) | $ (786) |

**Exhibit 31.1**

**CERTIFICATIONS***

I, Jeff K. Storey, certify that:

1. I have reviewed this Form 10-Q of Level 3 Communications, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2016

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

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

**Exhibit 31.2**

**CERTIFICATIONS***

I, Sunit S. Patel, certify that:

1. I have reviewed this Form 10-Q of Level 3 Communications, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

/s/ Sunit S. Patel

Sunit S. Patel

Chief Financial Officer

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

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-Q of Level 3 Communications, Inc. (the “Company”) for the nine months ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeff K. Storey, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer
November 7, 2016

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the nine months ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sunit S. Patel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sunit S. Patel

Sunit S. Patel
Chief Financial Officer
November 7, 2016