

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 08/06/12 for the Period Ending 06/30/12

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, CO 80021
Telephone	7208881000
CIK	0000794323
Symbol	LVLT
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

**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 June 30, 2012

or

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

For the transition period to

Commission file number 0-15658

LEVEL 3 COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-0210602
(I.R.S. Employer
Identification No.)

1025 Eldorado Blvd., Broomfield, CO
(Address of principal executive offices)

80021-8869
(Zip Code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(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 August 3, 2012:

Common Stock: 217,115,761 shares

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

[Part I - Financial Information](#)

Item 1.	Financial Statements	3
	Consolidated Statements of Operations	3
	Consolidated Statements of Comprehensive Loss	4
	Supplementary Stockholders' Equity Information	5
	Consolidated Balance Sheets	6
	Consolidated Statements of Cash Flows	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	50
Item 4.	Controls and Procedures	51

[Part II - Other Information](#)

Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 6.	Exhibits	52
Signatures		53
Certifications		

Part I - Financial Information
Item 1. Financial Statements

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

(dollars in millions, except share and per share data)	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue	\$ 1,586	\$ 913	\$ 3,172	\$ 1,827
Costs and Expenses Exclusive of Depreciation and Amortization shown separately below:				
Cost of Revenue	648	347	1,305	704
Depreciation and Amortization	191	206	378	409
Selling, General and Administrative	610	357	1,232	714
Restructuring Charges	4	—	8	—
Total Costs and Expenses	1,453	910	2,923	1,827
Operating Income	133	3	249	—
Other Income (Expense):				
Interest income	1	—	2	—
Interest expense	(181)	(160)	(370)	(317)
Loss on extinguishment of debt, net	—	(23)	(61)	(43)
Other, net	(7)	3	2	6
Total Other Expense	(187)	(180)	(427)	(354)
Loss Before Income Taxes	(54)	(177)	(178)	(354)
Income Tax Expense	(8)	(3)	(22)	(30)
Loss from Continuing Operations	(62)	(180)	(200)	(384)
Loss from Discontinued Operations, Net	—	(1)	—	(2)
Net Loss	\$ (62)	\$ (181)	\$ (200)	\$ (386)
Basic and Diluted Loss per Share *				
Loss per Share from Continuing Operations	\$ (0.29)	\$ (1.58)	\$ (0.94)	\$ (3.40)
Loss per Share from Discontinued Operations	—	(0.01)	—	(0.02)
Net Loss	\$ (0.29)	\$ (1.59)	\$ (0.94)	\$ (3.42)
Shares Used to Compute Basic and Diluted Loss per Share * (in thousands)	216,399	113,589	213,081	112,838

*Adjusted to give effect to the 1 for 15 reverse stock split that became effective on October 19, 2011. See Note 1 - Organization and Summary of Significant Accounting Policies.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
(dollars in millions)				
Net Loss	\$ (62)	\$ (181)	\$ (200)	\$ (386)
Other Comprehensive Income (Loss) Before Income Taxes:				
Foreign Currency Translation	(66)	8	(32)	50
Unrealized Holding Gain (Loss) on Interest Rate Swaps	9	(2)	16	8
Other, net	1	—	2	(1)
Other Comprehensive Income (Loss), Before Income Taxes	(56)	6	(14)	57
Income Tax Related to Items of Other Comprehensive Income	—	—	—	—
Other Comprehensive Income (Loss), Net of Income Taxes	(56)	6	(14)	57
Comprehensive Loss	<u>\$ (118)</u>	<u>\$ (175)</u>	<u>\$ (214)</u>	<u>\$ (329)</u>

See accompanying notes to consolidated financial statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Supplementary Stockholders' Equity Information
Accumulated Other Comprehensive Income (Loss)
For the six months ended June 30, 2012
(unaudited)

(dollars in millions)	Net Foreign Currency Translation Adjustment	Unrealized Holding Gain (Loss) on Interest Rate Swaps	Other	Total
Balance at December 31, 2011	\$ 39	\$ (90)	\$ (29)	\$ (80)
Change	(32)	16	2	(14)
Balance at June 30, 2012	<u>\$ 7</u>	<u>\$ (74)</u>	<u>\$ (27)</u>	<u>\$ (94)</u>

See accompanying notes to consolidated financial statements.

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

(dollars in millions, except share and per share data)	June 30, 2012	December 31, 2011
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 733	\$ 918
Restricted cash and securities	8	10
Receivables, less allowances for doubtful accounts of \$30 and \$21, respectively	689	648
Other	167	131
Total Current Assets	1,597	1,707
Property, Plant and Equipment, net of accumulated depreciation of \$7,977 and \$7,678, respectively	8,076	8,136
Restricted Cash and Securities	49	51
Goodwill	2,497	2,541
Other Intangibles, net	308	358
Other Assets, net	420	395
Total Assets	\$ 12,947	\$ 13,188
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 698	\$ 747
Current portion of long-term debt	222	65
Accrued payroll and employee benefits	140	209
Accrued interest	225	216
Current portion of deferred revenue	250	264
Other	119	157
Total Current Liabilities	1,654	1,658
Long-Term Debt, less current portion	8,190	8,385
Deferred Revenue, less current portion	868	885
Other Liabilities	1,021	1,067
Total Liabilities	11,733	11,995
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value, authorized 10,000,000 shares: no shares issued or outstanding	—	—
Common stock, \$.01 par value, authorized 343,333,333 shares at June 30, 2012 and 293,333,333 at December 31, 2011: 216,557,159 issued and outstanding at June 30, 2012 and 207,913,428 issued and outstanding at December 31, 2011	2	2
Additional paid-in capital	13,941	13,706
Accumulated other comprehensive loss	(94)	(80)
Accumulated deficit	(12,635)	(12,435)
Total Stockholders' Equity	1,214	1,193
Total Liabilities and Stockholders' Equity	\$ 12,947	\$ 13,188

See accompanying notes to consolidated financial statements.

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

(dollars in millions)	Six Months Ended	
	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:		
Net loss	\$ (200)	\$ (386)
Loss from discontinued operations	—	2
Loss from continuing operations	(200)	(384)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	378	409
Non-cash compensation expense attributable to stock awards	53	42
Loss on extinguishments of debt, net	61	43
Accretion of debt discount and amortization of debt issuance costs	21	27
Accrued interest on long-term debt, net	11	23
Deferred income taxes	3	27
Gain on sale of property, plant and equipment and other assets	—	(3)
Other, net	12	(5)
Changes in working capital items:		
Receivables	(43)	(26)
Other current assets	(32)	(16)
Payables	(56)	2
Deferred revenue	(23)	(4)
Other current liabilities	(77)	(3)
Net Cash Provided by Operating Activities of Continuing Operations	108	132
Cash Flows from Investing Activities:		
Capital expenditures	(318)	(237)
Decrease (increase) in restricted cash and securities, net	4	(34)
Proceeds from the sale of property, plant and equipment and other assets	5	4
Net Cash Used in Investing Activities of Continuing Operations	(309)	(267)
Cash Flows from Financing Activities:		
Long-term debt borrowings, net of issuance costs	880	766
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(863)	(662)
Proceeds from stock options exercised	1	—
Net Cash Provided by Financing Activities of Continuing Operations	18	104
Discontinued Operations:		
Net cash used in operating activities	—	(1)
Net cash used in investing activities	—	(3)
Net Cash Used in Discontinued Operations	—	(4)
Effect of Exchange Rates on Cash and Cash Equivalents	(2)	3
Net Change in Cash and Cash Equivalents	(185)	(32)
Cash and Cash Equivalents at Beginning of Period	918	616
Cash and Cash Equivalents at End of Period	<u>\$ 733</u>	<u>\$ 584</u>

Supplemental Disclosure of Cash Flow Information:

Cash interest paid	\$ 338	\$ 267
Income taxes paid, net of refunds	\$ 19	\$ 1

Non-cash Financing Activities:			
Long-term debt conversion into equity	\$	100	\$ —
Premium on long-term debt conversion into equity	\$	39	\$ —
Accrued interest conversion into equity	\$	2	\$ —
Long-term debt issued and proceeds placed into escrow	\$	—	\$ 600
Long-term debt issued in exchange transaction	\$	—	\$ 300
Long-term debt retired in exchange transaction	\$	—	\$ 295

See accompanying notes to consolidated financial statements.

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

(1) Organization and Summary of Significant Accounting Policies

Description of Business

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

On October 4, 2011, a subsidiary of Level 3 completed its amalgamation with Global Crossing Limited ("Global Crossing"), which thereby became a wholly owned indirect subsidiary of the Company through a tax free, stock for stock transaction (the "Amalgamation"). See Note 2 - Events Associated with the Amalgamation of Global Crossing.

Until November 2011, the Company also was engaged in coal mining through its two 50% owned joint-venture surface mines, one each in Montana and Wyoming. The Company completed the sale of its coal mining business on November 14, 2011. See Note 4 - Dispositions.

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. Prior to the disposition of the coal mining business during the fourth quarter of 2011, the Company's 50% owned mining joint ventures were consolidated on a pro rata basis. 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 the business 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 accompanying consolidated balance sheet as of December 31, 2011, which was derived from audited consolidated financial statements, and the unaudited interim consolidated financial statements as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 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, as amended, for the year ended December 31, 2011. In the opinion of the Company's management, these financial statements contain all adjustments (consisting only of normal recurring 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.

Effective after the close of trading on October 19, 2011, the Company completed a 1 for 15 reverse stock split as previously approved by the Company's stockholders. Proportional adjustments were made to the Company's outstanding convertible debt, warrants, equity awards and to its equity compensation plans to reflect the reverse stock split. No fractional shares were issued in connection with the reverse stock split, as stockholders who would otherwise hold a fractional share of common stock received a cash payment in lieu of that fractional share. All references herein to common stock and per share data have been retrospectively adjusted to reflect the reverse stock split.

Reclassifications

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

(2) Events Associated with the Amalgamation of Global Crossing

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

In connection with the closing of the Amalgamation, Level 3 Financing, Inc. ("Level 3 Financing") amended its existing credit agreement to incur an additional \$650 million of borrowings through an additional tranche (the "Tranche B II Term Loan."). In addition, the \$1.2 billion of proceeds from the initial and additional issuance of 8.125% Senior Notes due 2019 in June and July 2011 (see Note 8 — Long-Term Debt) by an indirect wholly owned subsidiary were deposited into an escrow account. On October 4, 2011, following the consummation of the Amalgamation and the satisfaction of certain escrow release conditions, the 8.125% Senior Notes were assumed by Level 3 Financing (the "Notes Assumption"), and the funds were released from the escrow account. The net aggregate proceeds from the Tranche B II Term Loan and 8.125% Senior Notes were used to refinance certain existing indebtedness of Global Crossing in connection with the closing of the Amalgamation and for general corporate purposes.

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

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

The combined results of operations of Level 3 and Global Crossing are included in the Company's consolidated results of operations beginning in October 2011. The assets acquired and liabilities assumed of Global

Crossing were recognized at their acquisition date fair value. The purchase price allocation of acquired assets and assumed liabilities, including the assignment of goodwill to reporting units, requires extensive analysis and is expected to be completed no later than October 4, 2012. The following is a preliminary allocation of purchase price based on information currently available. The final identification of all the intangible assets acquired and the determination of the purchase price allocation may be significantly different from the preliminary allocation reflected below.

	Preliminary Purchase Price Allocation	
	(dollars in millions)	
Assets:		
Cash, Cash Equivalents, and Restricted Cash	\$	226
Property, Plant, and Equipment		3,098
Goodwill		1,070
Identifiable Intangibles		106
Other Assets		681
Total Assets		5,181
Liabilities:		
Long-term Debt		(1,554)
Other Liabilities		(1,665)
Total Liabilities		(3,219)
Total Estimated Consideration	\$	1,962

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

As a result of refinements to the preliminary purchase price allocation that were made during the six months ended June 30, 2012, there were changes to the initial amount of goodwill determined in the fourth quarter of 2011, which have been reflected in the above table. The refinements were primarily a result of changes in the purchase price allocation for estimated tax valuation allowances and reserves. There were no significant changes in the purchase price allocation during the three months ended June 30, 2012.

The following unaudited pro forma financial information presents the combined results of Level 3 and Global Crossing as if the completion of the Amalgamation had occurred as of January 1, 2010.

(dollars in millions, except per share data)	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
Total Revenue	\$	1,585	\$	3,133
Net Loss	\$	(196)	\$	(428)
Net Loss per share	\$	(0.97)	\$	(2.13)

These results include certain adjustments, primarily due to a net decrease in depreciation and amortization expense due to the Company, in connection with the Amalgamation, increasing the estimated useful lives of the acquired conduit, fiber and certain transmission equipment while increasing the fair value of tangible and intangible

assets, decreases in interest expense due to Level 3's issuance of incremental debt in order to redeem and refinance Global Crossing debt that had higher interest rates than the incremental financing, and to eliminate historical transactions between Level 3 and Global Crossing. The pro forma financial information is not intended to represent or be indicative of the actual results of operations of Level 3 that would have been reported had the Amalgamation been completed on January 1, 2010, nor is it representative of future operating results of the Company. The pro forma information does not include any operating efficiencies or cost savings that Level 3 may achieve with respect to combining the companies.

Acquisition related costs include transaction costs such as legal, accounting, valuation, and other professional services as well as integration costs such as severance and retention. Acquisition related costs have been recorded in selling, general and administrative expense and restructuring charges in the Company's consolidated statements of operations during the period that such costs were incurred. Since the acquisition date, Level 3 incurred total acquisition related transaction costs of approximately \$49 million through June 30, 2012, which is unchanged from March 31, 2012. Since the acquisition date, Level 3 incurred total acquisition related integration costs of approximately \$64 million through June 30, 2012. In addition, Level 3 expects to incur additional integration related costs through the remainder of 2012.

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

(3) Loss Per Share

The Company computes basic net loss per share by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period and including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding convertible notes, stock options, stock based compensation awards and other dilutive securities. The effect of approximately 35 million and 47 million shares issuable pursuant to the various series of convertible notes outstanding at June 30, 2012 and June 30, 2011, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation. In addition, the effect of the approximately 6 million and 3 million stock options, outperform stock options, restricted stock units and warrants outstanding at June 30, 2012 and June 30, 2011, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

(4) Dispositions

Level 3, through its two 50% owned joint-venture surface mines, one each in Montana and Wyoming, sold coal primarily through long-term contracts with public utilities. In November 2011, Level 3 completed the sale of its coal mining business to Ambre Energy Limited as part of its long-term strategy to focus on core business operations. As a result of the transaction, all of the assets and liabilities associated with the coal mining business have been removed from Level 3's balance sheet and the Company recognized a gain on the transaction of approximately \$72 million, which was included in the consolidated statements of operations within "Income from Discontinued Operations" in the fourth quarter of 2011. The financial results of the coal mining business were included in the Company's consolidated results of operations through the date of sale, and the three and six month periods ended June 30, 2011 have been revised to reflect the presentation within discontinued operations.

The following amounts relate to the operations of the coal business and were derived from historical financial information and have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Operations (dollars in millions):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenue	\$ 19	\$ 34
Cost of Revenue	19	34
Depreciation and Amortization	1	2
Selling, General, and Administrative	—	—
Total Costs and Expenses	20	36
Operating Loss	(1)	(2)
Total Other Expense	—	—
Loss From Discontinued Operations, Net	\$ (1)	\$ (2)

(5) Acquired Intangible Assets

Identifiable acquisition-related intangible assets as of June 30, 2012 and December 31, 2011 were as follows (dollars in millions):

	Gross Carrying Amount	Accumulated Amortization	Net
June 30, 2012			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 775	\$ (606)	\$ 169
Trademarks	55	(10)	45
Patents and Developed Technology	158	(96)	62
	988	(712)	276
<i>Indefinite-Lived Intangible Assets:</i>			
Vyvx Trade Name	32	—	32
	\$ 1,020	\$ (712)	\$ 308
December 31, 2011			
<i>Finite-Lived Intangible Assets:</i>			
Customer Contracts and Relationships	\$ 776	\$ (571)	\$ 205
Trademarks	55	(3)	52
Patents and Developed Technology	158	(89)	69
	989	(663)	326
<i>Indefinite-Lived Intangible Assets:</i>			
Vyvx Trade Name	32	—	32
	\$ 1,021	\$ (663)	\$ 358

The gross carrying amount of identifiable acquisition-related intangible assets in the table above is subject to change due to foreign currency fluctuations, as a portion of the Company's identifiable acquisition-related intangible assets are related to foreign subsidiaries.

Acquired finite-lived intangible asset amortization expense was \$ 25 million and \$ 50 million for the three and six months ended June 30, 2012 and \$ 24 million and \$ 49 million for the three and six months ended June 30, 2011 .

At June 30, 2012 , the weighted average remaining useful lives of the Company's acquired finite-lived intangible assets was 2.4 years for customer contracts and relationships, 4.5 years for patents and developed technology and 3.3 years for trademarks.

As of June 30, 2012 , estimated amortization expense for the Company's finite-lived acquisition-related intangible assets over the next five years and thereafter is as follows (dollars in millions):

2012 (remaining six months)	\$	41
2013		72
2014		61
2015		45
2016		27
2017		13
Thereafter		17
	\$	<u>276</u>

(6) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, interest rate swaps and long-term debt (including the current portion) as of June 30, 2012 and December 31, 2011. The carrying values of cash and cash equivalents, restricted cash and securities, accounts receivable, accounts payable, capital leases and other liabilities approximated their fair values at June 30, 2012 and December 31, 2011. The interest rate swaps are recorded in the consolidated balance sheets at fair value. See Note 7 - Derivative Financial Instruments and Note 13 - Subsequent Events. The carrying value of the Company's long-term debt, including the current portion, reflects the original amounts borrowed net of unamortized discounts and premiums and was \$8.4 billion and \$8.5 billion as of June 30, 2012 and December 31, 2011, respectively.

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 inherent risk, transfer restrictions, and risk of nonperformance.

Fair Value Hierarchy

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

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

Level 2 —Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived

valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 —Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The table below presents the fair values for each class of Level 3's liabilities as well as the input levels used to determine these fair values as of June 30, 2012 and December 31, 2011:

	Fair Value Measurement Using											
	Total Carrying Value in Consolidated Balance Sheet		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)							
			June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011						
(dollars in millions)												
<i>Liabilities Recorded at Fair Value in the Financial Statements:</i>												
Derivatives:												
Interest Rate Swap Liabilities (included in other non-current liabilities)	\$	74	\$	90	\$	—	\$	—	\$	74	\$	90
Total Derivative Liabilities Recorded at Fair Value in the Financial Statements	\$	74	\$	90	\$	—	\$	—	\$	74	\$	90
<i>Liabilities Not Recorded at Fair Value in the Financial Statements:</i>												
Long-term Debt, including the current portion:												
Term Loans	\$	2,569	\$	2,567	\$	2,567	\$	2,518	\$	—	\$	—
Senior Notes		4,807		4,716		5,075		4,822		—		—
Convertible Notes		843		939		284		247		760		834
Commercial Mortgage		64		65		—		—		71		73
Capital Leases and Other		129		163		—		—		129		163
Total Long-term Debt, including the current portion:	\$	8,412	\$	8,450	\$	7,926	\$	7,587	\$	960	\$	1,070

The Company does not have any assets or liabilities measured using significant unobservable inputs (Level 3).

Derivatives

The interest rate swaps are measured in accordance with the GAAP Fair Value Measurements and Disclosures guidance using discounted cash flow techniques that use observable market inputs, such as LIBOR-based forward yield curves, forward rates, and the specific swap rate stated in each of the swap agreements.

Term Loans

The fair value of the Term Loans was approximately \$2.6 billion and \$2.5 billion at June 30, 2012 and December 31, 2011, respectively. The fair value of each loan is based on the June 30, 2012 and December 31, 2011 trading quotes as provided by large financial institutions that trade in the Company's Term Loans. The pricing quotes provided by these market participants incorporate LIBOR curve expectations, interest spread, corporate and loan credit ratings, maturity date (March 2014 and September 2018) and liquidity, among other loan characteristics and relative value across other instruments of similar terms. The interest spread for the \$1.4 billion Tranche A Term Loan is LIBOR plus 2.25% (aggregate principal value) and LIBOR plus 4.25% with a LIBOR floor of 1.5% for the Tranche B II and Tranche B III Term Loans, respectively. See Note 8 - Long-Term Debt for details.

The Term Loans are secured by a pledge of the equity interests in certain U.S.-based subsidiaries of Level 3 Financing; 65% of the equity interests in each of Level 3 Financing's Canadian subsidiary, and its Bermuda subsidiary that indirectly owns Global Crossing's non-U.S. subsidiaries; and liens on the assets of Level 3 Communications, Inc. and certain U.S.-based subsidiaries of Level 3 Financing. In addition, Level 3 Communications, Inc. and certain U.S.-based subsidiaries of Level 3 Financing have provided full and unconditional guarantees of the obligations under the Term Loans.

Senior Notes

The estimated fair value of the Company's Senior Notes approximated \$5.1 billion and \$4.8 billion at June 30, 2012 and December 31, 2011, respectively, based on market prices. The fair value of each instrument was based on the June 30, 2012 and December 31, 2011 trading quotes as provided by large financial institutions that trade in the Company's securities. The pricing quotes provided by these market participants incorporate spreads to the Treasury curve, security coupon (which ranges from LIBOR plus 2.25% to 11.875%), corporate and security credit ratings, maturity date (ranging from 2014 to 2020) and liquidity, among other security characteristics and relative value at both the borrower entity level and across other securities of similar terms.

The 11.875% Senior Notes due 2019 were issued by the Company and are not guaranteed by any of the Company's subsidiaries. The remaining Senior Notes are obligations of Level 3 Financing, Inc. and are all fully and unconditionally guaranteed by Level 3 Communications, Inc. and Level 3 Communications, LLC.

Convertible Notes

The estimated fair value of the Company's actively traded 6.5% Convertible Senior Notes due 2016 was approximately \$284 million at June 30, 2012 and \$247 million at December 31, 2011. The fair value of the Company's actively traded Convertible Notes is based on the trading quotes as of June 30, 2012 and December 31, 2011 provided by large financial institutions that trade in the Company's securities. The estimated fair value of the Company's Convertible Notes that are not actively traded, such as the 7% Convertible Senior Notes due 2015, the 7% Convertible Senior Notes due 2015, Series B, and the 15% Convertible Senior Notes due 2013, approximated \$760 million at June 30, 2012 and \$834 million at December 31, 2011. A portion of the Company's 15% Convertible Senior Notes due 2013 were exchanged for equity during the first quarter of 2012, as discussed in Note 8 - Long-Term Debt. To estimate the fair value of the Convertible Notes that are not actively traded, Level 3 used a Black-Scholes valuation model and an income approach using discounted cash flows. The most significant inputs affecting the valuation are the pricing quotes provided by market participants that incorporate spreads to the Treasury curve, security coupon (ranging from 7% to 15%), convertible optionality, corporate and security credit ratings, maturity date (ranging from 2013 to 2015), liquidity, and other equity option inputs, such as the risk-free rate, underlying stock price, strike price of the embedded derivative, estimated volatility and maturity inputs for the option component and for the bond component, among other security characteristics and relative value at both the borrower entity level and across other securities with similar terms. The fair value of each instrument is obtained by adding together the value derived by discounting the security's coupon or interest payment using a risk-adjusted discount rate and the value calculated from the embedded equity option based on the estimated volatility of the Company's stock price, conversion rate of the particular Convertible Note, remaining time to maturity, and risk-free rate. The Convertible Notes are unsecured obligations of Level 3 Communications, Inc. No subsidiary of Level 3

Communications, Inc. has provided a guarantee of the Convertible Notes.

Commercial Mortgage

The fair value of the Commercial Mortgage was approximately \$71 million at June 30, 2012 and \$73 million at December 31, 2011, respectively, as compared to the carrying amounts of \$64 million and \$65 million, respectively. The Commercial Mortgage is not actively traded and its fair value is estimated by management using a valuation model based on an income approach. The significant inputs used to estimate fair value of this debt instrument using discounted cash flows include the anticipated scheduled mortgage payments and observable market yields on other actively traded debt of similar characteristics and collateral type.

The Commercial Mortgage is a secured obligation of HQ Realty, Inc., a wholly owned subsidiary of the Company. HQ Realty, Inc.'s obligations under the Commercial Mortgage are secured by a first priority lien on the Company's headquarters campus located at 1025 Eldorado Boulevard, Broomfield, Colorado 80021 and certain HQ Realty, Inc. cash and reserve accounts.

The assets of HQ Realty, Inc. are not available to satisfy any third party obligations other than those of HQ Realty, Inc. In addition, the assets of the Company and its subsidiaries other than HQ Realty, Inc. are not available to satisfy the obligations of HQ Realty, Inc.

(7) Derivative Financial Instruments

The Company uses derivative financial instruments, primarily interest rate swaps, to manage its exposure to fluctuations in interest rate movements. The Company's primary objective in managing interest rate risk is to decrease the volatility of its earnings and cash flows affected by changes in the underlying rates. To achieve this objective, the Company enters into financial derivatives, primarily interest rate swap agreements, the values of which change in the opposite direction of the anticipated future cash flows. The Company has floating rate long-term debt (see Note 8 - Long-Term Debt). These obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases. The Company has designated its interest rate swap agreements as cash flow hedges. Swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the lives of the agreements without exchange of the underlying notional amount. The change in the fair value of the interest rate swap agreements is reflected in Accumulated Other Comprehensive Income (Loss) ("AOCI") and is subsequently reclassified into earnings in the period that the hedged transaction affects earnings, due to the fact that the interest rate swap agreements qualify as effective cash flow hedges. The Company does not use derivative financial instruments for speculative purposes.

In March 2007, Level 3 Financing Inc., the Company's wholly owned subsidiary, entered into two interest rate swap agreements to hedge the interest payments on \$1 billion notional amount of floating rate debt. The two interest rate swap agreements are with different counterparties and are for \$500 million each. The transactions were effective beginning in April 2007 and mature in January 2014. The Company uses interest rate swaps to convert specific variable rate debt issuances into fixed rate debt. Under the terms of the interest rate swap transactions, the Company receives interest payments based on rolling three month LIBOR terms and pays interest at the fixed rate of 4.93% under one arrangement and 4.92% under the other. The Company evaluates the effectiveness of the hedges on a quarterly basis. The Company measures effectiveness by offsetting the change in the variable portion of the interest rate swaps with the changes in interest expense paid due to fluctuations in the LIBOR -based interest rate. During the periods presented, these derivatives were used to hedge the variable cash flows associated with existing obligations. The Company recognizes any ineffective portion of the change in fair value of the hedged item in the consolidated statements of operations. All components of the interest rate swaps were included in the assessment of hedge effectiveness. Hedge ineffectiveness for the Company's cash flow hedges was not material in any period presented. See Note 13 - Subsequent Events for additional information on the interest rate swaps.

The Company is exposed to credit related losses in the event of non-performance by counterparties. The

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

Amounts in AOCI related to derivatives are indirectly recognized in earnings as periodic settlements occur throughout the term of the swaps, when the related interest payments are made on the Company's variable-rate debt. As of June 30, 2012 and December 31, 2011, the Company had the following outstanding derivatives that were designated as cash flow hedges of interest rate risk:

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

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

Derivatives designated as hedging instruments	Liability Derivatives			
	June 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash flow hedging contracts	Other noncurrent liabilities	\$ 74	Other noncurrent liabilities	\$ 90

The amount of gains (losses) recognized in Other Comprehensive Loss consists of the following (dollars in millions):

Derivatives designated as hedging instruments	2012	2011
Cash flow hedging contracts		
Three Months Ended June 30,	\$ 9	\$ (2)
Six Months Ended June 30,	\$ 16	\$ 8

The amount of gains (losses) reclassified from AOCI to Income/Loss (effective portions) consists of the following (dollars in millions):

Derivatives designated as hedging instruments	Income Statement Location	2012	2011
Cash flow hedging contracts:			
Three Months Ended June 30,	Interest Expense	\$ (11)	\$ (12)
Six Months Ended June 30,	Interest Expense	\$ (22)	\$ (23)

Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with floating-rate, long-term debt obligations are reported in AOCI. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest on the floating-rate debt obligations affects earnings. Amounts currently included in AOCI will be reclassified to earnings prior to the settlement of these cash flow hedging contracts in 2014. The Company

estimates that \$44 million of net losses on the interest rate swaps (based on the estimated LIBOR curve as of June 30, 2012) will be reclassified into earnings within the next twelve months. The Company's interest rate swap agreements designated as cash flow hedging contracts qualify as effective hedge relationships, and as a result, hedge ineffectiveness was not material in any of the periods presented.

(8) Long-Term Debt

As of June 30, 2012 and December 31, 2011, long-term debt was as follows:

(dollars in millions)	June 30, 2012	December 31, 2011
Senior Secured Term Loan*	\$ 2,600	\$ 2,600
Senior Notes due 2014 (9.25%)	—	807
Floating Rate Senior Notes due 2015 (4.506% as of June 30, 2012 and 4.202% as of December 31, 2011)	300	300
Senior Notes due 2017 (8.75%)	700	700
Senior Notes due 2018 (10.0%)	640	640
Senior Notes due 2019 (11.875%)	605	605
Senior Notes due 2019 (9.375%)	500	500
Senior Notes due 2019 (8.125%)	1,200	1,200
Senior Notes due 2020 (8.625%)	900	—
Convertible Senior Notes due 2013 (15.0%)	172	272
Convertible Senior Notes due 2015 (7.0%)	200	200
Convertible Senior Notes due 2015 Series B (7.0%)	275	275
Convertible Senior Notes due 2016 (6.5%)	201	201
Commercial Mortgage due 2015 (9.86%)	64	65
Capital Leases	102	131
Other	27	32
Total Debt Obligations	8,486	8,528
Unamortized (Discount) Premium:		
Discount on Senior Secured Term Loan	(31)	(33)
Premium on Senior Notes due 2014 (9.25%)	—	3
Discount on Senior Notes due 2018 (10.0%)	(10)	(11)
Discount on Senior Notes due 2019 (11.875%)	(10)	(10)
Discount on Senior Notes due 2019 (9.375%)	(9)	(9)
Discount on Senior Notes due 2019 (8.125%)	(9)	(9)
Discount on Convertible Senior Notes due 2015 (7.0%)	(2)	(2)
Discount due to embedded derivative contracts	(3)	(7)
Total Unamortized (Discount) Premium	(74)	(78)
Carrying Value of Debt	8,412	8,450
Less current portion	(222)	(65)
Long-term Debt, less current portion	\$ 8,190	\$ 8,385

* The \$1.4 billion Tranche A Term Loan due 2014 had an effective interest rate of 2.65% as of June 30, 2012 and December 31, 2011, excluding the effect of the \$1 billion notional amount interest rate swaps. The \$650

million Tranche B II Term Loan due 2018 and the \$550 million Tranche B III Term Loan due 2018 had an interest rate of 5.75% as of June 30, 2012 and December 31, 2011.

2012 Debt Issuance, Related Redemption, and Registrations

8.125% Senior Notes due 2019

The 8.125% Senior Notes due 2019 issued by Level 3 Financing, Inc. were not originally registered under the Securities Act of 1933, as amended. During the second quarter of 2012, all of the originally placed notes were exchanged for a new issue of 8.125% Senior Notes due 2019 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and now are freely tradeable. The 8.125% Senior Notes became fully and unconditionally guaranteed by Level 3 Communications, LLC during the first quarter of 2012.

8.625% Senior Notes due 2020

On January 13, 2012, Level 3 Financing completed the offering of \$900 million aggregate principal of its 8.625% Senior Notes due 2020 (the "8.625% Senior Notes"). Debt issuance costs of approximately \$20 million were capitalized and are being amortized over the term of the 8.625% Senior Notes. In February 2012, a portion of the net proceeds from the offering of the 8.625% Senior Notes were used to redeem all of Level 3 Financing's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million. The Company recognized a loss on extinguishment of debt of \$22 million in the first quarter of 2012 as a result of the redemption of the 9.25% Senior Notes due 2014.

The remaining net proceeds constitute purchase money indebtedness under the existing senior secured credit agreement and indentures of the Company and Level 3 Financing and are being used solely to fund the cost of construction, installation, acquisition, lease, development or improvement of any Telecommunications/IS assets (as defined in the existing senior secured credit agreement and indentures of Level 3), including cash purchase price of any past, pending or future acquisitions.

The 8.625% Senior Notes will mature on July 15, 2020. Interest on the notes will accrue from January 13, 2012 and will be payable on January 15 and July 15 of each year, beginning on July 15, 2012. The notes are fully and unconditionally guaranteed on an unsubordinated and unsecured basis by the Company and became fully and unconditionally guaranteed by Level 3 Communications, LLC in the second quarter of 2012. The notes are unsecured, unsubordinated obligations of Level 3 Financing, ranking equal in right of payment with all existing and future unsubordinated indebtedness of Level 3 Financing, and are senior in right of payment to all existing and future indebtedness of Level 3 Financing expressly subordinated in right of payment to the notes.

The 8.625% Senior Notes are subject to redemption at the option of Level 3 Financing in whole or in part, at any time before January 15, 2016 at the redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest. On and after January 15, 2016, Level 3 Financing may redeem all or part of the 8.625% Senior Notes, upon not less than 30 nor more than 60 days' prior notice, at the redemption prices set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest thereon (if any) to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve months beginning January 15, of the years indicated below:

Year	Redemption Price
2016	104.313%
2017	102.156%
2018	100.000%

In addition, at any time or from time to time on or prior to January 15, 2015, Level 3 Financing may redeem up to 35% of the original aggregate principal amount of the 8.625% Senior Notes (including any additional 8.625% Senior Notes) at a redemption price equal to 108.625% of the principal amount of the 8.625% Senior Notes so redeemed, plus accrued and unpaid interest thereon (if any) to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), with the net cash proceeds contributed to the capital of Level 3 Financing of one or more private placements to persons other than affiliates of Level 3 or underwritten public offerings of common stock of Level 3 resulting, in each case, in gross proceeds of at least \$100 million in aggregate; provided, however, that at least 65% of the original aggregate principal amount of the 8.625% Senior Notes (including any additional 8.625% Senior Notes) would remain outstanding immediately after giving effect to such redemption. Any such redemption shall be made within 90 days of such private placement or public offering upon not less than 30 nor more than 60 days' prior notice.

The 8.625% Senior Notes due 2020 issued by Level 3 Financing, Inc. were not originally registered under the Securities Act of 1933, as amended. During the second quarter of 2012, all of the originally placed notes were exchanged for a new issue of 8.625% Senior Notes due 2020 with identical terms and conditions, other than those related to registration rights, in a registered exchange offer and are now freely tradeable. The 8.625% Senior Notes became fully and unconditionally guaranteed by Level 3 Communications, LLC during the second quarter of 2012.

2012 Debt Exchange

On March 13, 2012, the Company entered into an exchange agreement for a portion of its 15% Convertible Senior Notes due 2013. Pursuant to the agreement, the holder of approximately \$100 million aggregate principal amount of Level 3's outstanding 15% Convertible Senior Notes due 2013 agreed to exchange that debt for approximately 3.7 million shares of Level 3's common stock into which the notes were convertible plus an additional 1.7 million shares for a total of approximately 5.4 million shares. The consideration was based on the market price for these notes which included an inducement premium and included a payment for accrued and unpaid interest from January 15, 2012 through March 15, 2012 of approximately \$2 million. This transaction did not include the payment by the Company of any cash. The Company recognized a loss on inducement included in loss on extinguishment of debt of \$39 million in the first quarter of 2012 as a result of the exchange of the 15% Convertible Senior Notes due 2013.

Long-Term Debt Maturities

Aggregate future contractual maturities of long-term debt and capital leases (excluding issue discounts, premiums and fair value adjustments) were as follows as of June 30, 2012 (dollars in millions):

2012 (remaining six months)	\$	32
2013		211
2014		1,425
2015		838
2016		207
2017		706
Thereafter		5,067
	\$	<u>8,486</u>

(9) Stock-Based Compensation

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for three and six months ended June 30, 2012 and 2011 (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
OSO	\$ 4	\$ 2	\$ 6	\$ 4
Restricted Stock Units and Shares	14	3	18	7
401(k) Match Expense	6	4	13	7
Restricted Stock Unit Bonus Grant	5	8	16	24
	29	17	53	42
Capitalized Noncash Compensation	—	—	—	—
	\$ 29	\$ 17	\$ 53	\$ 42

The Company capitalizes non-cash compensation for those employees directly involved in the construction of the network, installation of services for customers or development of business support systems. As of June 30, 2012, there were approximately 2 million outperform stock options (“OSOs”) outstanding. As of June 30, 2012, there were approximately 4 million nonvested restricted stock and restricted stock units (“RSUs”) outstanding. In addition, as of June 30, 2012, there were approximately five hundred thousand non-qualified stock options outstanding.

During 2012, the Company adopted incentive and retention plans to encourage certain levels of management to remain employed with the Company and to award the achievement of established performance criteria. The non-cash compensation expense for the awards is included in the RSU information above.

(10) Segment Information

Accounting guidance for the disclosures about segments of an enterprise defines operating segments as components of an enterprise for which separate financial information is available and which is evaluated regularly by the Company’s chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. As a result of the integration of Global Crossing (see Note 2 - Events Associated with the Amalgamation of Global Crossing) and the sale of the coal business during the fourth quarter of 2011, the Company reorganized its management reporting structure to reflect the way in which it allocates resources and assesses performance. As a result of these changes, the Company is now comprised of one reportable segment for financial reporting purposes, representing its communications services business. The prior year reportable segment information has been revised to conform with this presentation.

The data presented in the following table includes information for the three and six months ended June 30, 2012 and June 30, 2011. Information related to the acquired business is included from the date of acquisition, and information related to dispositions is included through the date of sale.

Total revenue consists of:

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

The following table provides revenue (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Core Network Services	\$ 1,386	\$ 744	\$ 2,768	\$ 1,473
Wholesale Voice Services and Other	200	169	404	354
	<u>\$ 1,586</u>	<u>\$ 913</u>	<u>\$ 3,172</u>	<u>\$ 1,827</u>

The prior year's revenue by service offering has been revised to conform to the current year's presentation.

(11) 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 \$274 million and are included in "Other" current liabilities and "Other Liabilities" in the Company's consolidated balance sheet as of June 30, 2012. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued may have no effect on the Company's results of operations but could materially adversely affect its cash flows for the affected period.

In accordance with the accounting guidance for contingencies, the Company accrues its estimate of a contingent liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Where it is probable that a liability has been incurred and there is a range of expected loss for which no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. The Company reviews its accruals at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. In addition, adjustments to the accruals established for Global Crossing's contingent liabilities may be made in connection with the purchase price allocation of acquired assets and assumed liabilities under acquisition accounting, which is expected to be completed no later than October 4, 2012. Any such accrual adjustments would generally not affect results of operations but rather would result in an increase or decrease to goodwill associated with the Global Crossing acquisition.

Below is a description of material legal proceedings and other contingencies pending at June 30, 2012. 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 below 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 its 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 in the states of Idaho, Illinois, and Alabama have received final court approval and the parties are engaged in the claims process for those states. The settlement has been presented to federal courts in several additional states for approval.

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.

Derivative Action

In March 2009, Level 3 Communications, Inc., as a nominal defendant, certain of its directors and its current officers, and a former officer, were named as defendants in purported stockholder derivative actions in the District Court, Broomfield County, Colorado, which have been consolidated as *In re Level 3 Communications, Inc. Derivative Litigation (Lead Case No. 2009CV59)* (the "State Derivative Action"). The plaintiffs in the action allege that during the period specified in the complaints the named defendants failed to disclose material adverse facts about the Company's integration activities, business and operations. The complaint seeks damages on behalf of the Company based on purported breaches of fiduciary duties for disseminating false and misleading statements and failing to maintain internal controls; unjust enrichment; abuse of control; gross mismanagement; waste of corporate assets; and, with respect to certain defendants, breach of fiduciary duties in connection with the resignation of Kevin O'Hara. The plaintiffs undertook further assessment of the State Derivative Action following the final dismissal of a related securities class action lawsuit which was based upon similar allegations, and determined not to pursue the action further. The plaintiffs filed a motion for voluntary dismissal and the action was dismissed by the court on June 26, 2012.

Peruvian Tax Litigation

Beginning in 2005, one of the Company's Peruvian subsidiaries received a number of assessments for tax, penalty 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 in connection with VAT in connection with the import of services for calendar years 2001 and 2002, and \$16 million in connection with the disallowance of VAT credits for periods beginning in 2005. Due to accrued interest and foreign exchange effects, and taking into account the developments described below, the total amount of exposure has increased to \$90 million.

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 in the Tax Court, which is the highest administrative authority. In October 2011, the Tax Court issued a ruling regarding VAT, associated penalties and penalties associated with withholding taxes, adjudicating the central issue underlying the assessments in the government's favor, while confirming the assessment in part and denying a portion of the assessment on procedural grounds. Other than an immaterial amount, all assessed items dismissed by the Tax Court in this ruling remain open for reassessment by SUNAT. While this Tax Court ruling applies only to 2002, the Company believes the Tax Court will issue a similar ruling with respect to 2001, and all material amounts likely to be waived due to procedural defects similarly remain open for reassessment.

In November 2011, the Tax Court issued a ruling with respect to assessed 2001 withholding tax, holding that the statute of limitations had run prior to assessment by SUNAT. The Company believes that this adjudication of the withholding tax issue is likely to be final, and the Company expects to win a similar verdict with respect to assessed 2002 withholding tax. However, penalties with respect to withholding tax are not time-barred, and were confirmed in the Tax Court's October 2011 ruling.

The Company has appealed the Tax Court's October 2011 decision to the judicial court in Peru. The Company has not received Tax Court rulings for all periods, but it has received adjudications of each substantive issue for at least one period. As a result, the Company expects decisions for the remaining open periods to be consistent with decisions already rendered. The Company intends to appeal any Tax Court verdict with respect to 2001 to the extent consistent with the October 2011 decision in the government's favor and will protest any reassessment of amounts dismissed by the Tax Court on procedural grounds.

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 \$41 million .

Brazilian Tax Claims

In December 2004, March 2009 and April 2009, the São Paulo state tax authorities issued tax assessments against one of the Company's Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS") with respect to revenues from leasing movable properties (in the case of the December 2004 and March 2009 assessments) and revenues from the provision of internet access services (in the case of the April 2009 assessment), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues. The Company has filed objections to these assessments, arguing that the lease of assets and the provision of internet access are not communication services subject to ICMS. The objections to the December 2004 and September 2002 assessments have been rejected by the respective state administrative courts, and the Company has appealed those decisions to the judicial courts. The objections to the March, April and July 2009 and May 2012 assessments are still pending final administrative decisions.

The Company is vigorously contesting all such assessments in both states, and in particular, views the assessment of ICMS on revenues 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 \$55 million in excess of the accruals established for these matters.

Customer Bankruptcy Claim

During 2007, one of the Company's U.S. subsidiaries commenced default and disconnect procedures against a customer for breach of a sales contract for termination of international and domestic wireless and wireline phone service based on the nature of the customer's traffic, which rendered the contract highly unprofitable to the Company. After the process was begun, the customer filed for bankruptcy protection, thereby barring the Company from taking further disconnection actions against it. The Company commenced an adversary proceeding in the bankruptcy court, asserting a claim for damages for the customer's alleged breaches of the contract and for a declaration that, as a result of these breaches, the customer was prohibited from assuming the contract in its reorganization proceedings.

The customer filed several counterclaims against the Company alleging various breaches of contract for attempting improperly to terminate service, for improperly blocking international traffic, for violations of the Communications Act of 1934 and for related tort-based claims. The Company notified the customer that the Company would be raising its rates for certain of the services and filed a motion with the bankruptcy court seeking additional adequate assurance for the rate change, or an order allowing the Company to terminate the customer's service. The customer amended its counter claims to assert claims for breach of contract based upon the rate increase. On July 3, 2008, the Court issued an opinion holding that the agreement did not permit the Company to increase the rates in the manner it did and that the Company: (a) breached the sales contract in so doing; and (b) was therefore not entitled to additional adequate assurance or an order terminating service. The Court did, however, permit the Company to amend its complaint to plead a rescission claim (which was filed on July 14, 2008) and to assert other defenses.

The Court dismissed the customer's bankruptcy case by order dated November 25, 2009, and retained the adversary proceeding (including the customer's counterclaim). On December 26, 2009, the Company terminated service to the customer. The Company amended its complaint to include allegations relating to the manipulation of traffic data, so called "ANI stripping," and the customer filed an amended answer, affirmative defenses and counterclaims.

On January 14, 2011, the Company filed a motion for summary judgment asserting that the customer was not entitled to recover any damages (other than those based on rescission-type theories) by reason of a limitation of liability provision in the contract and applicable law. On July 22, 2011, the Court issued its decision on the motion. Although the Court held that the limitation of liability provision of the contract was valid and enforceable and barred the customer from pursuing all forms of lost profit damages, the Court refused to exclude the customer's claim for general damages at that point, and permitted that issue to proceed.

After discovery in the action concluded, the Court ordered trial to proceed in three separate phases. Trial of the first set of issues commenced on November 14, 2011. After the Court heard testimony from four witnesses, the matter was adjourned until January 23, 2012, at which time further testimony was taken for three days. The customer's most recent damage estimate ranged from approximately \$150 million to approximately \$450 million. While the final outcome of this matter was uncertain, the Company believed Global Crossing had good defenses that would have limited substantially the amount of damages recoverable by the customer, including defenses based upon the limitation of liability provisions in the contract. However, the precise effect of the application of these defenses was unclear, and the Company therefore elected to settle the case for an amount approximately equal to the accrual that the Company had established for the matter. The settlement agreement was entered into by the parties effective on April 11, 2012, and the parties filed a stipulation with the Court on April 13, 2012, pursuant to which the case was dismissed with prejudice and payment was rendered during the second quarter of 2012.

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 June 30, 2012 and December 31, 2011, Level 3 had outstanding letters of credit of approximately \$30 million and \$33 million, respectively, of which \$28 million and

\$29 million , are collateralized by cash, that is reflected on the consolidated balance sheets as restricted cash. The Company does not believe it is reasonable to estimate the fair value of the letters of credit and does not believe exposure to loss is reasonably possible nor material.

(12) Condensed Consolidating Financial Information

Level 3 Financing, a wholly owned subsidiary of the Company, has issued Senior Notes that are unsecured obligations of Level 3 Financing; however, they are also jointly and severally and fully and unconditionally 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)
For the three months ended June 30, 2012

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
	(dollars in millions)					
Revenue	\$ —	\$ —	\$ 659	\$ 991	\$ (64)	\$ 1,586
Costs and Expense:						
Cost of Revenue	—	—	244	465	(61)	648
Depreciation and Amortization	—	—	66	125	—	191
Selling, General and Administrative	—	—	393	220	(3)	610
Restructuring Charges	—	—	3	1	—	4
Total Costs and Expenses	—	—	706	811	(64)	1,453
Operating Income (Loss)	—	—	(47)	180	—	133
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(38)	(134)	(1)	(8)	—	(181)
Interest income (expense) affiliates, net	245	403	(558)	(90)	—	—
Equity in net earnings (losses) of subsidiaries	(269)	(538)	25	—	782	—
Other income (expense), net	—	—	2	(9)	—	(7)
Total Other Expense	(62)	(269)	(532)	(106)	782	(187)
Income (Loss) before Income Taxes	(62)	(269)	(579)	74	782	(54)
Income Tax Expense	—	—	(1)	(7)	—	(8)
Net Income (Loss)	(62)	(269)	(580)	67	782	(62)
Other Comprehensive Loss, Net of Income Taxes	(56)	(56)	—	(65)	121	(56)
Comprehensive Income (Loss)	\$ (118)	\$ (325)	\$ (580)	\$ 2	\$ 903	\$ (118)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the six months ended June 30, 2012

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
	(dollars in millions)					
Revenue	\$ —	\$ —	\$ 1,285	\$ 2,014	\$ (127)	\$ 3,172
Costs and Expense:						
Cost of Revenue	—	—	480	946	(121)	1,305
Depreciation and Amortization	—	—	133	245	—	378
Selling, General and Administrative	1	—	791	446	(6)	1,232
Restructuring Charges	—	—	6	2	—	8
Total Costs and Expenses	1	—	1,410	1,639	(127)	2,923
Operating Income (Loss)	(1)	—	(125)	375	—	249
Other Income (Expense):						
Interest income	—	—	1	1	—	2
Interest expense	(80)	(273)	(1)	(16)	—	(370)
Interest income (expense) affiliates, net	490	802	(1,117)	(175)	—	—
Equity in net earnings (losses) of subsidiaries	(570)	(1,077)	61	—	1,586	—
Other income (expense), net	(39)	(22)	3	(1)	—	(59)
Total Other Expense	(199)	(570)	(1,053)	(191)	1,586	(427)
Income (Loss) before Income Taxes	(200)	(570)	(1,178)	184	1,586	(178)
Income Tax Expense	—	—	(2)	(20)	—	(22)
Net Income (Loss)	(200)	(570)	(1,180)	164	1,586	(200)
Other Comprehensive Loss, Net of Income Taxes	(14)	(14)	—	(30)	44	(14)
Comprehensive Income (Loss)	\$ (214)	\$ (584)	\$ (1,180)	\$ 134	\$ 1,630	\$ (214)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the three months ended June 30, 2011

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 576	\$ 397	\$ (60)	\$ 913
Costs and Expense:						
Cost of Revenue	—	—	224	180	(57)	347
Depreciation and Amortization	—	—	104	102	—	206
Selling, General and Administrative	1	—	306	53	(3)	357
Restructuring Charges	—	—	—	—	—	—
Total Costs and Expenses	1	—	634	335	(60)	910
Operating Income (Loss)	(1)	—	(58)	62	—	3
Other Income (Expense):						
Interest income	—	—	—	—	—	—
Interest expense	(55)	(99)	(1)	(5)	—	(160)
Interest income (expense) affiliates, net	211	358	(515)	(54)	—	—
Equity in net earnings (losses) of subsidiaries	(336)	(572)	36	—	872	—
Other income (expense), net	—	(23)	3	—	—	(20)
Total Other Expense	(180)	(336)	(477)	(59)	872	(180)
Income (Loss) before Income Taxes	(181)	(336)	(535)	3	872	(177)
Income Tax Expense	—	—	—	(3)	—	(3)
Loss from Continuing Operations	(181)	(336)	(535)	—	872	(180)
Loss From Discontinued Operations, Net	—	—	—	(1)	—	(1)
Net Loss	(181)	(336)	(535)	(1)	872	(181)
Other Comprehensive Income, Net of Income Taxes	6	6	—	8	(14)	6
Comprehensive Income (Loss)	\$ (175)	\$ (330)	\$ (535)	\$ 7	\$ 858	\$ (175)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the six months ended June 30, 2011

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(dollars in millions)						
Revenue	\$ —	\$ —	\$ 1,136	\$ 803	\$ (112)	\$ 1,827
Costs and Expense:						
Cost of Revenue	—	—	436	374	(106)	704
Depreciation and Amortization	—	—	207	202	—	409
Selling, General and Administrative	1	—	613	106	(6)	714
Restructuring Charges	—	—	—	—	—	—
Total Costs and Expenses	1	—	1,256	682	(112)	1,827
Operating Income (Loss)	(1)	—	(120)	121	—	—
Other Income (Expense):						
Interest income	—	—	—	—	—	—
Interest expense	(112)	(197)	(2)	(6)	—	(317)
Interest income (expense) affiliates, net	421	719	(1,031)	(109)	—	—
Equity in net earnings (losses) of subsidiaries	(673)	(1,172)	78	—	1,767	—
Other income (expense), net	(21)	(23)	6	1	—	(37)
Total Other Expense	(385)	(673)	(949)	(114)	1,767	(354)
Income (Loss) before Income Taxes	(386)	(673)	(1,069)	7	1,767	(354)
Income Tax Expense	—	—	—	(30)	—	(30)
Loss from Continuing Operations	(386)	(673)	(1,069)	(23)	1,767	(384)
Loss From Discontinued Operations, Net	—	—	—	(2)	—	(2)
Net Loss	(386)	(673)	(1,069)	(25)	1,767	(386)
Other Comprehensive Income, Net of Income Taxes	57	57	—	49	(106)	57
Comprehensive Income (Loss)	\$ (329)	\$ (616)	\$ (1,069)	\$ 24	\$ 1,661	\$ (329)

Condensed Consolidating Balance Sheets **June 30, 2012**

	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	\$ 2	\$ 6	\$ 416	\$ 309	\$ —	\$ 733
Restricted cash and securities	—	—	1	7	—	8
Receivables, less allowances for doubtful accounts	—	—	80	609	—	689
Due from (to) affiliates	13,967	15,192	(29,033)	(126)	—	—
Other	3	16	68	80	—	167
Total Current Assets	13,972	15,214	(28,468)	879	—	1,597
Property, Plant, and Equipment, net	—	—	2,860	5,216	—	8,076
Restricted Cash and Securities	15	—	19	15	—	49
Goodwill and Other Intangibles, net	—	—	450	2,355	—	2,805
Investment in Subsidiaries	(11,287)	(19,554)	3,326	—	27,515	—
Other Assets, net	11	115	10	284	—	420
Total Assets	\$ 2,711	\$ (4,225)	\$ (21,803)	\$ 8,749	\$ 27,515	\$ 12,947
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	\$ 1	\$ —	\$ 8	\$ 689	\$ —	\$ 698
Current portion of long-term debt	169	—	2	51	—	222
Accrued payroll and employee benefits	—	—	97	43	—	140
Accrued interest	43	181	—	1	—	225
Current portion of deferred revenue	—	—	105	145	—	250
Other	1	1	31	86	—	119
Total Current Liabilities	214	182	243	1,015	—	1,654
Long-Term Debt, less current portion	1,269	6,781	21	119	—	8,190
Deferred Revenue, less current portion	—	—	607	261	—	868
Other Liabilities	14	102	145	760	—	1,021
Commitments and Contingencies						
Stockholders' Equity (Deficit)	1,214	(11,290)	(22,819)	6,594	27,515	1,214
Total Liabilities and Stockholders' Equity (Deficit)	\$ 2,711	\$ (4,225)	\$ (21,803)	\$ 8,749	\$ 27,515	\$ 12,947

Condensed Consolidating Balance Sheets **December 31, 2011**

	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	\$ 2	\$ 6	\$ 618	\$ 292	\$ —	\$ 918
Restricted cash and securities	—	—	1	9	—	10
Receivables, less allowances for doubtful accounts	—	—	59	589	—	648
Due from (to) affiliates	13,472	14,584	(28,092)	36	—	—
Other	3	16	48	64	—	131
Total Current Assets	13,477	14,606	(27,366)	990	—	1,707
Property, Plant, and Equipment, net	—	—	2,823	5,313	—	8,136
Restricted Cash and Securities	18	—	19	14	—	51
Goodwill and Other Intangibles, net	—	—	481	2,418	—	2,899
Investment in Subsidiaries	(10,718)	(18,467)	3,412	—	25,773	—
Other Assets, net	13	109	6	267	—	395
Total Assets	\$ 2,790	\$ (3,752)	\$ (20,625)	\$ 9,002	\$ 25,773	\$ 13,188
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	\$ —	\$ —	\$ 37	\$ 710	\$ —	\$ 747
Current portion of long-term debt	—	—	2	63	—	65
Accrued payroll and employee benefits	—	—	116	93	—	209
Accrued interest	50	165	—	1	—	216
Current portion of deferred revenue	—	—	107	157	—	264
Other	—	1	52	104	—	157
Total Current Liabilities	50	166	314	1,128	—	1,658
Long-Term Debt, less current portion	1,533	6,688	22	142	—	8,385
Deferred Revenue, less current portion	—	—	612	273	—	885
Other Liabilities	14	116	146	791	—	1,067
Commitments and Contingencies						
Stockholders' Equity (Deficit)	1,193	(10,722)	(21,719)	6,668	25,773	1,193
Total Liabilities and Stockholders' Equity (Deficit)	\$ 2,790	\$ (3,752)	\$ (20,625)	\$ 9,002	\$ 25,773	\$ 13,188

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2012

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
	(dollars in millions)					
Net Cash Provided by (Used in) Operating Activities	\$ (144)	\$ (245)	\$ (66)	\$ 563	\$ —	\$ 108
Cash Flows from Investing Activities:						
Capital Expenditures	—	—	(123)	(195)	—	(318)
Decrease in restricted cash and securities, net	3	—	—	1	—	4
Proceeds from sale of property, plant, and equipment and other assets	—	—	—	5	—	5
Net Cash Provided by (Used in) Investing Activities	3	—	(123)	(189)	—	(309)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	880	—	—	—	880
Payments on and repurchases of long-term debt, including current portion and refinancing costs	—	(825)	—	(38)	—	(863)
Proceeds from stock options exercised	1	—	—	—	—	1
Increase (decrease) due from affiliates, net	140	190	(13)	(317)	—	—
Net Cash Provided by (Used in) Financing Activities	141	245	(13)	(355)	—	18
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(2)	—	(2)
Net Change in Cash and Cash Equivalents	—	—	(202)	17	—	(185)
Cash and Cash Equivalents at Beginning of Period	2	6	618	292	—	918
Cash and Cash Equivalents at End of Period	\$ 2	\$ 6	\$ 416	\$ 309	\$ —	\$ 733

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2011

	Level 3 Communications, Inc	Level 3 Financing, Inc	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
	(dollars in millions)					
Net Cash Provided by (Used in) Operating Activities of Continuing Operations	\$ (82)	\$ (180)	\$ 85	\$ 309	\$ —	\$ 132
Cash Flows from Investing Activities:						
Capital Expenditures	—	—	(94)	(143)	—	(237)
Increase in restricted cash and securities, net	—	—	—	(34)	—	(34)
Proceeds from sale of property, plant, and equipment and other assets	—	—	1	3	—	4
Net Cash Used in Investing Activities of Continuing Operations	—	—	(93)	(174)	—	(267)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	292	474	—	—	—	766
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(197)	(463)	—	(2)	—	(662)
Increase (decrease) due from affiliates, net	(30)	169	8	(147)	—	—
Net Cash Provided by (Used in) Financing Activities of Continuing Operations	65	180	8	(149)	—	104
Net Cash Used in Discontinued Operations	—	—	—	(4)	—	(4)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	3	—	3
Net Change in Cash and Cash Equivalents	(17)	—	—	(15)	—	(32)
Cash and Cash Equivalents at Beginning of Period	173	7	350	86	—	616
Cash and Cash Equivalents at End of Period	\$ 156	\$ 7	\$ 350	\$ 71	\$ —	\$ 584

(13) Subsequent Events

In August 2012, the Company completed the offering of \$ 300 million aggregate principal amount of its 8.875% Senior Notes due 2019 ("8.875% Senior Notes") in a private offering to "qualified institutional buyers," as defined in Rule 144A under the Securities Act of 1933, as amended, and non-U.S. persons outside the United States under Regulation S under the Securities Act of 1933, as amended. The new 8.875% Senior Notes were priced to investors at 100% of their principal amount and will mature on June 1, 2019. The 8.875% Senior Notes will not be guaranteed by any of the Company's subsidiaries. The net proceeds from the offering of the notes will be used for general corporate purposes, including the potential repurchase, redemption, repayment or refinancing of the Company's and its subsidiaries' existing indebtedness from time to time.

The 8.875% Senior Notes will not be registered under the Securities Act of 1933 or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. In connection with the offering, the Company entered into a registration rights agreement pursuant to which Level 3 agreed to file a registration statement to exchange the offered notes with new notes that are substantially identical in all material respects, and to use commercially reasonable efforts to cause the registration statement to be declared effective no later than 270 days after the issuance of the offered notes.

Also in August 2012, Level 3 Financing, Inc. completed the offering of \$ 775 million aggregate principal amount of its 7% Senior Notes due 2020 ("7% Senior Notes") in a private offering to "qualified institutional buyers," as defined in Rule 144A under the Securities Act of 1933, as amended, and non-U.S. persons outside the United States under Regulation S under the Securities Act of 1933, as amended. The new 7% Senior Notes were priced to investors at 100% of their principal amount and will mature on June 1, 2020. The 7% Senior Notes are guaranteed on an unsecured basis by Level 3 Communications, Inc., and subject to receipt of applicable regulatory approvals will be guaranteed on an unsecured basis by Level 3 Communications, LLC. The net proceeds from the offering of the notes, along with cash on hand were used to call for redemption all of the outstanding 8.75% Senior Notes due 2017 issued by Level 3 Financing, Inc., including the payment of accrued interest and applicable premiums, and in connection with that redemption, the indenture relating to the 8.75% Senior Notes due 2017 was discharged.

The 7% Senior Notes will not be registered under the Securities Act of 1933 or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. In connection with the offering, the Company and Level 3 Financing, Inc. entered into a registration rights agreement pursuant to which Level 3 and Level 3 Financing, Inc. agreed to file a registration statement to exchange the offered notes with new notes that are substantially identical in all material respects, and to use commercially reasonable efforts to cause the registration statement to be declared effective no later than 270 days after the issuance of the offered notes.

Also in August, 2012, Level 3 Financing, Inc. refinanced its existing \$ 1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$ 1.415 billion (the "New Term Loans") and received consents from the existing lenders to approve certain amendments to the existing senior secured credit facility. The New Term Loans were borrowed pursuant to an amended and restated credit agreement, which reflects the amendments approved by the lenders. The New Term Loans consist of: (a) a \$ 600 million senior secured term loan which matures on February 1, 2016 (the "Tranche B 2016 Loan"), and (b) a \$ 815 million senior secured term loan which matures on August 1, 2019 (the "Tranche B 2019 Loan"). The interest rates on the loans are LIBOR plus 3.25 percent for the Tranche B 2016 Loan and LIBOR plus 3.75 percent for the Tranche B 2019 Loan, with LIBOR set at a minimum of 1.5 percent on both loans. The Tranche B 2016 Loan and the Tranche B 2019 Loan were priced at 99.5 percent and 99.0 percent of par, respectively. The Company used the net proceeds from the New Term Loans, along with cash on hand, to repay Level 3 Financing, Inc.'s \$ 1.4 billion Tranche A Term Loan under the existing credit agreement maturing in March 2014 and will use net proceeds along with cash on hand to repay \$ 15 million in principal amount plus premium for existing vendor financing obligations.

Level 3 Financing, Inc. also has in place two interest rate swap agreements maturing in early 2014 that effectively hedged the interest rate on a portion of the Tranche A Term Loan that was refinanced. As a result of the refinancing, the Company expects that the swap agreements will be deemed “ineffective” under GAAP and it will recognize a non-cash loss on the agreements which could be as much as \$ 66 million (excluding accrued interest) in third quarter of 2012. Going forward, the Company will reflect the change in fair value of the swap in Other Income in its Consolidated Statement of Operations on a quarterly basis until maturity in early 2014.

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, as amended, for the year ended December 31, 2011 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, as amended, for the year ended December 31, 2011 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 up-front payments for services to be delivered for a period of generally up to 20 years. In these situations, Level 3 defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract.

On October 4, 2011, a wholly owned subsidiary of Level 3 completed its amalgamation with Global Crossing and the amalgamated entity became an indirect wholly owned subsidiary of the Company through a tax free, stock for stock transaction (the "Amalgamation"). In addition, after the close of business on October 19, 2011, Level 3 completed a 1 for 15 reverse stock split as previously approved by the Company's stockholders in connection with its announcement to transfer the listing of its common stock to the New York Stock Exchange on October 20, 2011. The reverse stock split automatically combined every fifteen shares of issued and outstanding Level 3 common stock into one share of common stock without any change in the par value per share. All share and per share references for all periods presented have been adjusted to give effect to the reverse stock split.

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

Business Strategy and Objectives

The Company pursues the strategies discussed in Item 1. Business, "Business Overview and Strategy" as discussed in its Form 10-K, as amended, for the year ended December 31, 2011. In particular, with respect to strategic financial objectives, the Company focuses its attention on the following:

- growing Core Network Services revenue by increasing sales;
- continually improving the customer experience to increase customer retention and reduce customer churn;
- completing the integration of acquired businesses;

- reducing network costs and operating expenses;
- achieving sustainable generation of positive cash flows from operations in excess of capital expenditures;
- continuing to show improvement in Adjusted EBITDA (as defined in this Item below) as a percentage of revenue;
- concentrating its capital expenditures on those technologies and assets that enable the Company to develop its Core Network Services;
- managing Wholesale Voice Services for margin contribution; and
- refinancing its future debt maturities.

The Company's management continues to review all existing lines of business and service offerings to determine how those lines of business and service offerings enhance the Company's focus on 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 successful integration of acquired businesses into Level 3, including Global Crossing, is important to the success of Level 3. The Company must identify synergies and integrate acquired networks and support organizations, while maintaining the service quality levels expected by customers to realize the anticipated benefits of any acquisition. Successful integration of any acquired businesses will depend on the Company's ability to manage the operations, realize opportunities for revenue growth presented by strengthened service offerings and expanded geographic market coverage, and eliminate redundant and excess costs to fully realize the expected synergies. If the Company is not able to efficiently and effectively integrate any businesses or operations it acquires, the Company may experience material negative consequences to its business, financial condition or results of operations.

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

In August 2012, the Company completed the offering of \$300 million aggregate principal amount of its 8.875% Senior Notes due 2019 in a private offering. The net proceeds from the offering of the notes will be used for general corporate purposes, including the potential repurchase, redemption, repayment or refinancing of the Company's and its subsidiaries' existing indebtedness from time to time. See Note 13 - Subsequent Events in the notes to the consolidated financial statements for additional information.

Also in August 2012, Level 3 Financing, Inc. completed the offering of \$775 million aggregate principal amount of its 7% Senior Notes due 2020 in a private offering. The net proceeds from the offering of the notes, along with cash on hand, were used to call for redemption all of the Company's outstanding 8.75% Senior Notes due 2017, including the payment of accrued interest and applicable premiums. See Note 13 - Subsequent Events in the notes to the consolidated financial statements for additional information.

Also in August 2012, Level 3 Financing, Inc. refinanced its existing \$1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$1.415 billion (the "New Term Loans") and received consents from existing lenders to approve certain amendments to the existing senior secured credit facility. The Company used the net proceeds from the New Term Loans, along with cash on hand, to repay Level 3 Financing, Inc.'s \$1.4 billion Tranche A Term Loan under the existing credit agreement maturing in March 2014 and will use net proceeds along with cash on hand to repay \$15 million in principal amount plus premium for existing vendor financing obligations. See Note 13 - Subsequent Events in the notes to the consolidated financial statements for additional information.

In March 2012, the Company exchanged approximately \$100 million aggregate principal amount of its outstanding 15% Convertible Senior Notes due 2013 for approximately 3.7 million shares of Level 3's common stock into which the notes were convertible plus an additional 1.7 million shares for a total of approximately 5.4 million shares. See Note 8 - Long-Term Debt in the notes to the consolidated financial statements for additional information.

In January 2012, Level 3 Financing, Inc., a first-tier, wholly owned subsidiary of Level 3, issued \$900 million aggregate principal amount of its 8.625% Senior Notes due 2020 in a private transaction. A portion of the net proceeds from the offering were used in February 2012 to redeem all of Level 3 Financing's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million.

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

Revenue and Service Offering

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Core Network Services:				
North America - Wholesale Channel	\$ 382	\$ 332	\$ 763	\$ 659
North America - Enterprise Channel	621	331	1,231	654
EMEA - Wholesale Channel	91	51	183	101
EMEA - Enterprise Channel	81	28	160	56
EMEA - U.K. Government Channel	42	—	90	—
Latin America - Wholesale Channel	33	1	67	2
Latin America - Enterprise Channel	136	1	274	1
Total Core Network Services	\$ 1,386	\$ 744	\$ 2,768	\$ 1,473
Wholesale Voice Services and Other	200	169	404	354
Total Revenue	\$ 1,586	\$ 913	\$ 3,172	\$ 1,827

Total revenue consists of:

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

Core Network Services revenue represents higher margin services and Wholesale Voice Services and Other revenue represents lower margin services. Core Network Services revenue requires different levels of investment and focus and provides different contributions to the Company's operating results than Wholesale Voice Services and Other revenue. Management of Level 3 believes that growth in revenue from its Core Network Services is critical to the long-term success of its business. The Company also believes it must continue to effectively manage gross margin contribution from the Wholesale Voice Services component and the positive cash flows from the Other revenue component of Wholesale Voice Services and Other revenue. The Company believes that trends in its communications business are best gauged by analyzing revenue changes in Core Network Services.

Core Network Services

Growth in transport 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 up-front payments for private line, wavelength or dark fiber services. The Company is focused on providing end-to-end transport and fiber services to its customers to directly connect customer locations with a private network. Pricing for end-to-end metropolitan transport services have been relatively stable. For intercity transport and fiber services, the Company continues to experience pricing pressure for point-to-point locations, particularly in locations where a large number of carriers co-locate their facilities. An increase in demand may be offset by declines in unit pricing.

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 45 countries. These services are secure, redundant and flexible to fit the varying needs of the Company's customers. Services include hosting network equipment used to transport high speed data and voice over Level 3's global network; providing managed IT services (hosting), installation, maintenance, storage and monitoring of enterprise services; and providing comprehensive IT outsource solutions.

IP and data services primarily include the Company's high speed Internet protocol service ("IP"), dedicated Internet access ("DIA") service, Asynchronous Transfer mode ("ATM") and frame relay services, virtual private network ("VPN") services, content delivery network ("CDN") service, media delivery service, Vyvx broadcast service and Converged Business Network service. 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.

The Company believes that one of the largest sources of future incremental demand for the Company's Core Network Services will be from customers that are seeking to distribute their feature rich content or video over the Internet. Revenue growth in this area is dependent on the continued increase in demand from customers and the pricing environment. An increase in the reliability and security of information transmitted over the Internet and declines in the cost to transmit data have resulted in increased utilization of e-commerce or web based services by businesses. Although the pricing for data services is currently relatively stable, the IP market is generally characterized by price compression and high unit growth rates depending upon the type of service. The Company experienced price compression in the high-speed IP and voice services markets in 2011, which has continued in 2012.

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 enterprises and regional service providers who buy services regionally or locally, as well as government markets, including the U.S. federal government, the systems integrators supporting the U.S. federal government, U.S. state and local governments, academic consortia, and certain academic institutions. Included in the enterprise channel, but broken out separately in the table above, is the U.K. government channel, which includes revenue primarily from the government sector in the U.K.
- The wholesale channel includes revenue from incumbent and alternative carriers in each of the regions, global carriers, wireless carriers, cable companies, satellite companies, and voice service providers.

The Company believes that the alignment of Core Network Services around channels should allow it to drive growth while enabling it to better focus on the needs of its customers. Each of these channels is supported by

dedicated employees in sales. Each of these channels is also supported by non-dedicated, centralized service delivery and management, product management and development, corporate marketing, global network services, engineering, information technology, and corporate functions, including legal, finance, strategy and human resources.

Wholesale Voice Services and Other

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

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

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

For a detailed description of the Company's broad range of communications services, please see Item 1. Business - "Our Services Offerings" of the Company's Form 10-K, as amended, for the year ended December 31, 2011 filed with the Securities and Exchange Commission.

Critical Accounting Policies

Refer to Item 7 of the Company's Form 10-K, as amended, for the year ended December 31, 2011 for a description of the Company's critical accounting policies.

Results of Operations for the Three and Six Months Ended June 30, 2012 and 2011:

(dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change %	2012	2011	Change %
Revenue	\$ 1,586	\$ 913	74 %	\$ 3,172	\$ 1,827	74 %
Cost of Revenue	648	347	87 %	1,305	704	85 %
Depreciation and Amortization	191	206	(7)%	378	409	(8)%
Selling, General and Administrative	610	357	71 %	1,232	714	73 %
Restructuring Charges	4	—	NM	8	—	NM
Total Costs and Expenses	1,453	910	60 %	2,923	1,827	60 %
Operating Income	133	3	NM	249	—	NM
Other Income (Expense):						
Interest income	1	—	NM	2	—	NM
Interest expense	(181)	(160)	13 %	(370)	(317)	17 %
Loss on extinguishment of debt, net	—	(23)	(100)%	(61)	(43)	42 %
Other, net	(7)	3	NM	2	6	(67)%
Total Other Expense	(187)	(180)	4 %	(427)	(354)	21 %
Loss Before Income Taxes	(54)	(177)	(69)%	(178)	(354)	(50)%
Income Tax Expense	(8)	(3)	167 %	(22)	(30)	(27)%
Loss from Continuing Operations	(62)	(180)	(66)%	(200)	(384)	(48)%
Loss from Discontinued Operations, Net	—	(1)	(100)%	—	(2)	(100)%
Net Loss	<u>\$ (62)</u>	<u>\$ (181)</u>	<u>(66)%</u>	<u>\$ (200)</u>	<u>\$ (386)</u>	<u>(48)%</u>

NM — Not meaningful

Discussion of all significant variances:

Total Revenue by Service Offering

(dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change %	2012	2011	Change %
Core Network Services	\$ 1,386	\$ 744	86%	\$ 2,768	\$ 1,473	88%
Wholesale Voice Services and Other	200	169	18%	404	354	14%
Total Revenue	<u>\$ 1,586</u>	<u>\$ 913</u>	74%	<u>\$ 3,172</u>	<u>\$ 1,827</u>	74%

Revenue increased 74% to \$1.586 billion in the three months ended June 30, 2012 from \$913 million in the same period of 2011 and increased 74% to \$ 3.172 billion in the six months ended June 30, 2012 from \$ 1.827 billion in the same period of 2011. The increase is primarily driven by the additional revenue associated with the Global Crossing acquisition completed in the fourth quarter of 2011. Excluding revenue from the Global Crossing acquisition, revenue from enterprise customers contributed to the growth in Core Network Services revenue.

The Company experienced growth in each of its service offerings during the three and six months ended June 30, 2012 compared to the same periods in 2011 as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, strong revenue growth in IP and data services and voice services during the three and six months ended June 30, 2012 was driven primarily by end customer demand for content delivery over the internet and enterprise bandwidth, as well as increased usage for voice services. Growth in transport and fiber services and collocation and datacenter services was more modest during the first half of 2012.

Core Network Services revenue increased in the North America, EMEA and Latin America regions during the three and six months ended June 30, 2012 compared to the same periods of 2011 primarily as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, revenue increased in the North America region during the three and six months ended June 30, 2012 compared to the same periods of 2011.

Wholesale Voice Services and Other revenue increased in the three and six months ended June 30, 2012 compared to the same periods in 2011 as a result of the Global Crossing acquisition. Excluding revenue from the Global Crossing acquisition, Wholesale Voice Services and Other revenue decreased in the three and six months ended June 30, 2012 due to declines in usage. The Company continues to manage its combined wholesale voice services platform for margin growth, and expects continued volatility in revenue as a result of this strategy. In addition, the Company expects managed modem and SBC Contract Services revenue to continue to decline due to an increase in the number of subscribers migrating to broadband services and as a result of the migration of the SBC traffic to the AT&T network, respectively.

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

Cost of revenue as a percentage of total revenue was 41% in both the three and six months ended June 30, 2012 compared to 38% and 39% in the same periods of the prior year. The increase is due to inclusion of costs associated with the Global Crossing acquisition, which has lower gross margins, in the current year periods compared to the same periods of 2011. This increase was partially offset by an improving gross margin mix from higher margin on-net Core Network Services and a decrease in lower margin Wholesale Voice Services and Other. Additionally, the Company continues to implement initiatives to reduce both fixed and variable network expenses.

Depreciation and Amortization expense decreased 7% to \$191 million in the three months ended June 30, 2012 from \$206 million in the same period in 2011 and decreased 8% to \$ 378 million in the six months ended

June 30, 2012 from \$ 409 million in the same period in 2011. The decrease is attributable to a change in the estimated useful lives of certain of the Company's property, plant and equipment that resulted in a reduction of depreciation expense in the first half of 2012 compared to the same period of 2011. The change in accounting estimate was applied on a prospective basis effective October 1, 2011 as required under the accounting standard related to changes in accounting estimates. This decrease was partially offset by additional depreciation and amortization as a result of the Global Crossing acquisition.

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

SG&A expenses increased 71% to \$610 million in the three months ended June 30, 2012 compared to \$357 million in the same period of 2011 and increased 73% to \$ 1.232 billion in the six months ended June 30, 2012 from \$ 714 million in the same period in 2011. The increase is primarily due to SG&A expenses associated with the Global Crossing acquisition, including integration costs of approximately \$17 million and \$32 million for the three and six months ended June 30, 2012, higher employee compensation and related costs as the Company continued to increase its sales, support and customer service delivery headcount since the first half of 2011, and merit increases effective in the first quarter of 2012. These increases were partially offset by cost synergies achieved as a result of the Global Crossing acquisition in the three and six months ended June 30, 2012 .

Also included in SG&A expenses in the three and six months ended June 30, 2012 were \$29 million and \$53 million, respectively, and in the three and six months ended June 30, 2011 , \$17 million and \$42 million, respectively, of non-cash, stock-based compensation expenses related to grants of outperform stock options, restricted stock units, accruals for the Company's discretionary bonus, incentive and retention plans and shares issued for the Company's matching contribution for the 401(k) plan.

Restructuring Charges in the three and six months ended June 30, 2012 were \$4 million and \$ 8 million , respectively, compared to less than \$1 million in the same periods of 2011. The increase in the three and six months ended June 30, 2012 compared to the same periods of 2011 was primarily due to reductions in headcount associated with the Global Crossing acquisition, as the Company had not initiated any significant new workforce reduction plans in 2011.

The Company may initiate additional restructuring activities in 2012 in connection with the efforts to optimize its cost structure or in connection with the Amalgamation of Global Crossing. Additional restructuring activities could result in additional headcount reductions and related charges.

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

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

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income

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

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

The following information provides a reconciliation of Net Income (Loss) to Adjusted EBITDA as defined by the Company (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Loss	\$ (62)	\$ (181)	\$ (200)	\$ (386)
Income Tax Expense	8	3	22	30
Total Other Expense	187	180	427	354
Depreciation and Amortization Expense	191	206	378	409
Non-Cash Compensation Expense	29	17	53	42
Discontinued Operations of Coal Mining Business	—	1	—	2
Adjusted EBITDA	<u>\$ 353</u>	<u>\$ 226</u>	<u>\$ 680</u>	<u>\$ 451</u>

Consolidated Adjusted EBITDA was \$353 million in the three months ended June 30, 2012 compared to \$226 million in the same period of 2011 and was \$680 million in the six months ended June 30, 2012 compared to \$451 million in the same period of 2011. The increase in Adjusted EBITDA in the three and six months ended June 30, 2012 is primarily attributable to Adjusted EBITDA associated with the Global Crossing acquisition and growth in the Company's higher incremental margin Core Network Services revenue and continued improvements in cost of revenue.

Interest Expense increased 13% to \$ 181 million in the three month ended June 30, 2012 from \$ 160 million in the same period of 2011 and increased 17% to \$ 370 million in the six months ended June 30, 2012 from \$ 317 million in the same period of 2011. Interest expense increased as a result of higher average debt balance for 2012 compared to 2011, including financing associated with the Global Crossing acquisition, partially offset by lower cost of borrowing on refinanced debt.

The Company expects annual interest expense in 2012 to be approximately \$740 million based on the Company's outstanding debt as of June 30, 2012, and taking into consideration the current interest rates on the Company's variable rate debt and the August 2012 issuance of \$300 million aggregate principal amount of 8.875% Senior Notes due 2019, the \$775 million aggregate principal amount of 7% Senior Notes due 2020 marketed in August 2012 (including the redemption of the Company's 8.75% Senior Notes due 2017), and the incurrence of \$1.415 billion of New Term Loans under the amended and restated credit agreement (along with the repayment of the existing \$1.4 billion Tranche A Term Loan and \$15 million for existing vendor financing obligations). See Note 8 - Long-Term Debt and Note 13 - Subsequent Events of the Notes to Consolidated Financial Statements for more details regarding the Company's financing activities.

Loss on Extinguishment of Debt, net was nil and \$ 61 million in the three and six months ended June 30, 2012 , compared to a loss of \$ 23 million and \$ 43 million in the three and six months ended June 30, 2011 . The loss recorded during 2012 was related to a charge of approximately \$22 million related to the redemption of the 9.25% Senior Notes due 2014 and a charge of approximately \$39 million as a result of the exchange of a portion of the 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of Level 3 stock. The loss recorded during 2011 was related to a \$23 million charge recognized for the portion of the 9.25% Senior Notes due 2014 redeemed in April 2011 and a \$20 million charge recorded in the first quarter of 2011 resulting from the redemption of the 5.25% Convertible Senior Notes due 2011 in February 2011 and the exchange of the 9% Convertible Senior Discount Notes due 2013 in January 2011. See Note 8 - Long-Term Debt, of the Notes to the Consolidated Financial Statements for more details regarding the Company's financing activities.

The Company may enter into additional transactions in the future to repurchase or exchange existing debt that may result in gains or losses on the extinguishment of debt.

Other, net was \$ 7 million of expense and \$ 2 million of income in the three and six months ended June 30, 2012 compared to \$ 3 million and \$ 6 million of income in the same periods of the prior year. Other, net is primarily comprised of foreign currency gains and losses, gains and losses on the sale of non-operating assets and other income.

Income Tax Expense was \$ 8 million and \$ 22 million in the three and six months ended June 30, 2012 compared to \$ 3 million and \$ 30 million in the same periods of 2011. The income tax expense in 2012 was primarily related to income taxes for Latin American entities acquired as part of the Global Crossing acquisition. The income tax expense during the six months ended June 30, 2011 is primarily related to an out of period adjustment due to taxable temporary differences associated with certain indefinite-lived intangible assets that the Company is unable to offset with deductible temporary differences.

The Company also incurs income tax expense attributable to income in various Level 3 subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. The Company also recognizes accrued interest and penalties in income tax expense related to uncertain tax benefits.

Loss from Discontinued Operations was \$ 1 million and \$2 million in the three and six months ended June 30, 2011 , respectively. Level 3 sold its coal mining business in the fourth quarter of 2011, and accordingly, reflected the coal mining business as discontinued operations in 2011.

Financial Condition — For the six months ended June 30, 2012 and 2011

Cash flows provided by operating activities, investing activities and financing activities for the six months ended June 30, 2012 and 2011, respectively, are summarized as follows:

(dollars in millions)	Six Months Ended June 30,		
	2012	2011	Change
Net Cash Provided by Operating Activities of Continuing Operations	\$ 108	\$ 132	\$ (24)
Net Cash Used in Investing Activities of Continuing Operations	(309)	(267)	(42)
Net Cash Provided by Financing Activities of Continuing Operations	18	104	(86)
Net Cash Used in Discontinued Operations	—	(4)	4
Effect of Exchange Rates on Cash and Cash Equivalents	(2)	3	(5)
Net Change in Cash and Cash Equivalents	<u>\$ (185)</u>	<u>\$ (32)</u>	<u>\$ (153)</u>

Operating Activities of Continuing Operations

Cash provided by operating activities of continuing operations was \$ 108 million in the six months ended June 30, 2012 compared with cash provided by operating activities of \$ 132 million in the same period in 2011. The decrease in cash provided by operating activities of continuing operations was primarily due to higher interest paid and an increase in the use of cash for working capital items, including a reduction in payables related to legacy Global Crossing suppliers, during the first half of 2012.

Investing Activities of Continuing Operations

Cash used in investing activities of continuing operations increased in the six months ended June 30, 2012 compared to the same period of 2011 as a result of additional capital expenditures, which totaled \$ 318 million in the six months ended June 30, 2012 compared to \$ 237 million in the same period of the prior year. The increase was primarily driven by the inclusion of Global Crossing in the Company's results since the acquisition date.

Financing Activities of Continuing Operations

Cash provided by financing activities of continuing operations decreased in the six months ended June 30, 2012 compared to the same period of 2011 as a result of greater payments on and repurchases of debt and capital leases during 2012. See Note 8 - Long-Term Debt, of the Notes to the Consolidated Financial Statements for more details regarding the Company's debt transactions during 2012.

Cash Flows of Discontinued Operations

Net cash used in discontinued operations was \$ 4 million in the six months ended June 30, 2011 . The Company completed the sale of its coal mining business on November 14, 2011.

Liquidity and Capital Resources

The Company incurred a net loss of \$ 200 million in the six months ended June 30, 2012 and \$ 386 million in the same period of 2011. In connection with its continuing operations, the Company used \$318 million for capital expenditures and \$18 million of cash was provided by financing activities in the six months ended June 30, 2012. This compares to \$237 million of cash used for capital expenditures and \$104 million of cash flows provided by financing activities in the same period of the prior year.

Net cash interest payments are expected to increase to approximately \$710 million in 2012 from the \$576 million made in 2011 based on forecasted interest rates on the Company's variable rate debt outstanding as of June 30, 2012 and the August 2012 issuance of \$300 million aggregate principal amount of 8.875% Senior Notes due 2019, the \$775 million aggregate principal amount of 7% Senior Notes due 2020 marketed in August 2012 (including the redemption of the Company's 8.75% Senior Notes due 2017), and the incurrence of \$1.415 billion of New Term Loans under the amended and restated credit agreement (along with the repayment of the existing \$1.4 billion Tranche A Term Loan and \$15 million for existing vendor financing obligations).

Capital expenditures for 2012 are expected to remain constant as a percentage of revenue with 2011, as the Company invests in base capital expenditures (estimated capital required to keep the network operating efficiently and support new service development) with the remaining capital expenditures expected to be partly success-based, which is tied to a specific customer revenue opportunity, and partly project-based where capital is used to expand the network based on the Company's expectation that the project will eventually lead to incremental revenue. As of June 30, 2012 , the Company had debt contractual obligations, including capital lease and commercial mortgage obligations, and excluding interest, premium and discounts on debt issuance and fair value adjustments, of \$32 million in the remaining six months in 2012, \$211 million in 2013 and \$1.425 billion in 2014.

In August 2012, the Company completed the offering of \$300 million aggregate principal amount of its 8.875% Senior Notes due 2019 in a private offering. The net proceeds from the offering of the notes will be used for general corporate purposes, including the potential repurchase, redemption, repayment or refinancing of the Company's and its subsidiaries' existing indebtedness from time to time.

Also in August 2012, Level 3 Financing, Inc. completed the offering of \$775 million aggregate principal amount

t of its 7% Senior Notes due 2020 in a private offering. The net proceeds from the offering of the notes, along with cash on hand, were used to call for redemption all of the Company's outstanding 8.75% Senior Notes due 2017, including the payment of accrued interest and applicable premiums.

Also in August 2012, Level 3 Financing, Inc. refinanced its existing \$1.4 billion Tranche A Term Loan under its existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of \$1.415 billion and received consents from existing lenders to approve certain amendments to the existing senior secured credit facility. The Company used the net proceeds from the New Term Loans, along with cash on hand, to repay Level 3 Financing, Inc.'s \$1.4 billion Tranche A Term Loan under the existing credit agreement maturing in March 2014 and will use net proceeds along with cash on hand to repay \$15 million in principal amount plus premium for existing vendor financing obligations.

In March 2012, the Company entered into an exchange agreement for a portion of its 15% Convertible Senior Notes due 2013. Pursuant to the agreement, approximately \$100 million aggregate principal amount of Level 3's outstanding 15% Convertible Senior Notes due 2013 were exchanged for approximately 3.7 million shares of Level 3's common stock into which the notes were convertible plus an additional 1.7 million shares for a total of approximately 5.4 million shares. The consideration was based on the market price for these notes which included an inducement premium and included a payment for accrued and unpaid interest from January 15, 2012 through March 15, 2012 of approximately \$2 million. This transaction did not include the payment by the Company of any cash. The Company recognized a loss on extinguishment of \$39 million in the first quarter of 2012 as a result of this exchange of the 15% Convertible Senior Notes due 2013. The transaction will reduce cash interest expense by approximately \$15 million on an annual basis.

In January 2012, Level 3 Financing, Inc. issued \$900 million aggregate principal amount of its 8.625% Senior Notes due 2020 in a private transaction. A portion of the net proceeds from the offering were used to redeem all of Level 3 Financing's outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of \$807 million. The Company recognized a loss on extinguishment of \$22 million in the first quarter of 2012 as a result of the redemption of the 9.25% Senior Notes due 2014. The remaining proceeds constitute purchase money indebtedness under the existing senior secured credit agreement and indentures of Level 3 and will be used solely to fund the cost of construction, installation, acquisition, lease, development or improvement of any Telecommunications/IS Assets (as defined in the existing senior secured credit agreement and indentures of Level 3), including the cash purchase price of any past, pending or future acquisitions.

For information related to financing activities that occurred during 2011, see Item 7 of the Company's Form 10-K, as amended, for the year ended December 31, 2011.

Level 3 had \$ 733 million of cash and cash equivalents on hand at June 30, 2012 . In addition, \$57 million of current and non-current restricted cash and securities are used to collateralize outstanding letters of credit, long-term debt, and certain operating obligations of the Company. Based on information available at this time, the Company believes that its current liquidity and anticipated future cash flows from operations will be sufficient to fund its business for at least the next twelve months.

The Company may need to refinance all or a portion of its indebtedness at or before maturity and cannot provide assurances that it will be able to refinance any such indebtedness on commercially reasonable terms or at all. In addition, the Company may elect to secure additional capital in the future, at acceptable terms, to improve its liquidity or fund acquisitions. In addition, in an effort to reduce future cash interest payments as well as future amounts due at maturity or to extend debt maturities, Level 3 or its affiliates 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. Level 3 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. Level 3 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 June 30, 2012, the Company had borrowed a total of approximately \$2.9 billion primarily under a Senior Secured Term Loan (excluding discounts) and Floating Rate Senior Notes due 2015 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. The weighted average interest rate on the variable rate instruments at June 30, 2012, was approximately 4.1%.

In March 2007, Level 3 Financing, Inc. entered into two interest rate swap agreements to hedge the interest payments on \$1 billion notional amount of floating rate debt. The two interest rate swap agreements are with different counterparties and are for \$500 million each. The interest rate swap agreements were effective beginning in 2007 and mature in January 2014. Under the terms of the interest rate swap agreements, Level 3 receives interest payments based on rolling three month LIBOR terms and pays interest at the fixed rate of 4.93% under one arrangement and 4.92% under the other. Level 3 has designated the interest rate swap agreements as a cash flow hedge on the interest payments for \$1 billion of floating rate debt. See Note 13 - Subsequent Events of the Notes to Consolidated Financial Statements for more details regarding the Company's interest rate swaps.

The remaining, or unhedged, variable rate debt of approximately \$1.9 billion has a weighted average interest rate of 4.9% at June 30, 2012. A hypothetical increase in the weighted average rate by 1% point (i.e. a weighted average rate of 5.9%) would increase the Company's annual interest expense by approximately \$19 million. At June 30, 2012, the Company had \$5.6 billion (excluding fair value adjustments, discounts and premiums) of fixed rate debt bearing a weighted average interest rate of 9.1%. A decline in interest rates in the future will not 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. Future earnings and losses will be affected by actual fluctuations in interest rates and foreign currency rates.

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

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 June 30, 2012. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal controls.* The Company completed the amalgamation of Global Crossing on October 4, 2011. The Company is currently integrating policies, processes, people, technology, and operations of the combined Company. Management will continue to evaluate the Company's internal controls over financial reporting as it continues its integration of Global Crossing. There were no other changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the second quarter of 2012 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 11, "Commitments, Contingencies and Other Items," to our consolidated financial statements included in this quarterly report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. "Risk Factors" in Level 3's Form 10-K, as amended, for the year ended December 31, 2011, which could materially affect Level 3's business, financial condition or future results. The risks described in Level 3's Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to Level 3 or that it currently deems to be immaterial also may materially adversely affect Level 3's business, financial condition and/or operating results. There has not been a material change from the risk factors included in the Company's Form 10-K, as amended, for the year ended December 31, 2011, as supplemented by the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2012.

Item 6. Exhibits

Exhibits incorporated by reference are indicated in parentheses.

3.1.1	Certificate of Amendment of Restated Certificate of Incorporation of Level 3 Communications, Inc.
3.1.2	Conformed Copy of Restated Certificate of Incorporation of Level 3 Communications, Inc.
10.1	Level 3 Communications, Inc. Stock Plan, effective May 24, 2012 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 25, 2012).
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 June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Loss, (iii) Supplementary Stockholders' Equity Information, (iv) Consolidated Balance Sheets, (v) Consolidated Statements of Cash flows and (vi) Notes to Consolidated Financial Statements†.

† Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

LEVEL 3 COMMUNICATIONS, INC.

Dated: August 6, 2012

/s/ Eric J. Mortensen

Eric J. Mortensen

Senior Vice President, Controller and Principal Accounting Officer

CERTIFICATE OF AMENDMENT
of
RESTATED CERTIFICATE OF INCORPORATION
of
LEVEL 3 COMMUNICATIONS, INC.

The undersigned, being a duly appointed officer of Level 3 Communications, Inc. (the “Corporation”), a corporation organized and existing under and by virtue of the Delaware General Corporation Law (the “DGCL”), for the purpose of amending the Corporation's Restated Certificate of Incorporation, as amended (the “Restated Certificate of Incorporation”) filed pursuant to Section 102 of the DGCL, hereby certifies, pursuant to Sections 242 and 103 of the DGCL, as follows:

First : That the Board of Directors of the Corporation, at a meeting of the Board of Directors of the Corporation, adopted resolutions setting forth a certain proposed amendment to the Restated Certificate of Incorporation, as amended, declaring said amendment to be advisable, calling for the stockholders of the Corporation to consider said amendment at the next meeting of the stockholders and calling for a special meeting of the stockholders of said corporation for consideration thereof.

Second : The amendment effected hereby was duly authorized by the Corporation's Board of Directors and stockholders in accordance with the provisions of Sections 141, 228 and 242 of the DGCL and shall be executed, acknowledged and filed in accordance with Section 103 of the DGCL.

Third : That Article IV of the Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on May 22, 2008, as amended on May 27, 2009, May 25, 2010, October 3, 2011 and October 19, 2011, is hereby amended in its entirety to read as follows:

“ARTICLE IV
AUTHORIZED CAPITAL STOCK

The total number of shares of capital stock which the Corporation shall have the authority to issue is 353,333,333 shares, consisting of 343,333,333 shares of Common Stock, par value \$.01 per share (the “Common Stock”) and 10,000,000 shares of Preferred Stock, par value \$.01 per share (“Preferred Stock”).

Fourth: That the capital of the Corporation shall not be reduced under or by reason of said amendments.

IN WITNESS WHEREOF, this Certificate of Amendment has been signed this 30th day of May, 2012 by the undersigned who affirms the statements contained herein as true under penalties of perjury.

LEVEL 3 COMMUNICATIONS, INC.

BY: /s/ Thomas C. Stortz

NAME: Thomas C. Stortz

TITLE: Executive Vice President, Chief
Administrative Officer and Secretary

CONFORMED COPY TO REFLECT AMENDMENTS MADE THROUGH MAY 30, 2012

* * *

**RESTATED CERTIFICATE OF INCORPORATION
OF
LEVEL 3 COMMUNICATIONS, INC.**

Pursuant to Section 242 and 245
of the Delaware General Corporation Law

**ARTICLE I
NAME**

The name of the Corporation is: Level 3 Communications, Inc.

**ARTICLE II
REGISTERED OFFICE AND REGISTERED AGENT**

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of its registered agent at such address is Corporation Trust Company. [NB: The registered office and registered agent change reflected here effective February 22, 2012].

**ARTICLE III
PURPOSES**

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

**ARTICLE IV
AUTHORIZED CAPITAL STOCK**

The total number of shares of capital stock which the Corporation shall have the authority to issue is 353,333,333, consisting of 343,333,333 shares of Common Stock, par value \$.01 per share (the "Common Stock") and 10,000,000 shares of Preferred Stock, par value \$.01 per share ("Preferred Stock").

**ARTICLE V
COMMON STOCK**

A. Dividends. After dividends payable on any Preferred Stock have been declared and set aside on such Preferred Stock having a preference over the Common Stock with respect to the payment of such dividends, the holders of Common Stock shall be entitled to receive, when and as declared, out of assets and funds legally available therefor, cash or non-cash dividends payable as and when the Board of Directors in its sole business judgment so declares. Any such dividend shall be payable ratably to all record holders of Common Stock as of the record date fixed by the Board of Directors in accordance with the By-laws of the Corporation for the payment thereof.

B. Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation ("Liquidation"), the holders of Common Stock then outstanding shall be entitled to be paid ratably out of the assets and funds of the Corporation available for distribution to its stockholders, after and subject to the payment in full of all amounts required to be distributed to the holders of any Preferred Stock upon Liquidation, an amount equal to their share (including any declared but unpaid dividends on the Common Stock, subject to

proportionate adjustment in the event of any stock dividend, stock split, stock distribution or combination with respect to such shares) of such assets and funds.

C. Voting.

1. Except as required by law, or as otherwise provided herein or in any amendment hereof, the entire voting power of the Corporation with respect to all matters other than the election of directors shall be vested in the holders of Common Stock voting together as a single class. Except as required by law, or as otherwise provided herein or in any amendment hereof, the entire voting power of the Corporation with respect to the election of directors shall be vested in the holders of Common Stock voting together as a single class.

2. Each holder of Common Stock entitled to vote shall at every meeting of the stockholders of the Corporation be entitled to one vote for each share of Common Stock registered in his or her name on the record of stockholders.

D. Effective as of 5:00 p.m. Eastern time on October 19, 2011 (the "Amendment Effective Time"), every fifteen (15) shares of the Corporation's Common Stock, par value \$.01 per share, issued and outstanding immediately prior to the Amendment Effective Time (the "Old Common Stock"), will be automatically reclassified as and converted into one share of the Corporation's Common Stock, par value \$.01 per share (the "New Common Stock").

Notwithstanding the immediately preceding sentence, no fractional shares of New Common Stock shall be issued to the holders of record of Old Common Stock in connection with the foregoing reclassification of shares of Old Common Stock. In lieu thereof, the aggregate of all fractional shares otherwise issuable to the holders of record of Old Common Stock shall be issued to the Corporation's transfer agent for the accounts of all holders of record of Old Common Stock otherwise entitled to have a fraction of a share issued to them. The sale of all of the fractional interests will be effected by the transfer agent as soon as practicable after the Amendment Effective Time on the basis of prevailing market prices of the New Common Stock on the New York Stock Exchange at the time of sale. After such sale and, in the case of holders of certificated shares of Old Common Stock, upon the surrender of such stockholders' stock certificates, the transfer agent will pay to such holders of record their pro rata share of the net proceeds derived from the sale of the fractional interests.

Each stock certificate that, immediately prior to the Amendment Effective Time, represented shares of Old Common Stock shall, from and after the Amendment Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified (as well as the right to receive cash in lieu of any fractional shares of New Common Stock as set forth above), provided, however, that each holder of record of a certificate that represented shares of Old Common Stock shall receive, upon surrender of such certificate, book-entry shares representing the number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified, as well as any cash in lieu of fractional shares of New Common Stock to which such holder may be entitled pursuant to the immediately preceding paragraph.

ARTICLE VI PREFERRED STOCK

The Preferred Stock may be issued from time to time as herein provided in one or more series. The designations, relative rights, preferences and limitations of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or differ from those of any other series. The Board of Directors is hereby expressly granted authority, subject to the provisions of this Article VI, to fix, from time to time before issuance thereof, the number of shares in each series and all designations, relative rights, preferences and limitations of the shares in each such series, including, but without limiting the generality of the foregoing, the following:

A. the designation of the series and the number of shares to constitute each series;

- B. the dividend rate on the shares of each series, conditions on which and times at which dividends are payable, whether dividends shall be cumulative, and the preference or relation (if any) with respect to such dividends (including preferences over dividends on the Common Stock or any other class or classes);
- C. whether the series will be redeemable (at the option of the Corporation or the holders of such shares or both, or upon the happening of a specified event) and, if so, the redemption prices and the conditions and times upon which redemption may take place and whether for cash, property or rights, including securities of the Corporation or another corporation;
- D the terms and amount of any sinking, retirement or purchase fund;
- E. the conversion or exchange rights (at the option of the Corporation or the holders of such shares or both, or upon the happening of a specified event), if any, including the conversion or exchange price and other terms of conversion or exchange;
- F. the voting rights, if any (other than any voting rights that the Preferred Stock may have as a matter of law);
- G. any restrictions on the issue or reissue or sale of additional Preferred Stock;
- H. the rights of the holders upon voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation (including preferences over the Common Stock or any other class or classes or series of stock); and
- I. such other special rights and privileges, if any, for the benefit of the holders of Preferred Stock, as shall not be inconsistent with provisions of this Restated Certificate of Incorporation.

All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to dates, if any, from which dividends thereon may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects except that any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences and limitations described or referred to in subparagraphs A. to I. inclusive above.

ARTICLE VII DIRECTORS

- A. The Board of Directors shall consist of no fewer than six persons and no more than fifteen persons, and such number shall be fixed by, or in the manner provided in, the By-laws of the Corporation.
- B. At each annual meeting of the stockholders of the Corporation, the date of which shall be fixed by or pursuant to the By-Laws of the Corporation, the directors shall be elected to hold office for a term of one (1) year and until such director's successor is elected and qualified or until such director's earlier resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.
- C. A director may be removed from office only for cause and only by vote of at least a majority of the outstanding stock entitled to vote in an election of directors.
- D. Any vacancy on the Board of Directors, however resulting, may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

ARTICLE VIII STOCKHOLDERS' VOTE

Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of the stockholders at an annual or special meeting duly noticed and called, as provided in the By-laws of the Corporation, and may not be taken by a written consent of the stockholders.

ARTICLE IX INDEMNIFICATION

The Corporation shall indemnify each person who is or was a director, officer or employee of the Corporation (including the heirs, executors, administrators or estate of such person) or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, to the fullest extent permitted under applicable law.

The indemnification provided by this Article IX shall not be deemed exclusive of any other rights to which any of those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE X LIMITATION OF LIABILITY

A director of this Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended after approval by the stockholders of this Article X to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE XI SPECIAL MEETINGS

Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the Board of Directors, the President, the Chief Executive Officer or the Chairman of the Board of Directors. Special meetings of the stockholders of the Corporation may not be called by any other person or persons.

ARTICLE XII RATIFICATION BY STOCKHOLDERS

Any contract, transaction or act of the Corporation or of the directors, which shall be ratified by a majority of a quorum of the stockholders then entitled to vote at any annual meeting or at any special meeting called for such purpose, shall, so far as permitted by law and by this Certificate of Incorporation, be as valid and as binding as though ratified by every stockholder entitled to vote at such meeting.

ARTICLE XIII AMENDMENTS OF CERTIFICATE

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation or in any amendment hereto by the affirmative vote of a majority of the

outstanding stock entitled to vote thereon.

ARTICLE XIV CREDITORS

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof on the application of any receiver or receivers appointed for this Corporation under the provisions of section 291 of Title 8 of the DGCL or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the DGCL, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

ARTICLE XV BY-LAWS

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, repeal, alter, amend or rescind the By-laws of the Corporation. In addition, the By-laws of the Corporation may be adopted, repealed, altered, amended or rescinded by the affirmative vote of at least a majority of the outstanding stock entitled to vote thereon.

STATEMENTS RE COMPUTATION OF RATIOS

STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
(unaudited)

(In millions)	Six Months Ended June 30,		Fiscal Year Ended				
	2012	2011	2011	2010	2009	2008	2007
Loss from Continuing Operations Before Taxes	\$ (178)	\$ (354)	\$ (786)	\$ (712)	\$ (623)	\$ (312)	\$ (1,167)
Interest on Debt, Net of Capitalized Interest	370	317	716	586	595	570	609
Amortization of Capitalized Interest	—	—	—	—	—	48	68
Portion of rents deemed representative of the interest factor (1/3)	51	35	77	69	68	68	63
(Losses) Earnings Available for Fixed Charges	\$ 243	\$ (2)	\$ 7	\$ (57)	\$ 40	\$ 374	\$ (427)
Interest on Debt	370	317	716	586	595	570	609
Preferred Dividends	—	—	—	—	—	—	—
Interest Expense Portion of Rental Expense	51	35	77	69	68	68	63
Total Fixed Charges	\$ 421	\$ 352	\$ 793	\$ 655	\$ 663	\$ 638	\$ 672
Ratio of Earnings to Fixed Charges	—	—	—	—	—	—	—
Deficiency	\$ (178)	\$ (354)	\$ (786)	\$ (712)	\$ (623)	\$ (264)	\$ (1,099)

CERTIFICATIONS*

I, James Q. Crowe, 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: August 6, 2012

/s/ James Q. Crowe

James Q. Crowe

Chief Executive Officer

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

CERTIFICATIONS*

I, Sunit S. Patel, certify that:

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

Date: August 6, 2012

/s/ Sunit S. Patel

Sunit S. Patel

Chief Financial Officer

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

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

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the three and six months ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Q. Crowe, 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/ James Q. Crowe

James Q. Crowe

Chief Executive Officer

August 6, 2012

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

In connection with the Form 10-Q of Level 3 Communications, Inc. (the “Company”) for the three and six months ended June 30, 2012 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

August 6, 2012