

# LEVEL 3 COMMUNICATIONS INC

## **FORM 10-Q** (Quarterly Report)

Filed 11/10/08 for the Period Ending 09/30/08

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

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

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended September 30, 2008

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The number of shares outstanding of each class of the issuer's common stock, as of October 31, 2008:

Common Stock: **1,611,053,938 shares**

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LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

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

(dollars in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue:				
Communications	\$ 1,054	\$ 1,043	\$ 3,192	\$ 3,115
Coal mining	16	18	60	54
Total revenue	1,070	1,061	3,252	3,169
Costs and Expenses (exclusive of depreciation and amortization shown separately below):				
Cost of revenue:				
Communications	425	438	1,326	1,325
Coal mining	19	16	53	49
Total cost of revenue	444	454	1,379	1,374
Depreciation and amortization	233	249	707	717
Selling, general and administrative	387	415	1,204	1,283
Restructuring and impairment charges	2	1	13	7
Total costs and expenses	1,066	1,119	3,303	3,381
Operating Income (Loss)	4	(58)	(51)	(212)
Other Income (Expense):				
Interest income	4	12	13	45
Interest expense	(133)	(138)	(400)	(441)
Gain on sale of business group, net	—	—	96	—
Gain (loss) on early extinguishment of debt	3	—	3	(427)
Other, net	2	6	9	10
Total other income (expense)	(124)	(120)	(279)	(813)
Loss Before Income Taxes	(120)	(178)	(330)	(1,025)
Income Tax Benefit (Expense)	—	4	(4)	2
Net Loss	<u>\$ (120)</u>	<u>\$ (174)</u>	<u>\$ (334)</u>	<u>\$ (1,023)</u>
Total Number of Weighted Average Common Shares Outstanding used to Compute Basic and Diluted Loss Per Share (in thousands)	1,558,719	1,534,029	1,551,151	1,511,173
Loss Per Share of Common Stock:				
Basic and Diluted	<u>\$ (0.08)</u>	<u>\$ (0.11)</u>	<u>\$ (0.22)</u>	<u>\$ (0.68)</u>

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

(dollars in millions, except per share data)	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 582	\$ 714
Marketable securities	5	9
Restricted cash and securities	3	10
Receivables, less allowances of \$18 and \$20	430	404
Other	114	88
<b>Total Current Assets</b>	<b>1,134</b>	<b>1,225</b>
Property, Plant and Equipment, net	6,354	6,669
Restricted Cash and Securities	124	117
Goodwill	1,419	1,421
Other Intangibles, net	583	680
Other Assets, net	119	142
<b>Total Assets</b>	<b>\$ 9,733</b>	<b>\$ 10,254</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 316	\$ 396
Current portion of long-term debt	328	32
Accrued payroll and employee benefits	89	97
Accrued interest	115	128
Current portion of deferred revenue	173	175
Other	121	144
<b>Total Current Liabilities</b>	<b>1,142</b>	<b>972</b>
Long-Term Debt, less current portion	6,435	6,832
Deferred Revenue, less current portion	737	763
Other Liabilities	616	617
<b>Total Liabilities</b>	<b>8,930</b>	<b>9,184</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$.01 par value, authorized 10,000,000 shares: no shares issued or outstanding	—	—
Common stock, \$.01 par value, authorized 2,250,000,000 shares: 1,561,139,915 issued and outstanding at September 30, 2008 and 1,537,862,685 issued and outstanding at December 31, 2007	16	15
Additional paid-in capital	11,087	11,004
Accumulated other comprehensive income	87	104
Accumulated deficit	(10,387)	(10,053)
<b>Total Stockholders' Equity</b>	<b>803</b>	<b>1,070</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 9,733</b>	<b>\$ 10,254</b>

See accompanying notes to consolidated financial statements.

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

(dollars in millions)	Nine Months Ended September 30,	
	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (334)	\$ (1,023)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	707	717
Gain on sale of property, plant and equipment and other assets	(1)	(2)
Gain on sale of business group, net	(96)	—
(Gain) loss on debt extinguishment	(3)	427
Non-cash compensation expense attributable to stock awards	61	72
Non-cash impairment expenses	—	1
Amortization of debt issuance costs	12	11
Accreted interest on long-term debt discount	—	21
Accrued interest on long-term debt	(14)	(22)
Change in working capital items net of amounts acquired:		
Receivables	(29)	(22)
Other current assets	(26)	(1)
Payables	(79)	(82)
Deferred revenue	(24)	24
Other current liabilities	(2)	(83)
Other, net	10	(1)
<b>Net Cash Provided by Operating Activities</b>	<b>182</b>	<b>37</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(342)	(480)
Proceeds from sale of business group, net	121	—
Proceeds from sale of property, plant and equipment, and other assets	3	4
Proceeds from sales and maturities of marketable securities	—	288
(Increase) decrease in restricted cash and securities, net	(2)	15
Acquisitions, net of cash acquired	—	(668)
Other	2	—
<b>Net Cash Used in Investing Activities</b>	<b>(218)</b>	<b>(841)</b>

(continued)

See accompanying notes to consolidated financial statements.

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

(dollars in millions)	Nine Months Ended September 30,	
	2008	2007
<b>Cash Flows from Financing Activities:</b>		
Payments on and repurchases of long-term debt	\$ (98)	\$ (2,616)
Long-term debt borrowings, net of issuance costs	—	2,349
Proceeds from warrants and stock-based equity plans	—	26
Other	<u>2</u>	<u>—</u>
Net Cash Used in Financing Activities	(96)	(241)
<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>	<u>—</u>	<u>6</u>
Net Change in Cash and Cash Equivalents	(132)	(1,039)
Cash and Cash Equivalents at Beginning of Period	<u>714</u>	<u>1,681</u>
Cash and Cash Equivalents at End of Period	<u>\$ 582</u>	<u>\$ 642</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash interest paid	\$ 402	\$ 431
Income taxes paid	3	1
<b>Noncash Investing and Financing Activities:</b>		
Common stock issued for acquisition	\$ —	\$ 692
Equity issued to retire debt	—	879
Long-term debt retired by conversion to equity	—	702

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**For the Nine Months Ended September 30, 2008**  
**(unaudited)**

(dollars in millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balances at December 31, 2007	\$ 15	\$ 11,004	\$ 104	\$ (10,053)	\$ 1,070
Common Equity:					
Stock plan grants	1	56	—	—	57
401(k) plan	—	25	—	—	25
Other	—	2	—	—	2
Net Loss	—	—	—	(334)	(334)
Other Comprehensive Loss	—	—	(17)	—	(17)
Balances at September 30, 2008	<u>\$ 16</u>	<u>\$ 11,087</u>	<u>\$ 87</u>	<u>\$ (10,387)</u>	<u>\$ 803</u>

See accompanying notes to consolidated financial statements.



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

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Loss	\$ (120)	\$ (174)	\$ (334)	\$ (1,023)
Other Comprehensive Income (Loss) Before Tax:				
Foreign currency	(58)	33	(8)	109
Unrealized holding gain (loss) on available-for-sale investment	—	(13)	(4)	45
Unrealized holding gain (loss) on interest rate swaps	(8)	(30)	(5)	(2)
Other, net	—	—	—	5
Other Comprehensive Income (Loss) Before Income Tax	(66)	(10)	(17)	157
Income Tax Related to Items of Other Comprehensive Income	—	—	—	—
Other Comprehensive Income (Loss), Net of Income Taxes	(66)	(10)	(17)	157
Comprehensive Income (Loss)	<u>\$ (186)</u>	<u>\$ (184)</u>	<u>\$ (351)</u>	<u>\$ (866)</u>

**Supplementary Stockholders' Equity Information**  
**(unaudited)**

(dollars in millions)	Net Foreign Currency Translation Adjustment	Unrealized Holding Gain (Loss) on Investment and Interest Rate Swaps	Other	Total
Accumulated Other Comprehensive Income (Loss):				
Balances at December 31, 2007	\$ 160	\$ (30)	\$ (26)	\$ 104
Change	(8)	(9)	—	(17)
Balances at September 30, 2008	<u>\$ 152</u>	<u>\$ (39)</u>	<u>\$ (26)</u>	<u>\$ 87</u>

See accompanying notes to consolidated financial statements.

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

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

The consolidated financial statements include the accounts of Level 3 Communications, Inc. and subsidiaries (the “Company” or “Level 3”) in which it has control. Level 3 is primarily engaged in the communications business, with additional operations in coal mining. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. All significant intercompany accounts and transactions have been eliminated.

The Company acquired Broadwing Corporation (“Broadwing”) and the Content Delivery Network services business (“CDN Business”) of SAVVIS, Inc. in January 2007 and Servecast Limited (“Servecast”) in July 2007. The results of operations, cash flows and financial position attributable to these acquisitions are included in the consolidated financial statements from the respective dates of their acquisition (See Note 2).

On June 5, 2008, Level 3 completed the sale of its Vyvx advertising distribution business to DG FastChannel, Inc. Level 3 has retained ownership of Vyvx’s core broadcast business, including the Vyvx Services Broadcast Business’ content distribution capabilities. The financial results of the Vyvx advertising distribution business are included in the Company’s consolidated results of operations through the date of sale (See Note 2).

The consolidated balance sheet of Level 3 at December 31, 2007 has been audited. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required for complete financial statements.

The Company’s accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company’s Form 10-K for the year ended December 31, 2007. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenue and expenses during the reported period. Actual results could differ from these estimates.

The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the full year 2008.

***Reclassifications***

Certain immaterial reclassifications have been made to the prior year balance sheet to conform to the current period’s presentation.

***Recently Issued Accounting Pronouncements***

The significant accounting policies set forth in Note 1 to the consolidated financial statements in the Company’s Form 10-K for the year ended December 31, 2007 appropriately present, in all material respects, the current status of the Company’s significant accounting policies, and are incorporated herein by reference.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement was effective for financial assets and liabilities, as well as for non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis for fiscal years beginning after November 15, 2007 and interim periods within that fiscal year. FASB Staff Position (“FSP”) FAS 157-2, “Effective Date of FASB Statement No. 157” (“FSP 157-2”) defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for non-financial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. SFAS No. 157 did not have a material effect on the Company’s consolidated results of operations during the nine months ended September 30, 2008 or financial condition as of September 30, 2008. The Company does not expect the adoption of the remaining portions of SFAS No. 157 to have a material effect on the Company consolidated results or financial position.

On February 15, 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115” (“SFAS No. 159”). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” applies to all entities with available-for-sale and trading securities. The FASB’s stated objective in issuing this standard is as follows: “to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.” The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has assessed whether fair value accounting is appropriate for any of its eligible items and has concluded that it will not elect to use fair value accounting for any of these items. As a result, SFAS No. 159 did not have an effect on the Company’s consolidated results of operations or financial condition upon adoption on January 1, 2008.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141R retains the underlying concepts of SFAS No. 141 in that an entity is required to recognize the assets acquired and liabilities assumed at their fair value on the acquisition date. SFAS No. 141R will change the accounting treatment for certain specific acquisition related items to require: (1) expensing acquisition related costs as incurred; (2) expensing changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date; (3) valuing noncontrolling interests at fair value at the acquisition date; (4) generally expensing restructuring costs associated with an acquired business; and (5) capitalizing in-process research and development assets acquired. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company has not yet adopted SFAS No. 161.

On May 9, 2008, the FASB issued FSP APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 requires issuers of a certain type of convertible debt to separately account for the debt and equity components of the convertible debt in a way that reflects the issuer’s borrowing rate at the date of issuance for similar debt instruments without the conversion feature. FSP APB 14-1 applies to certain of the Company’s convertible debt. FSP APB 14-1 is effective for Level 3 beginning on January 1, 2009 and will be applied retrospectively to all quarterly and annual periods that will be presented in the Company’s consolidated financial statements. Early adoption of FSP APB 14-1 is not permitted. Although the Company is continuing to evaluate the effect of FSP APB 14-1, it is expected that the adoption of FSP APB 14-1 will significantly increase its non-cash interest expense and reduce basic and diluted earnings per share.

## **(2) Acquisitions and Dispositions**

**Servecast Acquisition:** In July 2007, Level 3 completed the acquisition of Servecast Limited, a Dublin, Ireland based provider of live and on-demand video management and streaming services for broadband and mobile platforms. Level 3 paid approximately €34 million, or \$46 million, in cash, including \$1 million of transaction costs, to complete the acquisition of Servecast.

**CDN Business Acquisition :** In January 2007, Level 3 completed the acquisition of the CDN Business of SAVVIS, Inc. Level 3 paid \$133 million in cash (including transaction costs) to acquire the assets of the CDN Business, including network elements, customer contracts and intellectual property used in the CDN Business. The purchase price was subsequently increased by less than \$1 million for working capital and other contractual matters. The Company paid this adjustment in April 2007.

**Broadwing Acquisition :** In January 2007, Level 3 acquired Broadwing, a publicly held provider of optical network communications services. Under the terms of the merger agreement dated October 16, 2006, Level 3 paid \$8.18 of cash plus 1.3411 shares of Level 3 common stock for each share of Broadwing common stock outstanding at closing. In total, Level 3 paid approximately \$753 million of cash, including \$9 million of transaction costs, and issued approximately 123 million shares of the Company's common stock, valued at \$688 million. As part of the Broadwing acquisition, approximately 3.8 million previously issued Broadwing warrants (valued at approximately \$4 million) became exercisable for approximately 5.1 million shares of Level 3 common stock. In the second quarter of 2007, the Company subsequently reduced the total consideration paid by \$4 million for insurance proceeds received in June 2007 that related to the settlement of an insurance claim that occurred prior to the acquisition. In the fourth quarter of 2007, the Company incurred additional transaction costs of \$2 million related to the acquisition.

In connection with the acquisition of Broadwing, the Company guaranteed \$180 million in aggregate principal amount of Broadwing's 3.125% Convertible Senior Debentures due 2026 (the "Broadwing Debentures") and the transaction included \$24 million in capital lease obligations related primarily to a metro fiber IRU agreement. As of February 16, 2007, the holders of \$179 million in aggregate principal amount of the Broadwing Debentures converted their Broadwing Debentures into a total of 17 million shares of Level 3 common stock and approximately \$105 million in cash pursuant to the terms of the indenture governing the Broadwing Debentures and the agreement whereby Level 3 acquired Broadwing. The remaining \$1 million in aggregate principal amount of the Broadwing Debentures was repurchased by Broadwing at 100% of par as required by the indenture governing the Broadwing Debentures.

**Vyvx Advertising Distribution Business Disposition :** On December 19, 2007, Level 3 announced that it had reached a definitive agreement to sell the Vyvx advertising distribution business to DG FastChannel, Inc. On June 5, 2008, Level 3 completed the sale of its Vyvx advertising distribution business to DG FastChannel, Inc. and received gross proceeds at closing of approximately \$129 million in cash. Net proceeds from the sale approximated \$121 million after deducting transaction-related costs. The sale transaction is subject to customary working capital and certain other post-closing valuation adjustments.

The disposal of the Vyvx advertising distribution business did not meet the criteria under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") for presentation as discontinued operations since the business was not considered an asset group.

Level 3 recognized a gain on the sale of the Vyvx advertising distribution business of \$96 million in the three months ended June 30, 2008. The gain is presented in the consolidated statements of operations as "Gain on Sale of Business Group."

The carrying amounts of the major classes of assets and liabilities included in the sale of the Vyvx advertising distribution business were as follows (in millions):

Other Current Assets	\$	2
Property, Plant and Equipment, net		3
Other Intangibles, net		22
Accounts Payable		(1)
	\$	<u>26</u>

Revenue attributable to the Vyvx advertising distribution business totaled zero and \$15 million for the three and nine months ended September 30, 2008, respectively, and \$10 million and \$25 million for the three and nine months ended September 30, 2007, respectively. The financial results, assets and liabilities of the Vyvx advertising distribution business are included in the Communications operating segment through the date of sale.

### **(3) Restructuring and Impairment Charges**

#### ***Restructuring Charges***

Activities related to the Company's prior acquisition-related restructurings have been completed, with the exception of activities that will require the payment of approximately \$1 million of accrued termination benefits that the Company expects to pay to former Broadwing employees during the fourth quarter of 2008.

Termination benefits attributable to Level 3 employees, including personnel from acquired companies that were not part of the established purchase price liability, are recorded as restructuring charges in the statement of operations once the employees are notified that their position will be eliminated and the termination benefit arrangements are communicated to the employee. For the three and nine months ended September 30, 2008, the Company recorded approximately \$2 million and \$13 million, respectively, in restructuring charges for affected employees. For the three and nine months ended September 30, 2007, the Company recorded approximately \$1 million and \$6 million, respectively, in restructuring charges for affected employees. As of September 30, 2008, the Company had less than \$1 million of accrued termination benefits for those Level 3 employees terminated or notified.

The Company also has accrued contract termination costs of \$45 million as of September 30, 2008, for facility lease costs, primarily in North America, that the Company continues to incur without economic benefit. The Company expects to pay the majority of these costs through 2018. The Company incurred charges of approximately \$2 million in the third quarter of 2008 as a result of revisions to the estimated cash flows for certain facility subleases.

### **(4) Loss Per Share**

The Company had a loss from operations for the three and nine months ended September 30, 2008 and 2007. Therefore, the effect of the approximately 314 million and 315 million shares issuable pursuant to the convertible debt securities outstanding at September 30, 2008 and 2007, 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 approximately 56 million and 54 million outperform stock options, restricted stock units and warrants outstanding at September 30, 2008 and 2007, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

### **(5) Fair Value**

SFAS No. 157 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 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***

SFAS No. 157 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. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS No. 157 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 1 assets that are measured at fair value on a recurring basis consist of the Company's investment in marketable equity instruments that are traded in an active market with sufficient volume and frequency of transactions.

*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 2 liabilities that are measured at fair value on a recurring basis include the Company's interest rate swap agreements priced using discounted cash flow techniques that use observable market inputs, such as LIBOR-based yield curves, forward rates, and credit ratings.

*Level 3* - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The Company does not have any SFAS No. 157 Level 3 assets or liabilities that are measured at fair value on a recurring basis.

#### ***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

Assets and liabilities measured at fair value on a recurring basis, net of accrued interest components, consisted of the following types of instruments as of September 30, 2008 (dollars in millions):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)
Marketable Securities	\$ 5	\$ —
Interest Rate Swap Liabilities (included in other non-current liabilities)	—	(42)
Total Assets (Liabilities) Measured at Fair Value	<u>\$ 5</u>	<u>\$ (42)</u>

#### **(6) Property, Plant and Equipment, net**

Costs associated directly with expansions and improvements to the Company's communications network and customer installations, including employee related costs, have been capitalized. The Company generally capitalizes costs associated with network construction, provisioning of services and software development.

The Company continues to develop business support systems required for its business and integration efforts. The external direct costs of software, materials and services, and payroll and payroll-related expenses for employees directly associated with the project incurred when developing the business support systems are capitalized. Upon completion of a project, the total cost of the business support system is amortized over an estimated useful life of three years.

Capitalized labor and related costs associated with employees and contract labor working on capital projects were approximately \$20 million and \$65 million for the three and nine months ended September 30, 2008, respectively, and approximately \$25 million and \$79 million for the three and nine months ended September 30, 2007, respectively.

Depreciation expense was \$209 million and \$632 million for the three and nine months ended September 30, 2008, respectively, and \$217 million and \$627 million for the three and nine months ended September 30, 2007, respectively.

#### **(7) Goodwill**

The changes in the carrying amount of goodwill during the nine months ended September 30, 2008 are as follows (dollars in millions):

	Communications Segment	Coal Mining Segment	Total
Balance as of December 31, 2007	\$ 1,421	\$ —	\$ 1,421
Effect of foreign currency rate change and other	(2)	—	(2)
Balance as of September 30, 2008	<u>\$ 1,419</u>	<u>\$ —</u>	<u>\$ 1,419</u>

The Company segregates identifiable intangible assets acquired in a business combination from goodwill. Goodwill is not amortized but instead is evaluated for impairment at least annually in the fourth quarter, or more frequently if impairment indicators are present, using a fair value based test. The Company conducted its annual goodwill impairment analysis in the fourth quarter of 2007 and concluded its goodwill was not impaired.

## (8) Other Intangibles, net

Acquisition-related identifiable intangible assets at September 30, 2008 and December 31, 2007 were as follows (dollars in millions, presented net of accumulated amortization):

	September 30, 2008	December 31, 2007
<i>Finite-Lived Intangible Assets:</i>		
Customer Contracts and Relationships	\$ 439	\$ 524
Patents and Developed Technology	92	104
	<b>531</b>	<b>628</b>
<i>Indefinite-Lived Intangible Assets:</i>		
Trademarks	32	32
Wireless Licenses	20	20
	<b>\$ 583</b>	<b>\$ 680</b>

Intangible asset amortization expense was \$24 million and \$75 million for the three and nine months ended September 30, 2008, respectively, and \$32 million and \$90 million for the three and nine months ended September 30, 2007, respectively.

As of September 30, 2008, estimated amortization expense for the Company's finite-lived acquisition-related intangible assets over the next five years and thereafter is as follows (in millions):

2008 (remaining three months)	\$ 23
2009	93
2010	92
2011	91
2012	69
Thereafter	163
	<b>\$ 531</b>

Indefinite-lived intangible assets are not amortized but instead are evaluated for impairment at least annually in the fourth quarter, or more frequently if impairment indicators are present, using a fair value based test. The Company conducted its annual indefinite-lived impairment analysis in the fourth quarter of 2007, and evaluated the fair value of its tradenames after the conclusion of the sale of the Vvyx advertising distribution business during the second quarter of 2008, and concluded its indefinite-lived intangible assets were not impaired.

## (9) Long-Term Debt

At September 30, 2008 and December 31, 2007, long-term debt was as follows:

(dollars in millions)	September 30, 2008	December 31, 2007
Senior Secured Term Loan due 2014	\$ 1,400	\$ 1,400
Senior Notes due 2008 (11.0%)	—	20
Senior Euro Notes due 2008 (10.75%)	—	5
Senior Notes due 2010 (11.5%)	13	13
Fair value adjustment on Senior Notes due 2010	—	(1)
Senior Notes due 2011 (10.75%)	3	3
Floating Rate Senior Notes due 2011 (9.459% as of September 30, 2008)	6	6
Senior Notes due 2013 (12.25%)	550	550
Issue discount on Senior Notes due 2013	(2)	(2)
Senior Notes due 2014 (9.25%)	1,250	1,250
Issue premium on Senior Notes due 2014	9	10
Floating Rate Senior Notes due 2015 (6.845% as of September 30, 2008)	300	300
Senior Notes due 2017 (8.75%)	700	700
Convertible Senior Notes due 2010 (2.875%)	374	374
Convertible Senior Notes due 2011 (5.25%)	345	345
Convertible Senior Notes due 2011 (10.0%)	275	275
Convertible Senior Notes due 2012 (3.5%)	335	335



Convertible Senior Discount Notes due 2013 (9.0%)	295	295
Convertible Subordinated Notes due 2009 (6.0%)	323	362
Convertible Subordinated Notes due 2010 (6.0%)	482	514
Commercial Mortgage due 2010 (6.86%)	69	69
Capital leases	36	41
	6,763	6,864
Less current portion	(328)	(32)
	<u>\$ 6,435</u>	<u>\$ 6,832</u>

On March 13, 2007, Level 3, as guarantor, Level 3 Financing, Inc. (“Level 3 Financing”), a wholly owned subsidiary of the Company, as borrower, Merrill Lynch Capital Corporation, as administrative agent and collateral agent, and certain other agents and certain lenders entered into a Credit Agreement, pursuant to which the lenders extended a \$1.4 billion senior secured term loan (“Senior Secured Term Loan due 2014”) to Level 3 Financing. The term loan matures on March 13, 2014 and has an interest rate of London Interbank Offered Rate (“LIBOR”) plus an applicable margin of 2.25% per annum. The borrower has the option of electing one, two, three or six month LIBOR at the end of each interest rate period and may elect different options with respect to different portions of the affected borrowing. The interest rate on \$1.0 billion of the Senior Secured Term Loan due 2014 resets quarterly and was 5.04% as of September 30, 2008. The interest rate on the remaining \$400 million of the Senior Secured Term Loan due 2014 currently is reset monthly and was 4.74% as of September 30, 2008. As of December 31, 2007, the interest rate on the entire \$1.4 billion of the Senior Secured Term Loan due 2014 was 7.49%.

### ***2008 Debt Repayment and Repurchases***

During March 2008, Level 3 Communications, Inc. repaid the remaining \$20 million of outstanding 11% Senior Notes and \$6 million (€4 million) of outstanding 10.75% Senior Euro Notes.

In September 2008, in various transactions, the Company repurchased \$39 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2009 at discounts to the principal amount and recognized a net gain on extinguishment of debt of \$1 million. Unamortized debt issuance costs totaled less than \$1 million and accrued interest paid at the time of repurchase totaled less than \$1 million.

In September 2008, the Company repurchased \$32 million aggregate principal amount of its 6% Convertible Subordinated Notes due 2010 at a discount to the principal amount and recognized a net gain on extinguishment of debt of \$2 million. Unamortized debt issuance costs totaled less than \$1 million and accrued interest paid at the time of repurchase totaled \$1 million.

There were no other debt repayments during the quarter ended September 30, 2008 other than regularly scheduled capital lease and commercial mortgage payments.

### ***2007 Extinguishment of Debt***

The following transactions resulted in the loss on extinguishment of debt during the first quarter of 2007:

In January 2007, in two separate transactions, Level 3 completed the exchange of \$605 million in aggregate principal amount of its 10% Convertible Senior Notes due 2011 for a total of 197 million shares of Level 3’s common stock. The shares of the Company’s common stock issued pursuant to these announced exchanges are exempt from registration pursuant to Section 3(a)(9) under the Securities Act of 1933, as amended. The Company recognized a \$177 million loss on extinguishment of debt for the exchanges. Included in the loss was approximately \$1 million of unamortized debt issuance costs.

In March 2007, Level 3 Financing refinanced its senior secured credit agreement and received net proceeds of \$1.382 billion. The proceeds from this transaction were used to repay the existing \$730 million Senior Secured Term Loan due 2011 and other debt. The effect of this transaction was to increase the amount of senior secured debt from \$730 million to \$1.4 billion, reduce the interest rate on that debt from LIBOR plus 3.00% to LIBOR plus 2.25% and extend the final maturity from 2011 to 2014. The Company recognized a \$10 million loss on this transaction related to unamortized debt issuance costs.

In March 2007, the Company redeemed using cash the entire \$722 million of outstanding principal amount of the following debt issuances and recognized a loss on extinguishment of debt totaling \$54 million on the redemption transactions:



- Redeemed \$488 million of outstanding 12.875% Senior Notes due 2010 at a price equal to 102.146% of the principal amount and recognized a \$12 million loss on extinguishment of debt consisting of a \$10 million cash loss and \$2 million in unamortized debt issuance costs. Accrued interest paid at the time of redemption totaled less than \$1 million.
- Redeemed \$96 million of outstanding 11.25% Senior Notes due 2010 at a price equal to 101.875% of the principal amount and recognized a \$3 million loss on extinguishment of debt consisting of a \$2 million cash loss and \$1 million in unamortized debt issuance costs. Accrued interest paid at the time of redemption totaled less than \$1 million.
- Redeemed \$138 million (€104 million) of outstanding 11.25% Senior Euro Notes due 2010 at a price equal to €101.875 per €1,000 of principal amount and recognized a \$39 million loss on extinguishment of debt consisting of a \$38 million cash loss and \$1 million in unamortized debt issuance costs. Accrued interest paid at the time of redemption totaled less than \$1 million (less than €1 million).

In March 2007, the respective issuers repurchased using cash, through tender offers, \$941 million of the outstanding principal amounts of the following debt issuances and recognized a loss on extinguishment of debt totaling \$186 million on the repurchase transactions:

- Repurchased \$144 million of its outstanding Floating Rate Senior Notes due 2011 at a price equal to \$1,080 per \$1,000 principal amount of the notes, which included \$1,050 as the tender offer consideration and \$30 as a consent payment, and recognized an \$18 million loss on extinguishment of debt consisting of a \$12 million cash loss and \$6 million in unamortized debt issuance costs and unamortized discount. Accrued interest paid at the time of repurchase totaled \$8 million.
- Repurchased \$59 million of its outstanding 11% Senior Notes due 2008 at a price equal to \$1,054.28 per \$1,000 principal amount of the notes, which included \$1,024.28 as the tender offer consideration and \$30 as a consent payment, and recognized a \$3 million loss on extinguishment of debt consisting of a \$3 million cash loss and less than \$1 million in unamortized debt issuance costs. Accrued interest paid at the time of repurchase totaled \$3 million.
- Repurchased \$677 million of its outstanding 11.5% Senior Notes due 2010 at a price equal to \$1,115.26 per \$1,000 principal amount of the notes, which included \$1,085.26 as the tender offer consideration and \$30 as a consent payment, and recognized a \$141 million loss on extinguishment of debt consisting of a \$78 million cash loss and \$63 million in unamortized debt issuance costs and unamortized discount. Accrued interest paid at the time of repurchase totaled \$3 million.
- Repurchased \$61 million (€46 million) of its outstanding 10.75% Senior Euro Notes due 2008 at a price equal to €1,061.45 per €1,000 of principal amount of the notes, which included €1,031.45 as the tender offer consideration and €30 as a consent payment, and recognized a \$24 million loss on extinguishment of debt consisting of a \$24 million cash loss and less than \$1 million in unamortized debt issuance costs. Accrued interest paid at the time of repurchase totaled \$3 million (€2 million).

In connection with the tender offers completed in the first quarter of 2007, Level 3 and Level 3 Financing obtained consents to certain proposed amendments to the respective indentures governing the notes that are subject to the tender offer transactions described above to eliminate substantially all of the covenants, amend certain repurchase rights, certain discharge rights and certain events of default and related provisions contained in those indentures.

### ***Interest Rate Swap***

Level 3 has floating rate 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. On March 13, 2007, Level 3 Financing 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 April 13, 2007 and mature on January 13, 2014. Under the terms of the interest rate swap transactions, 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. Level 3 evaluates the effectiveness of the hedge on a quarterly basis.

The fair value of the interest rate swap agreements was negative \$42 million as of September 30, 2008. The change in the fair value of the interest rate swap agreements is reflected in Other Comprehensive Income due to the fact that the interest rate swap agreements are designated as an effective cash flow hedge of \$1 billion notional amount of the Company's floating rate debt.

**Debt Maturities**

At September 30, 2008, the Company's contractual obligations related to debt, including its commercial mortgage and capital leases and excluding issue discounts, premiums and fair value adjustments is as follows (in millions):

2008 (remaining three months)	\$	2
2009		327
2010		939
2011		631
2012		337
Thereafter		4,520
	\$	<u>6,756</u>

## (10) Employee Benefit Plans

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for the three and nine months ended September 30, 2008 and 2007.

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
OSO	\$ 3	\$ 7	\$ 10	\$ 25
Restricted Stock	8	10	29	25
401(k) Match Expense	7	7	23	23
	18	24	62	73
Capitalized Non-Cash Compensation	—	—	(1)	(1)
	<u>\$ 18</u>	<u>\$ 24</u>	<u>\$ 61</u>	<u>\$ 72</u>

The Company capitalizes non-cash compensation for those employees directly involved in the construction of the network, installation of customers or development of business support systems. As of September 30, 2008, there were 15.6 million Outperform Stock Option (“OSO”) units outstanding and there were 8.7 million exercisable (“vested”) OSOs outstanding. As of September 30, 2008, there were 23.9 million nonvested restricted stock and restricted stock units outstanding.

## (11) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109” (“FIN No. 48”) on January 1, 2007. The adoption of FIN No. 48 did not affect the Company’s liability for uncertain tax positions. The Company’s liability for uncertain tax positions totaled \$16 million at September 30, 2008 and \$18 million at December 31, 2007. During the first nine months of 2008, the Company increased the liability for uncertain tax positions by \$3 million to reflect liabilities for uncertain tax positions and decreased the liability by \$2 million for matters settled during the period and decreased the liability by \$3 million for changes in estimates of uncertain tax positions. All of these amounts also include the related accrued interest and penalties associated with the uncertain tax positions if applicable.

The Company, or at least one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carryforwards are available. During the third quarter of 2008, the Company and the Internal Revenue Service settled an income tax audit for years 1999 through 2001 in addition to 1996 interest issues resulting in a refund of \$1 million to the Company. In addition, the Internal Revenue Service has commenced an examination of certain adjustments to the Company’s U.S. income tax returns for 2002 resulting from final resolution of the 1999 through 2001 audit. The Company is currently under audit by taxing authorities in the United Kingdom for tax years 2002 through 2004 and in France for tax years 2005 through 2006.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense in its consolidated statements of operations. The Company’s liability for uncertain tax positions includes approximately \$10 million and \$9 million of accrued interest and penalties at September 30, 2008 and December 31, 2007, respectively.

Included in the balance at September 30, 2008 and December 31, 2007, is \$2 million and \$3 million, respectively, of uncertain tax positions related to recently acquired companies, the disallowance of which would affect the valuation of the assets acquired and/or liabilities assumed and therefore, would not affect the annual effective income tax rate.

## (12) Industry and Geographic Data

SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information” 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. Operating segments are managed separately and represent separate business units that offer different products and serve different markets. The Company’s current reportable segments include: communications and coal mining (See Note 1). “Other” primarily includes corporate assets and overhead not attributable to a specific segment.

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

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

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense, income taxes and gain (loss) on extinguishment of debt 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 should be evaluated through cash flow measures. Adjusted EBITDA excludes the gain on sale of business group and 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 taxes, depreciation and amortization, non-cash impairment charges, non-cash stock compensation expense, gain (loss) on early extinguishment of debt, the gain on sale of business group 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 data presented in the following tables includes information for the three and nine months ended September 30, 2008 and 2007 for all statement of operations and cash flow information presented, and as of September 30, 2008 and December 31, 2007 for all balance sheet information presented. Information related to the acquired businesses is included from their respective acquisition dates. Revenue and related expenses are attributed to countries based on where services are provided.

	Communications	Coal Mining	Other	Total
	(dollars in millions)			
Three Months Ended September 30, 2008				
Revenue:				
North America	\$ 968	\$ 16	\$ —	\$ 984
Europe	86	—	—	86
	<u>\$ 1,054</u>	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ 1,070</u>
Adjusted EBITDA:				
North America	\$ 227	\$ (2)	\$ —	
Europe	30	—	—	
	<u>\$ 257</u>	<u>\$ (2)</u>	<u>\$ —</u>	
Capital Expenditures:				
North America	\$ 105	\$ 1	\$ —	\$ 106
Europe	17	—	—	17
	<u>\$ 122</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 123</u>
Depreciation and Amortization:				
North America	\$ 209	\$ 2	\$ —	\$ 211
Europe	22	—	—	22
	<u>\$ 231</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 233</u>
Nine Months Ended September 30, 2008				
Revenue:				
North America	\$ 2,946	\$ 60	\$ —	\$ 3,006
Europe	246	—	—	246
	<u>\$ 3,192</u>	<u>\$ 60</u>	<u>\$ —</u>	<u>\$ 3,252</u>
Adjusted EBITDA:				
North America	\$ 632	\$ 5	\$ (3)	
Europe	83	—	—	
	<u>\$ 715</u>	<u>\$ 5</u>	<u>\$ (3)</u>	
Capital Expenditures:				
North America	\$ 297	\$ 3	\$ —	\$ 300
Europe	42	—	—	42
	<u>\$ 339</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 342</u>
Depreciation and Amortization:				
North America	\$ 639	\$ 5	\$ —	\$ 644
Europe	63	—	—	63
	<u>\$ 702</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 707</u>

	<u>Communications</u>	<u>Coal Mining</u>	<u>Other</u>	<u>Total</u>
	(dollars in millions)			
<b>Three Months Ended September 30, 2007</b>				
Revenue:				
North America	\$ 976	\$ 18	\$ —	\$ 994
Europe	67	—	—	67
	<u>\$ 1,043</u>	<u>\$ 18</u>	<u>\$ —</u>	<u>\$ 1,061</u>
Adjusted EBITDA:				
North America	\$ 196	\$ 2	\$ (2)	
Europe	19	—	—	
	<u>\$ 215</u>	<u>\$ 2</u>	<u>\$ (2)</u>	
Capital Expenditures:				
North America	\$ 136	\$ 2	\$ —	\$ 138
Europe	17	—	—	17
	<u>\$ 153</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 155</u>
Depreciation and Amortization:				
North America	\$ 228	\$ 2	\$ —	\$ 230
Europe	19	—	—	19
	<u>\$ 247</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 249</u>
<b>Nine Months Ended September 30, 2007</b>				
Revenue:				
North America	\$ 2,933	\$ 54	\$ —	\$ 2,987
Europe	182	—	—	182
	<u>\$ 3,115</u>	<u>\$ 54</u>	<u>\$ —</u>	<u>\$ 3,169</u>
Adjusted EBITDA:				
North America	\$ 529	\$ 4	\$ (3)	
Europe	48	—	—	
	<u>\$ 577</u>	<u>\$ 4</u>	<u>\$ (3)</u>	
Capital Expenditures:				
North America	\$ 436	\$ 2	\$ —	\$ 438
Europe	42	—	—	42
	<u>\$ 478</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 480</u>
Depreciation and Amortization:				
North America	\$ 658	\$ 5	\$ —	\$ 663
Europe	54	—	—	54
	<u>\$ 712</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 717</u>

	Communications	Coal Mining	Other	Total
	(dollars in millions)			
<b>Total Assets</b>				
<i>September 30, 2008</i>				
North America	\$ 8,693	\$ 119	\$ 12	\$ 8,824
Europe	909	—	—	909
	<u>\$ 9,602</u>	<u>\$ 119</u>	<u>\$ 12</u>	<u>\$ 9,733</u>
<i>December 31, 2007</i>				
North America	\$ 9,198	\$ 115	\$ 11	\$ 9,324
Europe	930	—	—	930
	<u>\$ 10,128</u>	<u>\$ 115</u>	<u>\$ 11</u>	<u>\$ 10,254</u>
<b>Long-Lived Assets (excluding Goodwill)</b>				
<i>September 30, 2008</i>				
North America	\$ 6,317	\$ 82	\$ —	\$ 6,399
Europe	781	—	—	781
	<u>\$ 7,098</u>	<u>\$ 82</u>	<u>\$ —</u>	<u>\$ 7,180</u>
<i>December 31, 2007</i>				
North America	\$ 6,715	\$ 75	\$ —	\$ 6,790
Europe	818	—	—	818
	<u>\$ 7,533</u>	<u>\$ 75</u>	<u>\$ —</u>	<u>\$ 7,608</u>

**Communications** revenue consists of:

- 1) Core Communications Services, which includes Core Network Services and Wholesale Voice Services;
  - Core Network Services includes revenue from transport and infrastructure, IP and data services, local and enterprise voice services and Level 3 Vyvx broadcast services.
  - Wholesale Voice Services includes revenue from long distance voice services, including domestic voice termination, international voice termination and toll free services.
- 2) Other Communications Services includes revenue from managed modem and its related reciprocal 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 (“WilTel”).

	Core Communications Services	Other Communications Services	Total
		(dollars in millions)	
Communications Revenue			
Three Months Ended September 30, 2008			
North America	\$ 878	\$ 90	\$ 968
Europe	86	—	86
	<u>\$ 964</u>	<u>\$ 90</u>	<u>\$ 1,054</u>
Nine Months Ended September 30, 2008			
North America	\$ 2,648	\$ 298	\$ 2,946
Europe	246	—	246
	<u>\$ 2,894</u>	<u>\$ 298</u>	<u>\$ 3,192</u>
Three Months Ended September 30, 2007			
North America	\$ 842	\$ 134	\$ 976
Europe	67	—	67
	<u>\$ 909</u>	<u>\$ 134</u>	<u>\$ 1,043</u>
Nine Months Ended September 30, 2007			
North America	\$ 2,487	\$ 446	\$ 2,933
Europe	180	2	182
	<u>\$ 2,667</u>	<u>\$ 448</u>	<u>\$ 3,115</u>

The majority of North American revenue consists of services delivered within the United States. The majority of European revenue consists of services delivered within the United Kingdom, France and Germany. Transoceanic revenue is allocated to Europe.

Level 3 operates under four customer-facing market groups to serve the changing needs of customers in growing markets and drive growth across the organization:

- The Wholesale Markets Group services the communications needs of the largest national and global service providers, including carriers, cable companies, wireless companies, voice service providers, systems integrators and the federal government. These customers typically integrate Level 3 services into their own products and services to offer to their end user customers.
- The Business Markets Group targets enterprise customers and regional carriers who value a local, professional sales force. Specific customer markets include medium and large businesses, local and regional carriers, state and local government entities, and higher education institutions and consortia.
- The Content Markets Group focuses on serving media and content companies with large and growing bandwidth needs. Customers in this market include video distribution companies, providers of gaming, mega-portals, software service providers, social networking providers, as well as more traditional media distribution companies such as broadcasters, satellite companies, television networks and sports leagues.
- The European Markets Group serves large European consumers of bandwidth, including the largest European and international carriers, large system integrators, voice service providers, cable operators, Internet service providers, content providers, and government and education sectors.

The Company believes that the alignment around customer markets within Core Communications Services should allow it to drive growth while enabling it to better focus on the needs of the customers. Each of these groups is supported by dedicated sales and marketing employees. Each of these groups is also supported by centralized service or product management and development, corporate marketing, global network services, engineering, information technology, and corporate functions including legal, finance, strategy and human resources.

The classification of customers within each customer-facing market group can change based upon sales team assignments, merger and acquisition activity by customers and other factors. There were no material classification of customer changes within the market groups for the three and nine month periods ended September 30, 2008 and 2007, respectively.

Core Communications Services revenue by market group was as follows:

(dollars in millions)	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	\$	%	\$	%
Wholesale Markets Group	\$ 539	56%	\$ 1,628	56%
Business Markets Group	241	25%	722	25%
Content Markets Group	98	10%	298	10%
European Markets Group	86	9%	246	9%
Total Core Communications Services	<u>\$ 964</u>	<u>100%</u>	<u>\$ 2,894</u>	<u>100%</u>

(dollars in millions)	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	\$	%	\$	%
Wholesale Markets Group	\$ 506	56%	\$ 1,509	57%
Business Markets Group	240	26%	702	26%
Content Markets Group	96	11%	275	10%
European Markets Group	67	7%	181	7%
Total Core Communications Services	<u>\$ 909</u>	<u>100%</u>	<u>\$ 2,667</u>	<u>100%</u>



The following information provides a reconciliation of net income (loss) to Adjusted EBITDA by operating segment, as defined by the Company, for the three and nine months ended September 30, 2008 and 2007:

### Three Months Ended September 30, 2008

	<u>Communications</u>	<u>Coal Mining</u> (dollars in millions)	<u>Other</u>
Net Income (Loss)	\$ (118)	\$ (4)	\$ 2
Income Tax Provision	—	—	—
Total Other (Income) Expense	126	—	(2)
Non-Cash Impairment Charge	—	—	—
Depreciation and Amortization Expense	231	2	—
Non-Cash Compensation Expense	18	—	—
Adjusted EBITDA	<u>\$ 257</u>	<u>\$ (2)</u>	<u>\$ —</u>

### Nine Months Ended September 30, 2008

	<u>Communications</u>	<u>Coal Mining</u> (dollars in millions)	<u>Other</u>
Net Income (Loss)	\$ (334)	\$ —	\$ —
Income Tax Provision	3	—	1
Total Other (Income) Expense	283	—	(4)
Non-Cash Impairment Charge	—	—	—
Depreciation and Amortization Expense	702	5	—
Non-Cash Compensation Expense	61	—	—
Adjusted EBITDA	<u>\$ 715</u>	<u>\$ 5</u>	<u>\$ (3)</u>

### Three Months Ended September 30, 2007

	<u>Communications</u>	<u>Coal Mining</u> (dollars in millions)	<u>Other</u>
Net Income (Loss)	\$ (178)	\$ —	\$ 4
Income Tax Provision	2	—	(6)
Total Other (Income) Expense	120	—	—
Non-Cash Impairment Charge	—	—	—
Depreciation and Amortization Expense	247	2	—
Non-Cash Compensation Expense	24	—	—
Adjusted EBITDA	<u>\$ 215</u>	<u>\$ 2</u>	<u>\$ (2)</u>

### Nine Months Ended September 30, 2007

	<u>Communications</u>	<u>Coal Mining</u> (dollars in millions)	<u>Other</u>
Net Income (Loss)	\$ (1,024)	\$ (2)	\$ 3
Income Tax Provision	3	1	(6)
Total Other (Income) Expense	813	—	—
Non-Cash Impairment Charge	1	—	—
Depreciation and Amortization Expense	712	5	—
Non-Cash Compensation Expense	72	—	—
Adjusted EBITDA	<u>\$ 577</u>	<u>\$ 4</u>	<u>\$ (3)</u>

## (13) Commitments, Contingencies and Other Items

### Right of Way Litigation

In April 2002, Level 3 Communications, Inc., and two of its subsidiaries were named as defendants in *Bauer, et. al. v. Level 3 Communications, LLC, et al.*, a purported class action covering 22 states, filed in state court in Madison County, Illinois. In July 2001, Level 3 was named as a defendant in *Koyle, et. al. v. Level 3 Communications, Inc., et. al.*, a purported two state

class action filed in the U.S. District Court for the District of Idaho. In November of 2005, the court granted class certification only for the state of Idaho. In September 2002, Level 3 Communications, LLC and Williams Communications, LLC were named as defendants in *Smith et. al. v. Sprint Communications Company, L.P., et al.*, a purported nationwide class action filed in the United States District Court for the Northern District of Illinois. In April 2005, the Smith plaintiffs filed a Fourth Amended Complaint which did not include Level 3 or Williams Communications, Inc. as a party, thus ending both companies' involvement in the Smith case. On February 17, 2005, Level 3 Communications, LLC and Williams Communications, LLC were named as defendants in *McDaniel, et. al., v. Qwest Communications Corporation, et al.*, a purported class action covering 10 states filed in the United States District Court for the Northern District of Illinois. All of these actions involve the companies' right to install its fiber optic cable network in easements and right-of-ways crossing the plaintiffs' land. In general, the companies obtained the rights to construct their networks from railroads, utilities, and others, and have installed their 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 companies' fiber optic cable networks pass, and that the railroads, utilities, and others who granted the companies the right to construct and maintain their networks 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 companies have 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 and its subsidiaries have negotiated a proposed nationwide class settlement affecting persons who own or owned land next to or near railroad rights of way. The United States District Court for the District of Massachusetts in *Kingsborough v. Sprint Communications Co. L.P.* has granted preliminary approval of the proposed settlement which, if finally approved, will resolve all of the pending actions. The proposed settlement will provide cash payments to class members based on various factors that include:

- the length of the right of way where the cable is installed;
- the state where the property is located; and
- how the railroad obtained its property rights.

The proposed settlement will also provide the Company and its subsidiaries with a permanent telecommunications easement, which gives them certain rights over the railroad right of way.

It is still too early for the Company to reach a conclusion as to the ultimate outcome of the proposed settlement or these actions. However, management believes that the Company and its subsidiaries have substantial defenses to the claims asserted in all of these actions (and any similar claims which may be named in the future), and intends to defend them vigorously if a satisfactory form of settlement is not ultimately approved. Additionally, management believes that any resulting liabilities for these actions, beyond amounts reserved, will not materially affect the Company's financial condition or future results of operations, but could affect future cash flows.

#### ***Other Litigation***

The Company and its subsidiaries are parties to many other legal proceedings. Management believes that any resulting liabilities for these legal proceedings, beyond amounts reserved, will not materially affect the Company's financial condition or future results of operations, but could affect future cash flows.

#### ***Letters of Credit***

It is customary in Level 3's industries to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on behalf of Level 3 in accordance with specified terms and conditions. As of September 30, 2008, Level 3 had outstanding letters of credit of approximately \$29 million, which are collateralized by cash, which is reflected on the consolidated balance sheet as restricted cash.

#### **(14) Condensed Consolidating Financial Information**

Level 3 Financing has issued senior notes as described below:

- In October 2003, Level 3 Financing issued \$500 million of 10.75% Senior Notes due 2011. The 10.75% Senior Notes were registered with the Securities and Exchange Commission in 2005. The Company repurchased \$497 million of the 10.75% notes in 2006.

- In March 2006, Level 3 Financing issued \$150 million of Floating Rate Senior Notes due 2011 and \$250 million of 12.25% Senior Notes due 2013. The Company repurchased \$144 million of the Floating Rate Senior Notes due 2011 in 2007.
- In April 2006, Level 3 Financing issued an additional \$300 million of 12.25% Senior Notes due 2013.
- In October 2006, Level 3 Financing issued \$600 million of 9.25% Senior Notes due 2014 and in December 2006 issued an additional \$650 million of 9.25% Senior Notes due 2014.
- In February 2007, Level 3 Financing issued \$700 million of 8.75% Senior Notes due 2017 and \$300 million of Floating Rate Senior Notes due 2015.

The notes discussed above are unsecured obligations of Level 3 Financing; however, they are fully and unconditionally guaranteed on an unsecured senior basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

In addition, Level 3 Financing's 12.25% Senior Notes due 2013, Floating Rate Senior Notes due 2011 and 9.25% Senior Notes due 2014 are guaranteed by Broadwing Financial Services, Inc., a wholly owned subsidiary of Level 3 Communications, Inc. As a result of this guarantee, the Company has included Broadwing Financial Services, Inc. in the condensed consolidating financial information below.

In conjunction with the registration of the 10.75% Senior Notes due 2011, Floating Rate Senior Notes due 2011, 12.25% Senior Notes due 2013, 9.25% Senior Notes due 2014, 8.75% Senior Notes due 2017 and Floating Rate Senior Notes due 2015 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 are 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.

The Condensed Consolidating Balance Sheet as of December 31, 2007 has been reclassified within the Level 3 Financing Inc. entity and Other Subsidiaries, to reflect the transfer between entities of the \$37 million interest rate swap liability and to reclassify the liability from Other Assets, net to Other Liabilities. These changes did not have any effect on the Level 3 Consolidated Balance Sheet as of December 31, 2007 or affect the financial results for the year ended December 31, 2007.

**Condensed Consolidating Statements of Operations**  
**For the Three Months Ended September 30, 2008**  
**(unaudited)**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc.	Other Subsidiaries	Eliminations	Total
	(dollars in millions)						
Revenue	\$ —	\$ —	\$ 429	\$ —	\$ 703	\$ (62)	\$ 1,070
Costs and Expenses:							
Cost of Revenue	—	—	174	—	329	(59)	444
Depreciation and Amortization	—	—	91	—	142	—	233
Selling, General and Administrative	—	—	307	—	83	(3)	387
Restructuring and Impairment Charges	—	—	2	—	—	—	2
Total Costs and Expenses	—	—	574	—	554	(62)	1,066
Operating Income (Loss)	—	—	(145)	—	149	—	4
Other Income (Expense):							
Interest Income	—	1	3	—	—	—	4
Interest Expense	(39)	(91)	—	—	(3)	—	(133)
Interest Income (Expense)							
Affiliates, net	280	277	(574)	—	17	—	—
Equity in Net Earnings (Losses) of Subsidiaries	(363)	(550)	103	—	—	810	—
Other Income (Expense), net	2	—	2	—	1	—	5
Other Income (Expense)	(120)	(363)	(466)	—	15	810	(124)
Income (Loss) Before Income Taxes	(120)	(363)	(611)	—	164	810	(120)
Income Tax (Expense) Benefit	—	—	(1)	—	1	—	—
Net Income (Loss)	<u>\$ (120)</u>	<u>\$ (363)</u>	<u>\$ (612)</u>	<u>\$ —</u>	<u>\$ 165</u>	<u>\$ 810</u>	<u>\$ (120)</u>

**Condensed Consolidating Statements of Operations**  
**For the Nine Months Ended September 30, 2008**  
**(unaudited)**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc.	Other Subsidiaries	Eliminations	Total
	(dollars in millions)						
Revenue	\$ —	\$ —	\$ 1,275	\$ —	\$ 2,139	\$ (162)	\$ 3,252
Costs and Expenses:							
Cost of Revenue	—	—	510	—	1,023	(154)	1,379
Depreciation and Amortization	—	—	271	—	436	—	707
Selling, General and Administrative	1	—	972	—	239	(8)	1,204
Restructuring and Impairment Charges	—	—	13	—	—	—	13
Total Costs and Expenses	1	—	1,766	—	1,698	(162)	3,303
Operating Income (Loss)	(1)	—	(491)	—	441	—	(51)
Other Income (Expense):							
Interest Income	—	1	9	—	3	—	13
Interest Expense	(118)	(275)	—	(1)	(6)	—	(400)
Interest Income (Expense)							
Affiliates, net	595	828	(1,467)	—	44	—	—
Equity in Net Earnings (Losses) of Subsidiaries	(809)	(1,363)	426	—	—	1,746	—
Other Income (Expense), net	(1)	—	6	—	103	—	108
Other Income (Expense)	(333)	(809)	(1,026)	(1)	144	1,746	(279)
Income (Loss) Before Income Taxes	(334)	(809)	(1,517)	(1)	585	1,746	(330)
Income Tax Expense	—	—	(3)	—	(1)	—	(4)
Net Income (Loss)	<u>\$ (334)</u>	<u>\$ (809)</u>	<u>\$ (1,520)</u>	<u>\$ (1)</u>	<u>\$ 584</u>	<u>\$ 1,746</u>	<u>\$ (334)</u>

**Condensed Consolidating Statements of Operations**  
**For the Three Months Ended September 30, 2007**  
**(unaudited)**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc.	Other Subsidiaries	Eliminations	Total
	(dollars in millions)						
Revenue	\$ —	\$ —	\$ 357	\$ —	\$ 746	\$ (42)	\$ 1,061
Costs and Expenses:							
Cost of Revenue	—	—	136	—	357	(39)	454
Depreciation and Amortization	—	—	86	—	163	—	249
Selling, General and Administrative	—	—	331	—	87	(3)	415
Restructuring and Impairment Charges	—	—	1	—	—	—	1
Total Costs and Expenses	—	—	554	—	607	(42)	1,119
Operating Income (Loss)	—	—	(197)	—	139	—	(58)
Other Income (Expense):							
Interest Income	—	1	10	—	1	—	12
Interest Expense	(39)	(96)	—	—	(3)	—	(138)
Interest Income (Expense)							
Affiliates, net	189	251	(456)	—	16	—	—
Equity in Net Earnings (Losses) of Subsidiaries	(323)	(479)	121	—	—	681	—
Other Income (Expense), net	(1)	—	2	—	5	—	6
Other Income (Expense)	(174)	(323)	(323)	—	19	681	(120)
Income (Loss) Before Income Taxes	(174)	(323)	(520)	—	158	681	(178)
Income Tax Benefit	—	—	—	—	4	—	4
Net Income (Loss)	<u>\$ (174)</u>	<u>\$ (323)</u>	<u>\$ (520)</u>	<u>\$ —</u>	<u>\$ 162</u>	<u>\$ 681</u>	<u>\$ (174)</u>

**Condensed Consolidating Statements of Operations**  
**For the Nine Months Ended September 30, 2007**  
**(unaudited)**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc. (dollars in millions)	Other Subsidiaries	Eliminations	Total
Revenue	\$ —	\$ —	\$ 1,057	\$ 27	\$ 2,229	\$ (144)	\$ 3,169
Costs and Expenses:							
Cost of Revenue	—	—	405	—	1,079	(110)	1,374
Depreciation and Amortization	—	—	256	—	461	—	717
Selling, General and Administrative	2	—	996	27	292	(34)	1,283
Restructuring and Impairment Charges	—	—	6	—	1	—	7
Total Costs and Expenses	2	—	1,663	27	1,833	(144)	3,381
Operating Income (Loss)	(2)	—	(606)	—	396	—	(212)
Other Income (Expense):							
Interest Income	1	1	37	—	6	—	45
Interest Expense	(162)	(270)	—	(1)	(8)	—	(441)
Interest Income (Expense) Affiliates, net	589	725	(1,361)	—	47	—	—
Equity in Net Earnings (Losses) of Subsidiaries	(1,049)	(1,477)	344	—	—	2,182	—
Other Income (Expense), net	(400)	(28)	6	—	5	—	(417)
Other Income (Expense)	(1,021)	(1,049)	(974)	(1)	50	2,182	(813)
Income (Loss) Before Income Taxes	(1,023)	(1,049)	(1,580)	(1)	446	2,182	(1,025)
Income Tax Benefit	—	—	—	—	2	—	2
Net Income (Loss)	<u>\$ (1,023)</u>	<u>\$ (1,049)</u>	<u>\$ (1,580)</u>	<u>\$ (1)</u>	<u>\$ 448</u>	<u>\$ 2,182</u>	<u>\$ (1,023)</u>

**Condensed Consolidating Balance Sheets**  
**September 30, 2008**  
**(unaudited)**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc.	Other Subsidiaries	Eliminations	Total
	(dollars in millions)						
Assets							
Current Assets:							
Cash and cash equivalents	\$ 2	\$ 17	\$ 482	\$ —	\$ 81	\$ —	\$ 582
Marketable securities	—	—	—	—	5	—	5
Restricted cash and securities	—	—	2	—	1	—	3
Receivables, net	—	—	77	—	353	—	430
Due from (to) affiliates	11,001	9,102	(22,267)	18	2,146	—	—
Other	7	8	56	—	43	—	114
Total Current Assets	11,010	9,127	(21,650)	18	2,629	—	1,134
Property, Plant and Equipment, net	—	—	3,187	—	3,167	—	6,354
Restricted Cash and Securities	18	—	25	—	81	—	124
Goodwill and Other Intangibles, net	—	—	138	—	1,864	—	2,002
Investment in Subsidiaries	(7,723)	(12,597)	4,481	—	—	15,839	—
Other Assets, net	9	79	15	—	16	—	119
Total Assets	\$ 3,314	\$ (3,391)	\$ (13,804)	\$ 18	\$ 7,757	\$ 15,839	\$ 9,733
Liabilities and Stockholders' Equity							
(Deficit)							
Current Liabilities:							
Accounts payable	\$ —	\$ —	\$ 114	\$ —	\$ 202	\$ —	\$ 316
Current portion of long-term debt	323	—	—	1	4	—	328
Accrued payroll and employee benefits	—	—	82	—	7	—	89
Accrued interest	37	78	—	—	—	—	115
Current portion of deferred revenue	—	—	94	—	79	—	173
Other	—	1	62	—	58	—	121
Total Current Liabilities	360	79	352	1	350	—	1,142
Long-Term Debt, less current portion	2,118	4,216	—	19	82	—	6,435
Deferred Revenue, less current portion	—	—	633	—	104	—	737
Other Liabilities	33	42	212	—	329	—	616
Stockholders' Equity (Deficit)	803	(7,728)	(15,001)	(2)	6,892	15,839	803
Total Liabilities and Stockholders' Equity (Deficit)	\$ 3,314	\$ (3,391)	\$ (13,804)	\$ 18	\$ 7,757	\$ 15,839	\$ 9,733



**Condensed Consolidating Balance Sheets**  
**December 31, 2007**

	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Broadwing Financial Services, Inc.	Other Subsidiaries	Eliminations	Total
	(dollars in millions)						
Assets							
Current Assets:							
Cash and cash equivalents	\$ —	\$ 27	\$ 588	\$ —	\$ 99	\$ —	\$ 714
Marketable securities	8	—	—	—	1	—	9
Restricted cash and securities	—	—	7	—	3	—	10
Receivables, net	—	—	80	—	324	—	404
Due from (to) affiliates	10,575	8,549	(20,897)	20	1,753	—	—
Other	7	8	32	—	41	—	88
Total Current Assets	10,590	8,584	(20,190)	20	2,221	—	1,225
Property, Plant and Equipment, net	—	—	3,256	—	3,413	—	6,669
Restricted Cash and Securities	18	—	24	—	75	—	117
Goodwill and Other Intangibles, net	—	—	151	—	1,950	—	2,101
Investment in Subsidiaries	(6,951)	(11,270)	4,481	—	—	13,740	—
Other Assets, net	16	84	17	—	25	—	142
Total Assets	\$ 3,673	\$ (2,602)	\$ (12,261)	\$ 20	\$ 7,684	\$ 13,740	\$ 10,254
Liabilities and Stockholders' Equity (Deficit)							
Current Liabilities:							
Accounts payable	\$ —	\$ —	\$ 170	\$ —	\$ 226	\$ —	\$ 396
Current portion of long-term debt	25	—	—	1	6	—	32
Accrued payroll and employee benefits	—	—	88	—	9	—	97
Accrued interest	33	95	—	—	—	—	128
Current portion of deferred revenue	—	—	91	—	84	—	175
Other	—	—	47	—	97	—	144
Total Current Liabilities	58	95	396	1	422	—	972
Long-Term Debt, less current portion	2,511	4,217	—	20	84	—	6,832
Deferred Revenue, less current portion	—	—	644	—	119	—	763
Other Liabilities	34	37	208	—	338	—	617
Stockholders' Equity (Deficit)	1,070	(6,951)	(13,509)	(1)	6,721	13,740	1,070
Total Liabilities and Stockholders' Equity (Deficit)	\$ 3,673	\$ (2,602)	\$ (12,261)	\$ 20	\$ 7,684	\$ 13,740	\$ 10,254

**Condensed Consolidating Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2008**  
**(unaudited)**

	<u>Level 3 Communications, Inc.</u>	<u>Level 3 Financing, Inc.</u>	<u>Level 3 Communications, LLC</u>	<u>Broadwing Financial Services, Inc.</u>	<u>Other Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
	(dollars in millions)						
Net Cash Provided by (Used in) Operating Activities	\$ (110)	\$ (284)	\$ (194)	\$ (1)	\$ 771	\$ —	\$ 182
Cash Flows from Investing Activities:							
Capital expenditures	—	—	(126)	—	(216)	—	(342)
Proceeds from sale of business group, net	—	—	—	—	121	—	121
(Increase) decrease in restricted cash and securities, net	—	—	3	—	(5)	—	(2)
Proceeds from sale of property, plant and equipment and other assets	—	—	1	—	2	—	3
Other	—	—	2	—	—	—	2
Net Cash Used in Investing Activities	—	—	(120)	—	(98)	—	(218)
Cash Flows from Financing Activities:							
Payments on and repurchases of long-term debt	(95)	—	—	—	(3)	—	(98)
Increase (decrease) due from affiliates, net	205	274	208	1	(688)	—	—
Other	2	—	—	—	—	—	2
Net Cash Provided by (Used in) Financing Activities	112	274	208	1	(691)	—	(96)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	—	—	—	—
Net Change in Cash and Cash Equivalents	2	(10)	(106)	—	(18)	—	(132)
Cash and Cash Equivalents at Beginning of Period	—	27	588	—	99	—	714
Cash and Cash Equivalents at End of Period	<u>\$ 2</u>	<u>\$ 17</u>	<u>\$ 482</u>	<u>\$ —</u>	<u>\$ 81</u>	<u>\$ —</u>	<u>\$ 582</u>

**Condensed Consolidating Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2007**  
**(unaudited)**

	<b>Level 3 Communications, Inc.</b>	<b>Level 3 Financing, Inc.</b>	<b>Level 3 Communications, LLC</b>	<b>Broadwing Financial Services, Inc.</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
	(dollars in millions)						
Net Cash Provided by (Used in) Operating Activities	\$ (202)	\$ (221)	\$ (208)	\$ (14)	\$ 682	\$ —	\$ 37
Cash Flows from Investing Activities:							
Proceeds from sale and maturity of marketable securities	235	—	—	—	53	—	288
Decrease in restricted cash and securities, net	—	—	2	—	13	—	15
Capital expenditures	—	—	(203)	—	(277)	—	(480)
Acquisitions, net of cash acquired	—	—	(885)	—	217	—	(668)
Proceeds from sale of property, plant and equipment and other assets	—	—	2	—	2	—	4
Net Cash Provided by (Used in) Investing Activities	235	—	(1,084)	—	8	—	(841)
Cash Flows from Financing Activities:							
Long-term debt borrowings, net of issuance costs	—	2,349	—	—	—	—	2,349
Payments on and repurchases of long-term debt	(1,619)	(887)	—	—	(110)	—	(2,616)
Proceeds from warrants and stock-based equity plans	26	—	—	—	—	—	26
Increase (decrease) due from affiliates, net	1,545	(1,227)	236	14	(568)	—	—
Net Cash Provided by (Used in) Financing Activities	(48)	235	236	14	(678)	—	(241)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	2	—	4	—	6
Net Change in Cash and Cash Equivalents	(15)	14	(1,054)	—	16	—	(1,039)
Cash and Cash Equivalents at Beginning of Period	15	12	1,592	—	62	—	1,681
Cash and Cash Equivalents at End of Period	\$ —	\$ 26	\$ 538	\$ —	\$ 78	\$ —	\$ 642

**(15) Subsequent Event**

On multiple dates in early October 2008, the Company entered into exchange agreements with holders of various issues of its convertible debt and issued approximately 47.6 million shares of Level 3 common stock in exchange for approximately \$108 million aggregate principal amount of its convertible debt securities. These transactions were considered to be induced conversions in accordance with SFAS No. 84 “Induced Conversions of Convertible Debt — An Amendment of APB Opinion No. 26” (“SFAS No. 84”) and as a result, it is expected that Level 3 will record a non-cash loss in the fourth quarter of 2008 on the exchange of the \$108 million aggregate principal amount of convertible debt securities of approximately \$44 million consisting of \$43 million of debt conversion expense and \$1 million of previously capitalized debt issuance costs. The expected loss will be recorded in other income (expense).

The fourth quarter 2008 exchange transactions consisted of the following:

- \$18 million of 6% Convertible Subordinated Notes due 2009;
- \$47 million of 10% Convertible Senior Notes due 2011;
- \$19 million of 2.875% Convertible Senior Notes due 2010;
- \$15 million of 5.25% Convertible Senior Notes due 2011; and
- \$9 million of 3.5% Convertible Senior Notes due 2012.

## **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 Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "plan", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. For a more detailed description of these risks and factors, please see the Company's Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission and Item 1A in this Form 10-Q.

Level 3 Communications, Inc., through its operating subsidiaries, is primarily engaged in the communications business, with additional operations in coal mining.

### ***Communications***

The Company is a facilities based provider of a broad range of communications services. Revenue for communications services is recognized on a monthly basis as these services are provided. For contracts involving private line, wavelengths and dark fiber services, Level 3 may receive up-front payments for services to be delivered for a period of 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.

Communications revenue consists of:

- Core Communications Services
- Other Communications Services

The two categories of Communications revenue are in different phases of the service life cycle, requiring different levels of investment and focus, and providing different contributions to the Company's Communications Adjusted EBITDA. Management of Level 3 believes that growth in revenue from its Core Communications Services is critical to the long-term success of its communications business. At the same time, the Company believes it must continue to manage effectively the positive cash flows from its Other Communications Services. Core Communications Services includes revenue from Core Network Services and Wholesale Voice Services. Core Network Services includes revenue from transport and infrastructure, IP and data services, local and enterprise voice services and Level 3 Vyvx broadcast services. Wholesale Voice Services includes revenue from long distance voice services, including domestic voice termination, international voice termination and toll free services. Other Communications Services includes revenue from managed modem and its related reciprocal 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 ("WilTel").

The Company's transport and infrastructure services include metropolitan and intercity wavelengths, private line, ethernet private line, dark fiber, colocation services, professional services and transoceanic services. Growth in transport and infrastructure 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 services to its customers to directly connect customer locations with a private network. Pricing for end-to-end services has been stable. For metropolitan transport services, prices have been stable and in some instances are increasing. For intercity transport 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 partially offset by declines in unit pricing.

IP and data services primarily include the Company's high speed Internet access service, dedicated Internet access ("DIA") service, ATM and frame relay services, IP and ethernet virtual private network ("VPN") services, and content delivery network ("CDN") services, which includes streaming services. Level 3's Internet access service is a high quality and high-speed Internet access service offered in a variety of capacities. The Company's VPN services permit 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 services also permit 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 Communications 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 usage by both enterprises and consumers 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 stable, the IP market is generally characterized by price compression and high unit growth rates depending upon the type of service, resulting in growth in absolute revenue. The Company has experienced price compression in the high-speed IP market of approximately 30% and expects that its pricing for high-speed IP services will continue to decline during the remainder of 2008 at similar rates.

The Company's Core Network Services includes local and enterprise voice services. Local voice services are primarily components that enable other service providers to deliver business or consumer-ready voice products to their end customers. Enterprise voice services are business-grade voice services that the company sells directly to its business customers.

The Company, through its Level 3 Vyvx business, provides audio and video programming for its customers over the Company's fiber-optic network and via satellite. It uses the Company's fiber-optic network to carry live traditional broadcast and cable television events from the site of the event to the network control centers of the broadcasters of the event.

For live events where the location is not known in advance, such as breaking news stories in remote locations, the Company provides an integrated satellite and fiber-optic network-based service to transmit the content to its customers. Most of Level 3 Vyvx's customers for these services contract for the service on an event-by-event basis; however, there are some customers who have purchased a dedicated point-to-point service which enables these customers to transmit programming at any time.

Prior to the sale of the Vyvx advertising distribution business, Level 3 Vyvx distributed advertising spots to radio and television stations throughout the U.S., both electronically and in physical form. Customers for these services utilized a network-based method for aggregating, managing, storing and distributing content for content owners and rights holders.

On December 19, 2007, Level 3 announced that it had reached a definitive agreement to sell the Vyvx advertising distribution business to DG FastChannel, Inc. On June 5, 2008, Level 3 completed the sale of its Vyvx advertising distribution business to DG FastChannel, Inc. and received gross proceeds at closing of approximately \$129 million in cash. Level 3 has retained ownership of Vyvx's core broadcast business, including the Vyvx Services Broadcast Business' content distribution capabilities.

The financial results of the Vyvx advertising distribution business are included in the Company's consolidated results of operations through the date of sale on June 5, 2008.

Level 3 recognized a gain on the sale of the Vyvx advertising distribution business of \$96 million in the three months ended June 30, 2008. The gain is presented in the consolidated statements of operations as "Gain on sale of business group, net."

The Company expects to continue to develop its content distribution services through the acquisition of the Content Delivery Network services business ("CDN Business") of SAVVIS, which it purchased in January 2007 from SAVVIS, and the acquisition of Dublin, Ireland based Servecast Ltd., which it purchased in July 2007. The Company believes that the addition of the CDN Business with its strong, broad portfolio of patents will help the Company secure its commercial efforts in the heavily patented CDN market, in which a number of competitors have significant, patented intellectual property. Level 3 believes that one of the largest sources of future incremental demand for communications services will be derived from customers that are seeking to distribute their feature rich content or video over the Internet.

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's Other Communications Services are mature services that are not critical areas of emphasis for the Company. Other Communications Services includes revenue from managed modem and its related reciprocal compensation services and SBC Contract Services, which includes revenue from the SBC Master Services Agreement. 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. Additionally, America Online, a primary consumer of the Company's dial-up services, has been implementing a strategic change in its approach to its dial-up internet access business over the past few years that has accelerated the loss of its dial-up subscribers. During 2007, America Online's strategy accelerated the decline in managed modem revenue and is contributing to further declines in managed modem revenue in 2008. The declines in managed modem revenue from America Online have been offset to some extent by an increase in market share as a result of certain competitors exiting segments of this business. Level 3 believes that the low-cost structure of its network will enable it to compete aggressively for new business in the declining managed modem market.

The Company receives compensation from other carriers when it terminates traffic originating on those carriers' networks. This reciprocal compensation is based on interconnection agreements with the respective carriers or rates mandated by the FCC. The Company earns the majority of its reciprocal compensation revenue from providing managed modem services. The Company also receives reciprocal compensation from its voice services.

During the second quarter of 2008, the gross margin commitment on the SBC Master Services Agreement was satisfied, however AT&T, Inc. (AT&T), which merged with SBC in 2005, continues to purchase services from Level 3 as it continues to migrate the services provided under the agreement to its own network facilities.

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 assist with the Company's focus on delivery of communications services and meeting its financial objectives. To the extent that certain lines of business, business groups 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.

The Company is focusing its attention on the following operational and financial objectives:

- increasing sales and installations to rates that match customer demand;
- achieving sustainable generation of positive cash flows from operations in excess of capital expenditures;
- reducing network costs and operating expenses;
- growing Core Communications Services revenue, particularly Core Network Services revenue;
- continuing to show improvements in Adjusted EBITDA as a percentage of revenue;
- completing the integration of acquired businesses;
- growing its content delivery network services;
- continuing to implement its metro network strategy;
- managing cash flows provided by its Other Communications Services; and
- refinancing its future debt maturities.

The Company's management believes the introduction of new services or technologies, as well as the further development of existing technologies, may reduce the cost or increase the supply of certain services similar to those provided by Level 3. The ability of the Company to anticipate, adapt and invest in these technology changes in a timely manner may affect the Company's future success.

The communications industry continues to consolidate. Level 3 has participated in this process with the acquisitions of WilTel in 2005; Progress Telecom, LLC ("Progress Telecom"); ICG Communications, Inc. ("ICG Communications"); TelCove, Inc. ("TelCove") and Looking Glass Networks Holding Co., Inc. ("Looking Glass") in 2006; and Broadwing, the CDN Business and Servecast in 2007. Level 3 will continue to evaluate consolidation opportunities and could make additional acquisitions in the future.

The successful integration of acquired businesses into Level 3 is important to the success of Level 3. The Company must quickly identify synergies and integrate acquired networks and support organizations, while maintaining the service quality

levels expected by customers to realize the anticipated benefits of these acquisitions. Successful integration of these acquired businesses will depend on the Company's ability to manage these operations, realize opportunities for revenue growth presented by strengthened service offerings and expanded geographic market coverage, and to eliminate redundant and excess costs to fully realize the expected synergies. If the Company is not able to efficiently and effectively integrate the acquired businesses or operations, the Company may experience material negative consequences to its business, financial condition or results of operations.

Recent uncertainty in the global financial markets and economy could cause customers to defer purchases of Level 3's services or reduce demand for the Company's services, which could cause the Company's revenue and cash flows to be negatively affected.

In 2007, during the second quarter and portions of the third quarter, the Company's service activation times increased as a result of the following issues:

- Continuing to use the multiple order entry and provisioning systems and processes that were operated by the acquired companies to provision end-to-end services.
- Insufficient training on the multiple systems for employees performing service activation functions.
- Lack of sufficient staffing levels in some service activation areas.
- Identifying and fixing service activation throughput issues was challenging as a result of decentralizing service activation functions across the customer facing groups.

This increase in service activation cycle time had a negative effect on the Company's service installation intervals and the rate of Core Communications Services revenue growth during 2007. During this same period, the Company also experienced challenges in its service management processes that resulted in longer response times to resolve customer's network service issues. As a result of consolidating key operational functions and organizations as part of the integration effort, the Company's operating environment became more complex in the first half of 2007.

During the second and third quarters of 2007, the Company implemented certain process and organizational changes that were expected to improve service activation times and allow it to achieve its previously forecasted revenue and Adjusted EBITDA growth. However, these changes were not adequate to address the breadth of the problems encountered during the second and third quarters of 2007. As a result of these service activation and service management issues, the growth in Communications Services revenue and Adjusted EBITDA was lower than originally expected for the full year 2007.



The Company has taken steps to improve its existing processes and systems to address the increase in service activation times and improve its service management. With respect to the latter, the Company saw improvements in its service management during the fourth quarter of 2007 and the first nine months of 2008. Additionally, the Company believes it has implemented sufficient improvements in service activation capabilities to match installation capacity to customer demand for services.

The Company has ongoing process and system development work that is being implemented as part of the integration efforts which have and are expected to further address the service activation and service management issues of systems and processes utilized by acquired companies as well as provide significant overall improvements to operations. The processes and systems under development remain largely on track, with certain components deployed in the fourth quarter of 2007 and first nine months of 2008 and additional deployments scheduled through the end of 2008. While the operational benefits vary for each project, the Company expects to realize continued improvements in its operating environment during the remainder of 2008.

The Company has embarked on a strategy to expand its current metro presence. The strategy will allow the Company to increasingly terminate traffic over its owned metro facilities rather than paying third parties to terminate the traffic. Level 3's ability to provide high-speed bandwidth directly to customer facilities is expected to be a competitive advantage. The Company intends to offer a broad range of services in these markets and concentrate its sales efforts on bandwidth intensive businesses. The expansion into new metro markets should also provide additional opportunities to sell services on the Company's national and international networks. This metro strategy includes the acquisitions of Progress Telecom, ICG Communications, TelCove and Looking Glass. As part of its metro strategy, and as a result of the acquisition of TelCove in 2006 and Broadwing in the first quarter of 2007, the Company is also targeting enterprise customers directly through its Business Markets Group, which is described in more detail below. With the acquisition of the CDN Business in January 2007 and Servecast in July 2007, Level 3 embarked on a strategy to expand its content delivery services in both the United States and Europe.

The anticipated change in the composition of the Company's revenue will require the Company to manage operating expenses carefully and concentrate its capital expenditures on those technologies and assets that enable the Company to develop its Core Communications Services further and replace the decline in revenue and earnings from Other Communications Services.

Level 3 operates under four customer-facing market groups to serve the changing needs of customers in growing markets and drive growth across the organization:

- The Wholesale Markets Group services the communications needs of the largest national and global service providers, including carriers, cable companies, wireless companies, voice service providers, systems integrators and the federal government. These customers typically integrate Level 3 services into their own products and services to offer to their end user customers.
- The Business Markets Group targets enterprise customers and regional carriers who value a local, professional sales force. Specific customer markets include medium and large businesses, local and regional carriers, state and local government entities, and higher education institutions and consortia.
- The Content Markets Group focuses on serving media and content companies with large and growing bandwidth needs. Customers in this market include video distribution companies, providers of gaming, mega-portals, software service providers, social networking providers, as well as more traditional media distribution companies such as broadcasters, satellite companies, television networks and sports leagues.
- The European Markets Group serves large European consumers of bandwidth, including the largest European and international carriers, large system integrators, voice service providers, cable operators, Internet service providers, content providers, and government and education sectors.

The Company believes that the alignment around customer markets within Core Communications Services should allow it to drive growth while enabling it to better focus on the needs of its customers. Each of these groups is supported by dedicated employees in sales and marketing. Each of these groups is also supported by centralized service or product management and development, corporate marketing, global network services, engineering, information technology, and corporate functions including legal, finance, strategy and human resources.

Core Communications Services revenue by market group was as follows:

(dollars in millions)	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	\$	%	\$	%
Wholesale Markets Group	\$ 539	56%	\$ 1,628	56%
Business Markets Group	241	25%	722	25%
Content Markets Group	98	10%	298	10%
European Markets Group	86	9%	246	9%
Total Core Communications Services	<u>\$ 964</u>	<u>100%</u>	<u>\$ 2,894</u>	<u>100%</u>

(dollars in millions)	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	\$	%	\$	%
Wholesale Markets Group	\$ 506	56%	\$ 1,509	57%
Business Markets Group	240	26%	702	26%
Content Markets Group	96	11%	275	10%
European Markets Group	67	7%	181	7%
Total Core Communications Services	<u>\$ 909</u>	<u>100%</u>	<u>\$ 2,667</u>	<u>100%</u>

The classification of customers within each customer-facing market group can change based upon sales team assignments, merger and acquisition activity by customers and other factors. There were no material classification of customer changes within the market groups for the three and nine month periods ended September 30, 2008 and 2007, respectively.

In addition to the operational objectives mentioned above, the Company has also been focused on improving its liquidity, financial condition, and extending the maturity dates of certain debt and optimizing the effective interest rate on its outstanding debt.

### Coal Mining

Level 3, through its two 50% owned joint-venture surface mines in Montana and Wyoming, sells coal primarily through long-term contracts with public utilities. The long-term contracts for the delivery of coal establish the price, volume, and quality requirements of the coal to be delivered. Revenue under these and other contracts is generally recognized when coal is shipped to the customer.

### Critical Accounting Policies

The significant accounting policies set forth in Note 1 to the consolidated financial statements in the Company's Form 10-K for the year ended December 31, 2007 appropriately present, in all material respects, the current status of the Company's critical accounting policies, and are incorporated herein by reference.

### Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement was effective for financial assets and liabilities, as well as for non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis for fiscal years beginning after November 15, 2007 and interim periods within that fiscal year. FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2") defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for non-financial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. SFAS No. 157 did not have a material effect on the Company's consolidated results of operations during the nine months ended September 30, 2008 or financial condition as of September 30, 2008. The Company does not expect the adoption of the remaining portions of SFAS No. 157 to have a material effect on the Company consolidated results or financial position.

On February 15, 2007, the FASB issued SFAS No. 159. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” applies to all entities with available-for-sale and trading securities. The FASB’s stated objective in issuing this standard is as follows: “to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.” The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has assessed whether fair value accounting is appropriate for any of its eligible items and has concluded that it will not elect to use fair value accounting for any of these items. As a result, SFAS No. 159 did not have an effect on the Company’s consolidated results of operations or financial condition upon adoption on January 1, 2008.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141R retains the underlying concepts of SFAS No. 141 in that an entity is required to recognize the assets acquired and liabilities assumed at their fair value on the acquisition date. SFAS No. 141R will change the accounting treatment for certain specific acquisition related items to require: (1) expensing acquisition related costs as incurred; (2) expensing changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date; (3) valuing noncontrolling interests at fair value at the acquisition date; (4) generally expensing restructuring costs associated with an acquired business; and (5) capitalizing in-process research and development assets acquired. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company has not yet adopted SFAS No. 161.

On May 9, 2008, the FASB issued FSP APB 14-1, which requires issuers of a certain type of convertible debt to separately account for the debt and equity components of the convertible debt in a way that reflects the issuer’s borrowing rate at the date of issuance for similar debt instruments without the conversion feature. FSP APB 14-1 applies to certain of the Company’s convertible debt. FSP APB 14-1 is effective for Level 3 beginning on January 1, 2009 and will be applied retrospectively to all quarterly and annual periods that will be presented in the Company’s consolidated financial statements. Early adoption of FSP APB 14-1 is not permitted. Although the Company is continuing to evaluate the effect of FSP APB 14-1, it is expected that the adoption of FSP APB 14-1 will significantly increase its non-cash interest expense and reduce basic and diluted earnings per share.

**Results of Operations for the Three and Nine Months Ended September 30 , 2008 and 2007 :**

(dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	Change %	September 30, 2008	September 30, 2007	Change %
<b>Revenue:</b>						
Communications	\$ 1,054	\$ 1,043	1%	\$ 3,192	\$ 3,115	2%
Coal mining	16	18	-11%	60	54	11%
Total revenue	1,070	1,061	1%	3,252	3,169	3%
<b>Costs and Expenses (exclusive of depreciation and amortization shown separately below):</b>						
<b>Cost of revenue:</b>						
Communications	425	438	-3%	1,326	1,325	0%
Coal mining	19	16	19%	53	49	8%
Total cost of revenue	444	454	-2%	1,379	1,374	0%
Depreciation and amortization	233	249	-6%	707	717	-1%
Selling, general and administrative	387	415	-7%	1,204	1,283	-6%
Restructuring and impairment charges	2	1	100%	13	7	86%
Total costs and expenses	1,066	1,119	-5%	3,303	3,381	-2%
Operating Income (Loss)	4	(58)	107%	(51)	(212)	-76%
<b>Other Income (Expense):</b>						
Interest income	4	12	-67%	13	45	-71%
Interest expense	(133)	(138)	-4%	(400)	(441)	-9%
Gain on sale of business group	—	—	—	96	—	—
Gain (loss) on early extinguishment of debt, net	3	—	—	3	(427)	101%
Other, net	2	6	-67%	9	10	-10%
Total other income (expense)	(124)	(120)	3%	(279)	(813)	-66%
Loss Before Income Taxes	(120)	(178)	-33%	(330)	(1,025)	-68%
Income Tax (Expense) Benefit	—	4	-100%	(4)	2	-300%
Net Loss	<u>\$ (120)</u>	<u>\$ (174)</u>	-31%	<u>\$ (334)</u>	<u>\$ (1,023)</u>	-67%

**Communications** revenue consists of:

- 1) Core Communications Services, which includes Core Network Services and Wholesale Voice Services;
  - Core Network Services includes revenue from transport and infrastructure, IP and data services, local and enterprise voice services and Level 3 Vyvx broadcast services.
  - Wholesale Voice Services includes revenue from long distance voice services, including domestic voice termination, international voice termination and toll free services.
- 2) Other Communications Services includes revenue from managed modem and its related reciprocal 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 revenue attributable to each of these services is as follows:

(dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2008	September 30, 2007	Change %	September 30, 2008	September 30, 2007	Change %
<b>Core Communications Services</b>						
Core Network Services	\$ 791	\$ 756	5%	\$ 2,362	\$ 2,211	7%
Wholesale Voice Services	173	153	13%	532	456	17%
Total Core Communication Services	964	909	6%	2,894	2,667	9%
Other Communication Services	90	134	-33%	298	448	-33%
Total Communications	\$ 1,054	\$ 1,043	1%	\$ 3,192	\$ 3,115	2%

***Comparisons of the Three and Nine Months Ended September 30, 2008 to the Three and Nine Months Ended September 30, 2007***

**Communications Revenue** increased 1% in the third quarter of 2008 compared to the third quarter of 2007 and increased 2% in the nine months ended September 30, 2008 compared to the same period in 2007. Contributing to these increases in Communications revenue was an increase in Core Communications Services revenue in both the third quarter of 2008 and the nine months ended September 30, 2008 compared to the same periods in 2007. These increases in Core Communications Services revenue are the result of a combination of growth in the Company's Core Network Services and Wholesale Voice Services.

The Company experienced growth across several services in the third quarter of 2008 and nine months ended September 30, 2008 compared to the same periods in 2007, including infrastructure, colocation, metro wavelengths and private line transport services, IP, data, including CDN services, local inbound voice services and Vyvx broadcast services within Core Network Services. The Company also continues to experience strong demand for infrastructure and transport services for complex nationwide solutions and colocation capacity in large markets. Vyvx broadcast revenue increased primarily as a result of the proliferation of high definition sports, news and entertainment programming. Partially offsetting the increase in Core Network Services revenue was lower Vyvx advertising distribution revenue. On June 5, 2008, the Company completed the sale of the Vyvx advertising distribution business and therefore only recorded Vyvx advertising distribution revenue in 2008 from January 1, 2008 through June 5, 2008, the date of sale. Revenue attributable to the Vyvx advertising distribution business was zero for the third quarter of 2008 compared to \$10 million for the third quarter of 2007 and \$15 million in the nine months ended September 30, 2008 compared to \$25 million in the nine months ended September 30, 2007.

The increase in Wholesale Voice Services revenue is attributable to an increase in voice termination and toll free voice services. The growth in voice termination revenue is primarily attributable to an increase in demand from cable and wireless customers. Toll free revenue increased primarily due to higher traffic attributable to conferencing customers. The Company continues to concentrate its sales efforts on maintaining margins approaching 30% for these services. The Company may experience some volatility in revenue as a result of this strategy.

Other Communications Revenue declined to \$90 million in the third quarter of 2008 from \$134 million in third quarter of 2007 and decreased to \$298 million for the nine months ended September 30, 2008 from \$448 million for the same period in 2007. The decreases are primarily the result of a decline in managed modem revenue as a result of the continued migration from narrow band dial-up services to higher speed broadband services by end user customers, especially in large metropolitan areas. The Company expects managed modem revenue to continue to decline in the future due to an increase in the number of subscribers migrating to broadband services and potential pricing concessions in 2009 as contracts are renewed.

Reciprocal compensation revenue from managed modem services also declined in the third quarter and first nine months of 2008 compared to the same periods in 2007 as a result of the continuing decline in demand for managed modem services. The Company has historically earned the majority of its reciprocal compensation revenue from managed modem services, although the Company continues to generate a portion of its reciprocal compensation revenue from voice services.

Also contributing to the decrease was lower SBC Contract Services revenue as a result of the migration of the SBC traffic to the AT&T network and the satisfaction by SBC of its gross margin commitment under the SBC Master Services Agreement in the second quarter of 2008.

**Coal mining** revenue decreased to \$16 million in the third quarter 2008 from \$18 million in the third quarter 2007 primarily as a result of lower contractual selling prices with customers based on their purchasing volumes. The Company expects to experience similar pricing pressure in the fourth quarter of 2008 based on its contractual agreements with its customers.

Coal mining revenue increased to \$60 million for the nine months ended September 30, 2008 from \$54 million for the same period in 2007 primarily as a result of a long-term supply contract that enabled a customer to buyout future coal purchase commitments with the Company. The Company does not have any further obligations with respect to future coal commitments under the contract, and therefore recognized the transaction as revenue in the first quarter of 2008.

**Cost of Revenue** for the communications business, as a percentage of communications revenue, was 40.3% for the third quarter of 2008 compared to 42.0% for the third quarter of 2007 and 41.5% for the nine months ended September 30, 2008 compared to 42.5% for the same period in 2007. The decreases are primarily attributable to the synergies derived from acquisitions. During 2007 and the first part of 2008, the Company was able to eliminate the costs associated with duplicate circuits serving the same markets. Also contributing to the decreases was the continued reduction in Other Communications Services revenue, in particular, SBC Contract Services revenue. The gross margins for SBC Contract Services revenue are lower than the gross margins for Core Communications Services revenue and managed modem and reciprocal compensation from managed modem revenue. Partially offsetting these decreases were increases in Wholesale Voice Services revenue as a percentage of total communications revenue. The incremental gross margins for Wholesale Voice Services revenue are approximately 30% versus 80% for Core Network Services revenue.

**Coal mining** cost of revenue approximated 119% of coal mining revenue for the third quarter of 2008 and 89% for the same period in 2007. The increase in coal mining cost of revenue as a percentage of coal mining revenue for the third quarter of 2008 is the result of lower selling prices and an increase in energy costs to mine the coal.

Coal mining cost of revenue decreased to 88% of coal mining revenue for the nine months ended September 30, 2008 compared to 91% in the same period of 2007 primarily due to the buyout by a coal customer of future coal purchase commitments resulting in revenue with no associated costs in the first quarter of 2008.

**Depreciation and Amortization** expense decreased 6% to \$233 million for the third quarter of 2008 from \$249 million in the third quarter of 2007. The decrease is primarily attributable to reduced depreciation and amortization expense associated with shorter-lived tangible and intangible communications assets becoming fully depreciated or amortized in 2008 and reduced amortization expense on intangible assets due to the useful lives and valuation changes made in the fourth quarter of 2007. In addition, \$22 million of carrying value of amortizable intangible assets were disposed of in the Vyvx advertising distribution sale, which also contributed to lower amortization expense in the third quarter of 2008.

Depreciation and amortization expense decreased 1% to \$707 million for the nine months ended September 30, 2008 compared to \$717 million for the same period in 2007 and the Company expects depreciation and amortization expense to decrease in 2008 on an overall basis compared to 2007 primarily as a result of the factors described in the preceding paragraph.

**Selling, General and Administrative** expenses decreased 7% to \$387 million in the third quarter of 2008 compared to \$415 million in the third quarter of 2007 and decreased 6% to \$1.2 billion for the nine months ended September 30, 2008 compared to \$1.3 billion for the same period in 2007. These decreases are primarily attributable to the synergies that have been achieved as a result of acquisition integration efforts and the Company's focus on reducing operating expenses. Specifically, decreases in employee compensation and related costs, professional fees and vendor services, and facilities-based expenses have all contributed to the decreases in selling, general and administrative expenses in the third quarter and first nine months of 2008, respectively. Included in selling, general and administrative expenses for the third quarter of 2008 and 2007 were \$18 million and \$24 million, respectively, of non-cash, stock-based compensation expenses. Included in selling, general and administrative expenses for the nine months ended September 30, 2008 and 2007 were \$61 million and \$72 million, respectively, of non-cash, stock-based compensation expenses.

The Company expects selling, general and administrative expenses to decrease in 2008 on an overall basis compared to 2007 as a result of reduced integration costs, reductions in headcount related to restructuring activities and expected business process and system efficiencies.

**Restructuring and Impairment Charges** increased to \$2 million in the third quarter of 2008 from \$1 million in the third quarter of 2007 and increased to \$13 million for the nine months ended September 30, 2008 compared to \$7 million for the same period in 2007 as a result of an increase in costs associated with employee terminations. See Note 3 of the Notes to Consolidated Financial Statements for more details.

The Company expects to continue to record restructuring charges during the remainder of 2008 in connection with the continued integration of businesses acquired in 2006 and 2007 and as a result of the deployment of improved business processes and systems during 2008 that should result in additional headcount reductions.

To the extent that impairment indicators are present that suggest the carrying amount of the Company's long-lived assets, including goodwill, may not be recoverable, the Company may incur impairment charges in the future to write-down the carrying amount of the Company's long-lived assets, including goodwill, to its estimated fair value.

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

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

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense, income taxes and gain (loss) on extinguishment of debt 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 should be evaluated through cash flow measures. Adjusted EBITDA excludes the gain on sale of business group and 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 taxes, depreciation and amortization, non-cash impairment charges, non-cash stock compensation expense, gain (loss) on early extinguishment of debt, the gain on sale of business group and net other income (expense). Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Note 12 of the Notes to Consolidated Financial Statements provides a reconciliation of Adjusted EBITDA for each of the Company's operating segments.



Adjusted EBITDA for the communications business was \$257 million for the third quarter of 2008 compared to \$215 million for the third quarter of 2007 and \$715 million for the nine months ended September 30, 2008 compared to \$577 million for the same period in 2007. The increases in Adjusted EBITDA for the communications business are primarily attributable to the growth in the Company's Core Communications Services revenue and the benefits of continued operating expense reductions from integration activities, partially offset by declines in Other Communications Services revenue.

The Company continues to expect Adjusted EBITDA to increase in 2008 compared to 2007 to a range of \$980 million to \$1.0 billion. The expected increase in Adjusted EBITDA is based on continued growth in Core Communications Services revenue, the realization of synergies from integration activities and operating expense reductions.

**Interest Income** decreased to \$4 million in the third quarter of 2008 from \$12 million in the third quarter of 2007 and decreased to \$13 million for the nine months ended September 30, 2008 compared to \$45 million for the same period in 2007. The decreases in interest income were primarily due to a decrease in the Company's average invested cash balances and a decrease in the average returns on the portfolio. The Company's average return on its portfolio decreased to 2.0% in the third quarter of 2008 compared to 4.9% in the third quarter of 2007. The average portfolio balance decreased to \$788 million in the third quarter of 2008 compared to \$822 million in third quarter of 2007. The Company's average return on its portfolio decreased to 2.4% in the first nine months of 2008 compared to 5.0% in the first nine months of 2007. The average portfolio balance decreased to \$734 million in the first nine months of 2008 compared to \$1.1 billion in the first nine months of 2007.

The Company invests its funds primarily in government and government agency securities, money market funds and commercial paper depending on liquidity requirements. The Company's investment strategy generally provides lower yields on the funds than would be obtained on alternative investments, but reduces the risk to principal in the short term prior to these funds being used in the Company's business.

**Interest Expense** decreased 4% to \$133 million in the third quarter of 2008 from \$138 million in the third quarter of 2007. Interest expense decreased primarily as a result of a decrease in interest rates on the Company's unhedged variable rate debt. Interest rates on the Company's unhedged variable rate debt approximated 5.7% for the three months ended September 30, 2008 and 8.3% for the three months ended September 30, 2007. Interest expense also decreased as a result of the third quarter 2008 debt repurchases. See Note 9 of the Notes to Consolidated Financial Statements for more details.

Interest expense decreased 9% to \$400 million for the nine months ended September 30, 2008 from \$441 million for the same period in 2007. Interest expense decreased primarily as a result of the refinancing activities that were completed by the Company in the first quarter of 2007. The overall reduction in interest expense is the net result of the following debt issuances, debt for equity exchanges, debt redemptions and debt repurchase transactions:

Interest expense increased as a result of the following debt issuances:

- \$1 billion of Senior Notes issued in February 2007 consisting of \$700 million of 8.75% Senior Notes due 2017 and \$300 million of Floating Rate Senior Notes due 2015.
- \$1.4 billion Senior Secured Term Loan due 2014 entered into in March 2007 to refinance the previously existing \$730 million Senior Secured Term Loan due 2011.

The increase in interest expense from debt issuances described above was more than offset by the following debt for equity exchanges, debt redemptions and debt repurchases completed during the first quarter of 2007:

- \$605 million of 10% Convertible Senior Notes due 2011 exchanged in January 2007 for 197 million shares of common stock.
- \$488 million of 12.875% Senior Notes due 2010 redeemed in March 2007.
- \$96 million of 11.25% Senior Notes due 2010 redeemed in March 2007
- \$138 million (€104 million) of 11.25% Senior Euro Notes due 2010 redeemed in March 2007.
- \$144 million of Floating Rate Notes due 2011 repurchased in March 2007.



- \$59 million of 11% Senior Notes due 2008 repurchased in March 2007.
- \$677 million of 11.5% Senior Notes due 2010 repurchased in March 2007.
- \$61 million (€46 million) of 10.75% Senior Euro Notes due 2008 repurchased in March 2007.

**Gain on Sale of Business Group** totaled \$96 million for the nine months ended September 30, 2008 compared to zero for the same periods in 2007. On December 19, 2007, Level 3 announced that it had reached a definitive agreement to sell the Vyvx advertising distribution business to DG FastChannel, Inc. On June 5, 2008, Level 3 completed the sale of its Vyvx advertising distribution business to DG FastChannel, Inc. and recognized a gain on the sale of \$96 million in the second quarter of 2008. See Note 2 of the Notes to Consolidated Financial Statements for more details.

**Gain (Loss) on Extinguishment of Debt** was a gain of \$3 million for the three months ended September 30, 2008 compared to zero for the three months ended September 30, 2007. There was a gain on extinguishment of debt of \$3 million for the nine months ended September 30, 2008 compared to a loss on extinguishment of debt of \$427 million for the nine months ended September 30, 2007. The gain (loss) on extinguishment of debt consisted of the following:

Nine months ended September 30, 2008

- \$2 million gain recognized for the September 2008 repurchase of \$32 million aggregate principal amount of 6% Convertible Subordinated Notes due 2010. Unamortized debt issuance costs totaled less than \$1 million.
- \$1 million gain recognized for the September 2008 repurchase of \$39 million aggregate principal amount of 6% Convertible Subordinated Notes due 2009. Unamortized debt issuance costs totaled less than \$1 million.

Nine months ended September 30, 2007

- \$177 million loss recognized for the January 2007 exchange of \$605 million of 10% Convertible Senior Notes due 2011 for approximately 197 million shares of the Company's common stock. The loss included \$1 million of unamortized debt issuance costs.
- \$10 million loss recognized for the March 2007 refinancing of the Company's \$730 million Senior Secured Term Loan due 2011 into a \$1.4 billion Senior Secured Term Loan due 2014. The loss consisted of unamortized debt issuance costs associated with the previous \$730 million Senior Secured Term Loan due 2011.
- \$54 million loss recognized on the redemption of \$722 million of outstanding debt consisting of the following debt transactions:
  - \$12 million loss on the redemption of \$488 million of outstanding 12.875% Senior Notes due 2010 consisting of a \$10 million cash loss and \$2 million in unamortized debt issuance costs.
  - \$3 million loss on the redemption of \$96 million of outstanding 11.25% Senior Notes due 2010 consisting of a \$2 million cash loss and \$1 million in unamortized debt issuance costs.
  - \$39 million loss on the redemption of \$138 million (€104 million) of outstanding 11.25% Senior Euro Notes due 2010 consisting of a \$38 million cash loss and \$1 million of unamortized debt issuance costs.
- \$186 million loss recognized on the repurchase through tender offers of \$941 million of outstanding debt consisting of the following debt issuances:
  - \$18 million loss on the repurchase of \$144 million of outstanding Floating Rate Senior Notes due 2011 consisting of a \$12 million cash loss and \$6 million in unamortized debt issuance costs and unamortized discount.
  - \$3 million loss on the repurchase of \$59 million of outstanding 11% Senior Notes due 2008 consisting of a \$3 million cash loss and less than \$1 million in unamortized debt issuance costs.

- \$141 million loss on the repurchase of \$677 million of outstanding 11.5% Senior Notes due 2010 consisting of a \$78 million cash loss and \$63 million in unamortized debt issuance costs and unamortized discount.
- \$24 million loss on the repurchase of \$61 million (€46 million) of outstanding 10.75% Senior Euro Notes due 2008 consisting of a \$24 million cash loss and less than \$1 million in unamortized debt issuance costs.

The Company expects to 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. For example, on multiple dates in early October 2008, the Company entered into exchange agreements with holders of various issues of its convertible debt and issued approximately 47.6 million shares of Level 3 common stock in exchange for approximately \$108 million aggregate principal amount of its convertible debt securities. These transactions were considered to be induced conversions in accordance with SFAS No. 84 and as a result, it is expected that Level 3 will record a non-cash loss in the fourth quarter of 2008 on the exchange of the \$108 million aggregate principal amount of convertible debt securities of approximately \$44 million consisting of \$43 million of debt conversion expense and \$1 million of previously capitalized debt issuance costs. The expected loss will be recorded in other income (expense).

The fourth quarter 2008 exchange transactions consisted of the following:

- \$18 million of 6% Convertible Subordinated Notes due 2009;
- \$47 million of 10% Convertible Senior Notes due 2011;
- \$19 million of 2.875% Convertible Senior Notes due 2010;
- \$15 million of 5.25% Convertible Senior Notes due 2011; and
- \$9 million of 3.5% Convertible Senior Notes due 2012.

**Other, net** was \$2 million and \$6 million in the three months ended September 30, 2008 and 2007, respectively, and, \$9 million and \$10 million in the nine months ended September 30, 2008 and 2007, respectively. Other, net is primarily comprised of gains and losses on the sale of non-operating assets, realized foreign currency gains and losses and other income.

**Income Tax (Expense) Benefit** was zero in the three months ended September 30, 2008. Income tax expense was \$4 million in the nine months ended September 30, 2008 and primarily reflects state income taxes. Income tax benefit was \$4 million and \$2 million in the three and nine months ended September 30, 2007, respectively. During the third quarter of 2007, the Company recognized a benefit of \$6 million including accrued interest and penalties related to the favorable resolution of an income tax matter during the period, which was offset by the accrual of \$2 million for new matters identified during the period. The Company incurs income tax expense attributable to income from various Level 3 subsidiaries and joint ventures, including coal, that are required to file state or foreign income tax returns on a separate legal entity basis.

### Financial Condition—September 30, 2008

Cash flows provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2008 and 2007 are summarized as follows:

(dollars in millions)	Nine Months Ended		
	September 30, 2008	September 30 2007	Change
Net Cash Provided By Operating Activities	\$ 182	\$ 37	\$ 145
Net Cash Used in Investing Activities	(218)	(841)	623
Net Cash Used in Financing Activities	(96)	(241)	145
Effect of Exchange Rates on Cash and Cash Equivalents	—	6	(6)
Net Change in Cash and Cash Equivalents	<u>\$ (132)</u>	<u>\$ (1,039)</u>	<u>\$ 907</u>

### ***Operating Activities***

Cash flows provided by operating activities totaled \$182 million for the nine months ended September 30, 2008 compared to \$37 million for the same period in 2007. The improvement in cash flows from operating activities was primarily due to an increase in Adjusted EBITDA, favorable changes in working capital items and lower interest payments. The favorable change in working capital items is primarily due to the changes in accounts payable and other current liabilities, partially offset by changes in accounts receivable, other current assets and deferred revenue.

### ***Investing Activities***

Cash used in investing activities decreased by \$623 million for the nine months ended September 30, 2008 compared to the same period in 2007. Cash used for acquisitions totaled \$668 million, net of cash acquired, for the nine months ended September 30, 2007 as a result of the acquisitions of Broadwing, Servecast and the CDN business. The Company did not complete any acquisitions in the nine months ended September 30, 2008. In addition, the Company received net proceeds from the sale of the Vyvx advertising distribution business of \$121 million in the nine months ended September 30, 2008. The Company also reduced its capital expenditures by \$138 million in the nine months ended September 30, 2008, compared to the same period in 2007, primarily as a result of a reduction in integration-related capital expenditures and more efficiently managing capital expenditure requirements. Partially offsetting these favorable changes in 2008 was cash received in 2007 of \$288 million from the maturity of marketable securities and a decrease in restricted cash in 2007.

### ***Financing Activities***

Cash used in financing activities decreased \$145 million in the nine months ended September 30, 2008 compared to the same period in 2007. In 2008, the Company repaid the final amounts due under the 11% Senior Notes and 10.75% Senior Euro Notes of \$26 million and repurchased a portion of its 6% Convertible Subordinated Notes due 2009 and 2010 for approximately \$68 million. For the nine months ended September 30, 2007, cash flows from financing activities include approximately \$2.4 billion of net proceeds from the issuance of the Floating Rate Senior Notes due 2015, the 8.75% Senior Notes due 2017 and the Senior Secured Credit Facility due 2014. The Company used the net proceeds from these offerings along with cash on hand to retire or refinance approximately \$2.6 billion of its debt. Financing activities for the nine months ended September 30, 2007 also include proceeds of \$26 million from the exercise of warrants associated with the Broadwing transaction and other equity-based instruments.

### **Liquidity and Capital Resources**

The Company incurred net losses of \$120 million and \$334 million for the three and nine months ended September 30, 2008, respectively. This compares to net losses of \$174 million and \$1.023 billion for the three and nine months ended September 30, 2007, respectively. In addition, the Company used \$342 million for capital expenditures and generated \$182 million in cash flows from operating activities for the nine months ended September 30, 2008. This compares to \$480 million of cash used for capital expenditures and \$37 million of cash flows provided by operating activities for the nine months ended September 30, 2007.

Cash flows from operations approximated capital expenditures in the second and third quarters of 2008 and the Company expects cash flows from operations will exceed its capital expenditures during the remainder of 2008 and for the full year 2009. In addition, the Company expects Adjusted EBITDA to improve in 2008 to a range of \$980 million to \$1.0 billion. The expected improvement in Adjusted EBITDA and generation of cash flow from operations, net of capital expenditures, is based on continued growth in Core Communications Services revenue, particularly Core Network Services revenue, improvements in service delivery times, synergies from integration activities and operating expense reductions.

Interest payments are expected to be lower than the \$545 million made in 2007 based on current debt outstanding, current interest rates on the Company's variable rate debt and the financing and other capital markets transactions completed in 2007 and 2008. On multiple dates in early October 2008, the Company entered into exchange agreements with holders of various issues of its convertible debt and issued approximately 47.6 million shares of Level 3 common stock in exchange for approximately \$108 million aggregate principal amount of its convertible debt securities. Capital expenditures for 2008 are expected to be in the range of 11% to 12% of revenue and significantly lower than the \$633 million in 2007 due to lower integration-related capital expenditures and the more efficient management of our capital expenditure requirements, including the re-use of equipment already installed in the network. The Company expects to spend approximately \$150 million to \$200 million for base capital expenditures (estimated capital required to keep the network operating efficiently and product development) with the remaining capital expenditures expected to be success-based, or tied to incremental revenue. Subsequent to the October 2008 debt exchanges, the Company has contractual obligations, including capital lease and

commercial mortgage obligations, relating to debt of approximately \$309 million that mature in 2009 and \$920 million that matures in 2010. The Company's commercial mortgage obligation may be extended to 2015 at the election of the Company. The Company expects to refinance its 2010 debt maturities in advance of their respective maturity dates.

Level 3 had \$587 million of cash, cash equivalents and marketable securities on hand at September 30, 2008. In addition, \$127 million of current and non-current restricted securities are used to collateralize outstanding letters of credit, long-term debt, certain operating obligations of the Company or certain reclamation liabilities associated with the coal business. Based on information available at this time, 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 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 then 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. For example, on June 5, 2008, Level 3 completed the sale of its Vyvx advertising distribution business to DG FastChannel, Inc. and received gross proceeds at closing of approximately \$129 million in cash. Net proceeds received in the nine months ended September 30, 2008 approximated \$121 million after deducting transaction-related costs.

The communications industry continues to consolidate. Level 3 has participated in this process with the acquisitions of several companies in 2006 and 2007. Level 3 will continue to evaluate consolidation opportunities and could make additional acquisitions in the future.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Level 3 is subject to market risks arising from changes in interest rates and foreign exchange rates. As of September 30, 2008, the Company had borrowed a total of \$1.7 billion primarily under a Senior Secured Term Loan due 2014 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 September 30, 2008, was approximately 5.3%.

In March 2007, Level 3 Financing 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.

The remaining, or unhedged, variable rate debt has a weighted average interest rate of 5.7% at September 30, 2008. A hypothetical increase in the weighted average rate by 1% (i.e. a weighted average rate of 6.7%) would increase annual interest expense of the Company by approximately \$7.0 million. At September 30, 2008, the Company had \$5.1 billion (excluding discounts and premiums) of fixed rate debt bearing a weighted average interest rate of 7.9%. 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 loan agreements that would require the Company to repurchase the debt at specified premiums if redeemed early.

The Company operates telecommunications network businesses in Europe. As of September 30, 2008, the Company had invested significant amounts of capital in Europe for its communications businesses. The Company does not make use of financial instruments to minimize its exposure to foreign currency fluctuations.

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.

#### **Item 4. Controls and Procedures**

(a) *Disclosure controls and procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2008. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal controls.* There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the period covered by this Quarterly Report on Form 10-Q 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**

The Company has provided an update to legal proceedings involving the Company in Note 13 of the consolidated financial statements contained in Part I, Item 1, of this Form 10-Q. This disclosure is hereby incorporated by reference to this Item 1.

#### **Item 1A Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in Level 3's Form 10-K for the year ended December 31, 2007, which could materially affect Level 3's business, financial condition or future results. The risks described in Level 3's Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to Level 3 or that it currently deems to be immaterial also may materially adversely affect Level 3's business, financial condition and/or operating results. The Risk Factors included in the Company's Form 10-K for the year ended December 31, 2007, have not materially changed other than as set forth below.

#### ***Current uncertainty in the global financial markets and the global economy may negatively affect Level 3's financial results.***

Current uncertainty in the global financial markets and economy may negatively affect Level 3's financial results. The Company's customers may defer purchases of Level 3's services in response to tighter credit and negative financial news or reduce their demand for the Company's services. If customers defer purchases of Level 3's services or demand for the Company's services is reduced as a result of economic conditions, the Company's revenue and cash flows could be negatively affected.

#### **Level 3 has substantial debt, which may hinder its growth and put Level 3 at a competitive disadvantage.**

Level 3's substantial debt may have important consequences, including the following:

- the ability to obtain additional financing for acquisitions, working capital, investments and capital or other expenditures could be impaired or financing may not be available on acceptable terms;
- a substantial portion of Level 3's cash flows will be used to make principal and interest payments on outstanding debt, reducing the funds that would otherwise be available for operations and future business opportunities;
- a substantial decrease in cash flows from operating activities or an increase in expenses could make it difficult to meet debt service requirements and force modifications to operations;
- Level 3 has more debt than certain of its competitors, which may place Level 3 at a competitive disadvantage; and
- substantial debt may make Level 3 more vulnerable to a downturn in business or the economy generally.

Level 3 has substantial deficiencies of earnings to cover fixed charges of approximately \$292 million for the nine months ended September 30, 2008. Level 3 had deficiencies of earnings to cover fixed charges of \$1.068 billion for the fiscal year ended December 31, 2007, \$720 million for the fiscal year ended December 31, 2006, \$634 million for the fiscal year ended December 31, 2005, \$409 million for the fiscal year ended December 31, 2004, and \$681 million for the fiscal year 2003.

**Level 3 may not be able to repay its existing debt; failure to do so or refinance the debt could prevent Level 3 from implementing its strategy and realizing anticipated profits.**

If Level 3 were unable to refinance its debt or to raise additional capital on acceptable terms, Level 3's ability to operate its business would be impaired. As of September 30, 2008, Level 3 had an aggregate of approximately \$6.8 billion of long-term debt on a consolidated basis and including current maturities, and approximately \$803 million of stockholders' equity.

Level 3's ability to make interest and principal payments on its debt and borrow additional funds on favorable terms depends on the future performance of the business. If Level 3 does not have enough cash flow in the future to make interest or principal payments on its debt, Level 3 may be required to refinance all or a part of its debt or to raise additional capital. Level 3 cannot be sure that it will be able to refinance its debt or raise additional capital on acceptable terms.

**Recent disruptions in the financial markets could affect Level 3's ability to obtain debt or equity financing or to refinance its existing indebtedness on reasonable terms (or at all), and have other adverse effects on the Company.**

Widely-documented commercial credit market disruptions have resulted in a tightening of credit markets worldwide. Liquidity in the global credit markets have been severely contracted by these market disruptions, making it costly to obtain new lines of credit or to refinance existing debt, when debt financing is available at all. The effects of these disruptions are widespread and difficult to quantify, and it is impossible to predict when the global credit markets will improve or when the credit contraction will stop. As a result of the ongoing credit market turmoil, Level 3 may not be able to obtain debt or equity financing or to refinance its existing indebtedness on favorable terms (or at all), which could affect the Company's strategic operations and its financial performance and force modifications to its operations.

**Item 6. Exhibits**

Exhibits filed as a part of this report are listed below. Exhibits incorporated by reference are indicated in parentheses.

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.

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

LEVEL 3 COMMUNICATIONS, INC.

Dated: November 10, 2008

/s/ Eric J. Mortensen

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Eric J. Mortensen  
Senior Vice President, Controller  
and Principal Accounting Officer



## STATEMENTS RE COMPUTATION OF RATIOS

STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND  
PREFERRED STOCK DIVIDENDS

LEVEL 3 COMMUNICATIONS, INC.

(dollars in millions)	Nine Months Ended September 30,		Fiscal Year Ended				
	2008	2007	2007	2006	2005	2004	2003
Loss from Continuing Operations Before Taxes	\$ (330)	\$ (1,025)	\$ (1,136)	\$ (788)	\$ (702)	\$ (477)	\$ (746)
Earnings of Equity Investees	—	—	—	—	—	—	(3)
Interest on Debt, Net of Capitalized Interest	400	441	577	648	530	485	567
Amortization of Capitalized Interest	38	51	68	68	68	68	68
Interest Expense Portion of Rental Expense	49	47	63	44	25	29	31
Earnings (Losses) Available for Fixed Charges	<u>\$ 157</u>	<u>\$ (486)</u>	<u>\$ (428)</u>	<u>\$ (28)</u>	<u>\$ (79)</u>	<u>105</u>	<u>\$ (83)</u>
Interest on Debt	\$ 400	\$ 441	\$ 577	\$ 648	\$ 530	\$ 485	\$ 567
Preferred Dividends	—	—	—	—	—	—	—
Interest Expense Portion of Rental Expense	49	47	63	44	25	29	31
Total Fixed Charges	<u>\$ 449</u>	<u>\$ 488</u>	<u>\$ 640</u>	<u>\$ 692</u>	<u>\$ 555</u>	<u>\$ 514</u>	<u>\$ 598</u>
Ratio of Earnings to Fixed Charges	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deficiency	<u>\$ (292)</u>	<u>\$ (974)</u>	<u>\$ (1,068)</u>	<u>\$ (720)</u>	<u>\$ (634)</u>	<u>\$ (409)</u>	<u>\$ (681)</u>

**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: November 10, 2008

/s/ James Q. Crowe

James Q. Crowe

Chief Executive Officer

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\* 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).

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**CERTIFICATIONS\***

I, Sunit S. Patel, certify that:

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

Date: November 10, 2008

/s/ Sunit S. Patel

Sunit S. Patel

Chief Financial Officer

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\* 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).

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

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the three and nine months ended September 30, 2008 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  
November 10, 2008

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

In connection with the Form 10-Q of Level 3 Communications, Inc. (the "Company") for the three and nine months ended September 30, 2008 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

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Sunit S. Patel  
Chief Financial Officer  
November 10, 2008

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