

LEVEL 3 COMMUNICATIONS INC

FORM 8-K/A

(Amended Current report filing)

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Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, CO 80021
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **August 7, 2014**

Level 3 Communications, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

001-35134
(Commission File
Number)

47-0210602
(IRS employer
Identification No.)

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

80021
(Zip code)

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

Not applicable
(Former name and former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Explanatory Note

This Current Report on Form 8-K/A of Level 3 Communications, Inc. ("Level 3"), amends and supplements the Current Report on Form 8-K of Level 3 Communications, Inc. filed August 7, 2014 (the "Initial 8-K") to replace (i) Exhibit 99.2 with the unaudited condensed consolidated financial statements of tw telecom as of June 30, 2014 and December 31, 2013 and for the periods ended June 30, 2014 and 2013 and (ii) Exhibit 99.3 with the unaudited pro forma condensed combined financial statements of Level 3 as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013, in connection with the proposed acquisition of tw telecom inc. by Level 3. Except as otherwise provided herein, the other disclosures made in the Initial 8-K remain unchanged.

Important Information For Investors And Stockholders

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. The proposed business combination of Level 3 and tw telecom will be submitted to the stockholders of Level 3 and the stockholders of tw telecom for their consideration. Level 3 filed a registration statement on Form S-4 and Level 3 and tw telecom filed a joint proxy statement/prospectus and other relevant documents concerning the proposed transaction with the Securities and Exchange Commission (the SEC) on July 18, 2014. Level 3 and tw telecom will each provide the final joint proxy statement/prospectus to its respective stockholders. Investors and security holders are urged to read the registration statement and the joint proxy statement/prospectus and any other relevant documents filed with the SEC when they become available, as well as any amendments or supplements to those documents, because they will contain important information about Level 3, tw telecom and the proposed transaction. Investors and security holders will be able to obtain a free copy of the registration statement and joint proxy statement/prospectus, as well as other filings containing information about Level 3 and tw telecom free of charge at the SEC's website at www.sec.gov. In addition, the joint proxy statement/prospectus, the SEC filings that will be incorporated by reference in the joint proxy statement/prospectus and the other documents filed with the SEC by Level 3 may be obtained free of charge by directing such request to: Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021 or from Level 3's Investor Relations page on its corporate website at www.level3.com and the joint proxy statement/prospectus, the SEC filings that will be incorporated by reference in the joint proxy statement/prospectus and the other documents filed with the SEC by tw telecom may be obtained free of charge by submitting a written request to Investor Relations, tw telecom, 10475 Park Meadows Parkway, Littleton, Colorado 80124 or from tw telecom's Investor Relations page on its corporate website at www.twtelecom.com.

Level 3, tw telecom and their respective directors, executive officers, and certain other members of management and employees may be deemed to be participants in the solicitation of proxies in favor of the proposed transactions from the stockholders of Level 3 and from the stockholders of tw telecom, respectively. Information about the directors and executive officers of Level 3 is set forth in the proxy statement on Schedule 14A for Level 3's 2014 Annual Meeting of Stockholders, which was filed with the SEC on April 11, 2014 and information about the directors and executive officers of tw telecom is set forth in the proxy statement for tw telecom's 2014 Annual Meeting of Stockholders, which was filed with the SEC on April 28, 2014. Additional information regarding participants in the proxy solicitation may be obtained by reading the joint proxy statement/prospectus regarding the proposed transaction when it becomes available.

Cautionary Notice Regarding Forward-Looking Statements

This document, including the documents incorporated herein by reference, contains forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the acquisition of tw telecom by Level 3, including financial and operating results and synergy benefits that may be realized from the acquisition and the timeframe for realizing those benefits; (ii) Level 3's and tw telecom's plans, objectives, expectations and intentions; (iii) other statements contained in this communication that are not historical facts; and (iv) other statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, goal, strategy, future, likely, may, should, could, will, and words of similar meaning or similar references to future periods.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, forward-looking statements are based only on current beliefs, assumptions, and expectations regarding the future of our business, including the effects of the proposed acquisition of tw telecom by Level 3, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are inherently subject to significant business, economic and competitive uncertainties, risks, and contingencies, which may include third-party approvals, many of which are beyond our control and are difficult to predict. Therefore, readers of this communication are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

The following factors, among others, could cause our actual results and financial condition to differ materially from those expressed or implied in the forward-looking statements: (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger among Level 3, tw telecom, Saturn Merger Sub 1, LLC and Saturn Merger Sub 2, LLC (the Merger Agreement); (2) the inability to complete the transactions contemplated by the Merger Agreement due to the failure to obtain the required stockholder approvals; (3) the inability to satisfy the other conditions specified in the Merger Agreement, including without limitation the receipt of necessary governmental or regulatory approvals required to complete the transactions contemplated by the Merger Agreement; (4) the inability to successfully integrate our business with tw telecom's business or to integrate the businesses within the anticipated timeframe; (5) the risk that the proposed transactions disrupt current plans and operations, increase operating costs and the potential difficulties in customer loss and employee retention as a result of the announcement and consummation of such transactions; (6) the ability to recognize the anticipated benefits of the combination of Level 3 and tw telecom, including the realization of revenue and cost synergy benefits and to recognize such benefits within the anticipated timeframe; (7) the outcome of any legal proceedings that may be instituted against Level 3, tw telecom or others following announcement of the Merger Agreement and transactions contemplated therein; and (8) the possibility that Level 3 or tw telecom may be adversely affected by other economic, business, and/or competitive factors.

Other important factors that may affect our business or the combined business' results of operations and financial condition include, but are not limited to: a discontinuation of the development and expansion of the Internet as a communications medium and marketplace for the distribution and consumption of data and video; continued uncertainty in the global financial markets and the global economy; disruptions in the financial markets that could affect our ability to obtain additional financing; and our ability to: increase revenue from the services we offer; successfully use new technology and information systems to support new and existing services; prevent process and system failures that significantly disrupt the availability and quality of the services that we provide; prevent our security measures from being breached, or our services from being degraded as a result of security breaches; develop new services that meet customer demands and generate acceptable margins; effectively manage expansions to our operations; provide services that do not infringe the intellectual property and proprietary rights of others; attract and retain qualified management and other personnel; and meet all of the terms and conditions of debt obligations.

Discussions of additional factors, risks, and uncertainties can be found within Level 3's and tw telecom's respective filings with the Securities and Exchange Commission. Statements in this communication should be evaluated in light of these important factors, risks, and uncertainties. Any forward-looking statement made in this communication is based only on information currently available and speaks only as of the date on which it is made. Except for the ongoing obligation to disclose material information under the federal securities laws, neither Level 3 nor tw telecom undertake any obligation to, and each expressly disclaim any such obligation to, update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time to reflect new information, circumstances, events or otherwise that occur after the date such forward-looking statement is made unless required by law.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 of tw telecom are incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by Level 3 Communications, Inc. on August 7, 2014; and the unaudited condensed consolidated financial statements as of June 30, 2014 and December 31, 2013 and for the periods ended June 30, 2014 and 2013 of tw telecom are filed herewith as Exhibit 99.2 and incorporated in this Item 9.01(a) by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial statements of Level 3 as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013, giving effect to the tw telecom transaction, are filed herewith as Exhibit 99.3 and incorporated in this Item 9.01(b) by reference.

(d) Exhibits

99.2 Unaudited condensed consolidated financial statements of tw telecom as of June 30, 2014 and December 31, 2013 and for the periods ended June 30, 2014 and 2013.

99.3 Unaudited pro forma condensed combined financial statements of Level 3 as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013.

SIGNATURES

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

Level 3 Communications, Inc.

By: /s/ Eric J. Mortensen

Eric J. Mortensen, Senior Vice President and Controller

Date: September 25, 2014

Exhibit Index

<u>Exhibit</u>	<u>Description</u>
99.2	Unaudited condensed consolidated financial statements of tw telecom as of June 30, 2014 and December 31, 2013 and for the periods ended June 30, 2014 and 2013.
99.3	Unaudited pro forma condensed combined financial statements of Level 3 as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013.

tw telecom inc.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(unaudited)	
(amounts in thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 190,163	\$ 284,419
Investments	173,564	194,576
Receivables, less allowances of \$7,087 and \$6,748, respectively	106,335	107,258
Prepaid expenses and other current assets	25,745	22,545
Deferred income taxes	54,026	54,026
Total current assets	549,833	662,824
Property, plant and equipment	4,849,680	4,675,335
Less accumulated depreciation	(3,115,543)	(2,980,379)
	1,734,137	1,694,956
Deferred income taxes	79,426	96,087
Goodwill	412,694	412,694
Intangible assets, net of accumulated amortization	9,089	11,555
Other assets, net	42,245	44,344
Total assets	\$ 2,827,424	\$ 2,922,460
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 70,732	\$ 38,454
Deferred revenue	49,248	48,371
Accrued taxes, franchise and other fees	54,029	55,043
Accrued interest	22,732	21,606
Accrued payroll and benefits	54,469	52,604
Accrued carrier costs	4,439	25,507
Current portion debt and capital lease obligations, net	8,147	32,470
Other current liabilities	31,160	35,241
Total current liabilities	294,956	309,296
Long-term debt and capital lease obligations, net	1,914,878	1,916,775
Long-term deferred revenue	19,792	20,046
Other long-term liabilities	42,838	40,274
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 439,800 shares authorized, 153,760 shares issued	1,538	1,538
Additional paid-in capital	1,701,063	1,701,356
Treasury stock, 15,708 and 12,593 shares, at cost, respectively	(455,082)	(357,974)
Accumulated deficit	(692,717)	(708,979)
Accumulated other comprehensive income	158	128
Total stockholders' equity	554,960	636,069
Total liabilities and stockholders' equity	\$ 2,827,424	\$ 2,922,460

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(amounts in thousands, except per share amounts)				
Revenue:				
Data and Internet services	\$ 253,031	\$ 220,063	\$ 496,702	\$ 431,784
Voice services	77,919	76,437	155,280	152,467
Network services	56,667	64,079	115,034	129,034
Service revenue	387,617	360,579	767,016	713,285
Taxes and fees	25,412	20,622	48,164	41,216
Intercarrier compensation	6,674	8,282	12,816	16,191
Total revenue	419,703	389,483	827,996	770,692
Costs and expenses ^(a) :				
Operating (exclusive of depreciation, amortization and accretion shown separately below)	181,391	164,131	355,430	325,213
Selling, general and administrative	108,613	96,438	215,445	190,000
Depreciation, amortization and accretion	84,185	75,652	166,641	150,047
Total costs and expenses	374,189	336,221	737,516	665,260
Operating income	45,514	53,262	90,480	105,432
Interest expense	(24,873)	(21,544)	(50,521)	(49,884)
Debt extinguishment costs	—	(399)	(1,282)	(399)
Interest income	109	173	257	450
Income before income taxes	20,750	31,492	38,934	55,599
Income tax expense	9,601	14,145	17,994	25,108
Net income	\$ 11,149	\$ 17,347	\$ 20,940	\$ 30,491
Earnings per share:				
Basic	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.20
Diluted	\$ 0.08	\$ 0.11	\$ 0.15	\$ 0.20
Weighted average shares outstanding:				
Basic	136,360	147,071	137,219	148,095
Diluted	137,814	148,342	139,172	151,081

^(a) Includes non-cash stock-based employee compensation expense (Note 7):

Operating	\$ 545	\$ 545	\$ 1,084	\$ 1,128
Selling, general and administrative	\$ 8,107	\$ 7,869	\$ 16,954	\$ 16,748

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(amounts in thousands)			
Net income	\$ 11,149	\$ 17,347	\$ 20,940	\$ 30,491
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	40	(28)	30	(20)
Other comprehensive income (loss), net of tax	40	(28)	30	(20)
Comprehensive income	<u>\$ 11,189</u>	<u>\$ 17,319</u>	<u>\$ 20,970</u>	<u>\$ 30,471</u>

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	\$ 20,940	\$ 30,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	166,641	150,047
Deferred income taxes	17,252	24,289
Stock-based compensation expense	18,038	17,876
Loss on debt extinguishment	1,282	399
Amortization of discount on debt and deferred debt issue costs	3,212	7,850
Changes in operating assets and liabilities:		
Receivables, prepaid expenses and other assets	(1,629)	(14,046)
Accounts payable, deferred revenue and other liabilities	(1,231)	(10,346)
Net cash provided by operating activities	224,505	206,560
Cash flows from investing activities:		
Capital expenditures	(195,998)	(187,509)
Purchases of investments	(109,275)	(157,523)
Proceeds from sale of investments	129,509	125,041
Other investing activities, net	5,841	(465)
Net cash used in investing activities	(169,923)	(220,456)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	10,778	50,874
Taxes paid related to net share settlement of equity awards	(18,941)	(18,315)
Purchases of treasury stock	(112,564)	(197,310)
Excess tax benefits from stock-based compensation	794	944
Proceeds from modification of debt, net of financing costs	—	49,684
Retirement of debt obligations	(24,418)	(256,348)
Payment of debt and capital lease obligations	(4,487)	(2,096)
Net cash used in financing activities	(148,838)	(372,567)
Decrease in cash and cash equivalents	(94,256)	(386,463)
Cash and cash equivalents at beginning of period	284,419	806,728
Cash and cash equivalents at end of period	\$ 190,163	\$ 420,265
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 46,632	\$ 43,540
Cash paid for income taxes, net of refunds	\$ 2,314	\$ 4,477
Cash paid for debt extinguishment costs	\$ 939	\$ 469
Non-cash investing & financing activities:		
Addition of capital lease obligations	\$ 1,352	\$ 4,302

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2014
(Unaudited)

	Common Stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount	Shares	Amount				
(amounts in thousands)								
Balance at December 31, 2013	153,760	\$ 1,538	(12,593)	\$ (357,974)	\$ 1,701,356	\$ (708,979)	\$ 128	\$ 636,069
Net income	—	—	—	—	—	20,940	—	20,940
Other comprehensive income, net of tax	—	—	—	—	—	—	30	30
Excess tax benefits from stock-based compensation, net	—	—	—	—	610	—	—	610
Purchases of treasury stock	—	—	(3,674)	(112,564)	—	—	—	(112,564)
Exercise of stock options net of (withholdings) to satisfy employee tax obligations upon vesting of stock awards	—	—	651	18,670	(23,737)	(3,096)	—	(8,163)
Stock-based compensation	—	—	(92)	(3,214)	22,834	(1,582)	—	18,038
Balance at June 30, 2014	<u>153,760</u>	<u>\$ 1,538</u>	<u>(15,708)</u>	<u>\$ (455,082)</u>	<u>\$ 1,701,063</u>	<u>\$ (692,717)</u>	<u>\$ 158</u>	<u>\$ 554,960</u>

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies***Description of Business and Capital Structure***

tw telecom inc. (together with its wholly-owned subsidiaries, the “Company”) is a leading national provider of managed network services, specializing in business Ethernet, data networking, converged, Internet Protocol (“IP”) based virtual private network or “IP VPN”, Internet access, voice, including voice over Internet Protocol or “VoIP”, and network security services to enterprise organizations, including public sector entities, and carriers throughout the United States, including their global locations.

The Company has one class of common stock outstanding with one vote per share. The Company also is authorized to issue shares of preferred stock. The Company’s Board of Directors has the authority to establish voting powers, preferences and special rights for the preferred stock. No shares of preferred stock have been issued.

See Note 2, “Recent Developments”, for information regarding the Agreement and Plan of Merger with Level 3 Communications, Inc. (“Level 3”).

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. These condensed consolidated financial statements should therefore be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC. The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and include all adjustments of a normal, recurring nature that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. The results of operations for an interim period are not necessarily indicative of the results of operations for a full fiscal year.

Prior Year Reclassifications

Beginning January 1, 2014, the Company is reporting revenue from taxes and fees in a separate line item on the condensed consolidated statements of operations and is reporting revenue from dedicated high capacity Ethernet services in data and Internet services rather than network services. These reclassifications have been made in the prior year condensed consolidated statement of operations to conform to the current year presentation. Neither of these changes affects total revenue for the current period or prior periods. The following table provides revenue as currently reported and previously reported for the three and six months ended June 30, 2013:

	Three Months Ended June 30, 2013		Six months ended June 30, 2013	
	As Currently Reported	As Previously Reported	As Currently Reported	As Previously Reported
(amounts in thousands)				
Revenue:				
Data and Internet services	\$ 220,063	209,634	431,784	411,716
Voice services	76,437	93,080	152,467	185,435
Network services	64,079	78,487	129,034	157,350
Service revenue	360,579	381,201	713,285	754,501
Taxes and fees	20,622	—	41,216	—
Intercarrier compensation	8,282	8,282	16,191	16,191
Total revenue	<u>\$ 389,483</u>	<u>\$ 389,483</u>	<u>\$ 770,692</u>	<u>\$ 770,692</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accumulated Other Comprehensive Income

The balance in accumulated other comprehensive income as of June 30, 2014 and December 31, 2013 relates to the Company's investments that are classified as available-for-sale securities. The Company recognized no material changes in accumulated other comprehensive income for the three and six months ended June 30, 2014 or 2013. There were no significant items reclassified out of accumulated other comprehensive income for the three and six months ended June 30, 2014 or 2013.

Revenue

The Company's revenue is derived primarily from business communications services comprised of the following:

- Data and Internet services include services that enable customers to connect their internal computer networks between locations and to access external networks, including Internet access and data transport at high speeds using Ethernet protocol, local and wide-area business Ethernet and IP VPN solutions, including service enhancements that provide customers with more visibility and control over their Ethernet services, which we refer to as the "Intelligent Network". Data and Internet services also include a portfolio of managed services including the data and Internet components of converged services, which fully integrates a combination of certain communication applications including IP VPN, Internet, enterprise Session Initiation Protocol ("SIP") trunking (a VoIP solution), security and managed router service into a single managed IP solution; and the data and Internet components of integrated services, which enable customers to purchase a full array of access options that include Internet services.
- Voice services are traditional voice capabilities, whether provided over Time Division Multiplexing ("TDM") or VoIP, including those provided as standalone and bundled services, long distance and toll free services. Voice services also include the voice components of managed and integrated services.
- Network services are point-to-point services that transmit voice, data and images using state-of-the-art fiber optics, and collocation services that provide secure space with controlled climate and power where customers can locate their equipment to connect to the Company's network in facilities equipped for enterprise information technology environmental requirements.

The Company also generates revenue from intercarrier compensation, which is comprised of switched access services and reciprocal compensation. Switched access represents the compensation from another carrier for the delivery of traffic from a long distance carrier's point of presence to an end-user's premises provided through the Company's switching facilities. The Federal Communications Commission ("FCC") and state public utility commissions regulate switched access rates in their respective jurisdictions. Reciprocal compensation represents compensation from local exchange carriers ("LECs") for local exchange traffic originated on another LEC's facilities and terminated on the Company's facilities.

The Company classifies taxes and fees billed to customers and remitted to government authorities on a gross versus net basis in revenue and expense. In making this determination, the Company assesses, among other things, whether the Company is the primary obligor or principal taxpayer for the taxes and fees assessed in each jurisdiction where the Company does business. In jurisdictions where the Company determines that it is the principal taxpayer, the Company records the taxes and fees on a gross basis, including the taxes and fees in revenue and expense. In jurisdictions where the Company determines that it is merely a collection agent for the government authority, the Company records the taxes on a net basis. The total amount of such taxes and fees classified as revenue is included in "Taxes and fees" on the Company's condensed consolidated statements of operations.

The Company's customers include enterprise organizations in a wide variety of industry segments including, among others, the financial services, technology and scientific, health care, distribution, manufacturing and professional services industries, data centers, cloud application providers, public sector entities, system integrators and communications service providers, including incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), wireless communications companies and cable companies.

Revenue for network, data and Internet, and the majority of voice services is generally billed in advance on a monthly fixed rate basis and recognized over the period the services are provided. Revenue for the majority of intercarrier compensation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

and certain components of voice services, such as long distance, is generally billed on a transactional basis in arrears based on a customer's actual usage; therefore, estimates are used to recognize revenue in the period earned.

The Company evaluates whether receivables are reasonably assured of collection based on certain factors, including the likelihood of billing being disputed by customers. If there is a billing dispute with a customer, revenue generally is not recognized until the dispute is resolved. The Company does not recognize revenue associated with contract termination charges until cash is received.

Significant Customers

The Company has substantial business relationships with a few large customers, including major telecommunications carriers. The Company's 10 largest customers accounted for an aggregate of 17% and 18% of the Company's total revenue for the six months ended June 30, 2014 and 2013, respectively. No customer accounted for 5% or more of total revenue for the six months ended June 30, 2014 or 2013.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued an accounting standards update that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is currently evaluating the impact of this new standard on its consolidated financial statements as well as the transition method the Company intends to use.

2. Recent Developments***Level 3 Merger***

On June 15, 2014, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Level 3 Communications, Inc. ("Level 3") and certain of its subsidiaries whereby the Company agreed to merge with and into a wholly owned subsidiary of Level 3 (the "Level 3 merger").

Upon completion of the Level 3 merger, (i) each issued and outstanding share of common stock of the Company, other than dissenting shares, will be converted into 0.7 shares (the "Stock Consideration") of Level 3's common stock and the right to receive \$10.00 in cash (the "Cash Consideration" and, together with the Stock Consideration, the "Merger Consideration"). The Merger Agreement also provides that the (i) issued and outstanding options to purchase the Company's common stock will be exchanged for Merger Consideration, as adjusted to reflect the exercise price of each such outstanding option and (ii) issued and outstanding restricted stock and restricted stock units covering the Company's common stock will vest and be exchanged for Merger Consideration. The Level 3 merger is expected to close during the fourth quarter of 2014, but not before October 4, 2014. The closing of the Level 3 merger is subject to the receipt of certain regulatory and governmental approvals and the satisfaction of certain conditions, including the approval of the Level 3 merger by the Company's stockholders and the approval of Level 3's proposed stock issuance and charter amendments by Level 3's stockholders.

3. Earnings per Common Share and Potential Common Share

Basic earnings per common share ("EPS") is measured as the income allocated to common stockholders divided by the weighted average outstanding common shares for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (such as convertible securities and stock options) as if they had been converted to shares at the beginning of the period presented. Potential common shares that have an anti-dilutive effect (e.g., those that increase income per share) are excluded from diluted EPS.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following is a reconciliation of the numerators and denominators used in the basic and diluted EPS computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(amounts in thousands, except per share amounts)				
Numerator				
Net income	\$ 11,149	\$ 17,347	\$ 20,940	\$ 30,491
Allocation of net income to unvested restricted stock	(199)	(331)	(378)	(587)
Net income allocated to common stockholders, basic	\$ 10,950	\$ 17,016	\$ 20,562	\$ 29,904
Net income allocated to common stockholders, diluted	\$ 10,950	\$ 17,016	\$ 20,562	\$ 29,904
Denominator				
Basic weighted average shares outstanding	136,360	147,071	137,219	148,095
Dilutive potential common shares:				
Stock options	269	886	330	1,180
Unvested restricted stock	1,185	385	1,623	1,806
Diluted weighted average shares outstanding	137,814	148,342	139,172	151,081
Basic earnings per share	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.20
Diluted earnings per share	\$ 0.08	\$ 0.11	\$ 0.15	\$ 0.20

There were no anti-dilutive shares for the three and six months ended June 30, 2014. Restricted stock awards to be settled in common stock upon vesting which were excluded from the computation of diluted weighted average shares outstanding because their inclusion would be anti-dilutive, totaled 2.9 million shares for the three months ended June 30, 2013. There were no anti-dilutive shares for the six months ended June 30, 2013.

4. Investments

The Company's investments at June 30, 2014 and December 31, 2013 are summarized as follows:

	June 30, 2014	December 31, 2013
	(amounts in thousands)	
Cash equivalents:		
U.S. Treasury money market mutual funds	\$ 41,399	\$ 28,845
Commercial paper	9,998	1,335
Total cash equivalents	\$ 51,397	\$ 30,180
Investments:		
Debt securities issued by the U.S. Treasury	\$ 60,028	\$ 69,628
Commercial paper	57,268	75,460
Debt securities issued by U.S. Government agencies	56,268	49,488
Total investments	\$ 173,564	\$ 194,576
Total cash equivalents and investments	\$ 224,961	\$ 224,756

At June 30, 2014 and December 31, 2013, the carrying values of investments included in cash and cash equivalents approximated fair value. The aggregate fair value of available-for-sale securities by major security type is included in Note 6. The amortized cost basis of the available-for-sale securities was not materially different from the aggregate fair value. The contractual maturities of the Company's available-for-sale securities are all within one year.

Proceeds from the sale and maturity of available-for-sale securities were \$60.0 million and \$91.1 million during the three months ended June 30, 2014 and 2013, respectively, and \$129.5 million and \$125.0 million during the six months ended June 30, 2014 and 2013, respectively. Gains and losses on investments are calculated using the specific identification method and are

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

recognized during the period the investment is sold. The Company recognized no material unrealized or realized net gains or losses during the three and six months ended June 30, 2014 and 2013 .

5. Long-Term Debt and Capital Lease Obligations

The components of long-term debt and capital lease obligations at June 30, 2014 and December 31, 2013 were as follows:

	Date of			Interest Rate	Original Principal	Outstanding Balance as of	
	Issuance / Amendment	Maturity	Interest Payments			June 30, 2014	December 31, 2013
(amounts in thousands)							
Term Loan B	Apr 2013	Apr 2020	At least quarterly	Eurodollar rate +	\$ 520,000	\$ 514,800	\$ 517,400
8% Senior Notes	Mar 2010	Mar 2018	Mar/Sept	8%	430,000	—	23,479
5 ³ / ₈ % Senior Notes	Oct 2012	Oct 2022	Apr/Oct	5 ³ / ₈ %	480,000	480,000	480,000
5 ³ / ₈ % Senior Notes	Aug 2013	Oct 2022	Apr/Oct	5 ³ / ₈ %	450,000	450,000	450,000
6 ³ / ₈ % Senior Notes	Aug 2013	Sept 2023	Mar/Sept	6 ³ / ₈ %	350,000	350,000	350,000
Capital lease obligations						145,703	147,046
Total obligations						1,940,503	1,967,925
Unamortized discounts						(17,478)	(18,680)
Current portion						(8,147)	(32,470)
Total long-term debt and capital lease obligations						\$ 1,914,878	\$ 1,916,775

8% Senior Notes due 2018

As of December 31, 2013, **tw telecom holdings inc.** ("Holdings") had outstanding \$23.5 million aggregate principal amount of 8% Senior Notes due 2018 (the "2018 Notes"). During the three months ended March 31, 2014, Holdings redeemed all remaining outstanding 2018 Notes at a redemption price of 104% of the principal amount. During the three months ended March 31, 2014, the Company recognized debt extinguishment costs of \$ 1.3 million , comprised of \$ 0.9 million for premiums associated with the redemption and \$ 0.4 million for write-offs of unamortized deferred debt issuance costs and issuance discount related to the 2018 Notes.

Covenant Compliance

As of June 30, 2014 , **tw telecom inc.** and its wholly-owned subsidiary, Holdings, were in compliance with all of their debt covenants.

6. Fair Value Measurements

Fair value, as defined by relevant accounting standards, is 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 complete a transaction 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

Relevant accounting standards set forth 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. Relevant accounting standards establish 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 investments in U.S. Treasury money market mutual funds that are traded in an active market with sufficient volume and frequency of transactions, and are included as a component of cash and cash equivalents in the condensed consolidated balance sheets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

- *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 assets that are measured at fair value on a recurring basis consist of the Company's investments in commercial paper and debt securities issued by the U.S. Treasury and other U.S. government agencies using observable inputs in less active markets and are included as a component of cash and cash equivalents and investments in the condensed consolidated balance sheets. Level 2 liabilities that are measured, but not carried, at fair value on a recurring basis include the Company's long-term debt. The Company's long-term debt has not been listed on any securities exchange or quoted on an inter-dealer automated quotation system. The Company has estimated the fair value of its long-term debt based on indicative pricing published by certain investment banks or trading levels in its long-term debt.
- *Level 3* —Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The Company did not have any Level 3 assets or liabilities that were measured at fair value at June 30, 2014 and December 31, 2013.

The following tables reflect assets that are measured and carried at fair value on a recurring basis at June 30, 2014 and December 31, 2013 :

	Fair Value Measurements At June 30, 2014			Assets at Fair Value
	Level 1	Level 2	Level 3	
	(amounts in thousands)			
Assets				
U.S. Treasury money market mutual funds	\$ 41,399	\$ —	\$ —	\$ 41,399
Commercial paper	—	9,998	—	9,998
Investments included in cash and cash equivalents	\$ 41,399	\$ 9,998	\$ —	\$ 51,397
Debt securities issued by the U.S. Treasury	—	60,028	—	60,028
Commercial paper	—	57,268	—	57,268
Debt securities issued by U.S. Government agencies	—	56,268	—	56,268
Short-term investments	\$ —	\$ 173,564	\$ —	\$ 173,564
Total assets	\$ 41,399	\$ 183,562	\$ —	\$ 224,961

	Fair Value Measurements At December 31, 2013			Assets at Fair Value
	Level 1	Level 2	Level 3	
	(amounts in thousands)			
Assets				
U.S. Treasury money market mutual funds	\$ 28,845	\$ —	\$ —	\$ 28,845
Commercial paper	—	1,335	—	1,335
Investments included in cash and cash equivalents	\$ 28,845	\$ 1,335	\$ —	\$ 30,180
Commercial paper	—	75,460	—	75,460
Debt securities issued by the U.S. Treasury	—	69,628	—	69,628
Debt securities issued by U.S. Government agencies	—	49,488	—	49,488
Short-term investments	\$ —	\$ 194,576	\$ —	\$ 194,576
Total assets	\$ 28,845	\$ 195,911	\$ —	\$ 224,756

The following table summarizes the carrying amounts and estimated fair values of the Company's long-term debt, including the current portion, at June 30, 2014 and December 31, 2013 :

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2
	(amounts in thousands)			
Term Loan B, net of discount	\$ 512,649	\$ 514,800	\$ 515,063	\$ 519,987
8% Senior Notes, net of discount	—	—	23,392	24,594
5 ³ / ₈ % Senior Notes, issued October 2012	480,000	520,800	480,000	474,000
5 ³ / ₈ % Senior Notes, net of discount, issued August 2013	434,673	488,250	433,744	444,375
6 ³ / ₈ % Senior Notes	350,000	397,250	350,000	364,000
Total debt	<u>\$ 1,777,322</u>	<u>\$ 1,921,100</u>	<u>\$ 1,802,199</u>	<u>\$ 1,826,956</u>

7. Stock-Based Compensation

During the six months ended June 30, 2014, the Company granted restricted stock awards and restricted stock units with respect to 1.4 million shares and no stock options. As of June 30, 2014, the Company had 3.7 million restricted stock awards and restricted stock units that were unvested and 0.3 million stock options outstanding and exercisable.

As of June 30, 2014, there was \$77.2 million of total unrecognized compensation expense related to unvested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted-average period of 2.5 years, and no unrecognized compensation expense related to unvested stock options.

8. Commitments and Contingencies

Management routinely reviews the Company's exposure to liabilities incurred in the normal course of its business operations. Where a probable contingency exists and the amount of the loss can be reasonably estimated, the Company records the estimated liability. Considerable judgment is required in analyzing and recording such liabilities and actual results may vary from the estimates.

Following the announcement of the execution of the Merger Agreement, three putative shareholder class action complaints (the "Class Action Complaints"), were filed in the Court of Chancery of the State of Delaware against the Company, its Board of Directors, Level 3, and certain subsidiaries of Level 3, challenging the proposed Level 3 merger: *Veneros v. tw telecom, et al.*, Case No. 9835 (filed on or about June 27, 2014), *Litman v. tw telecom, et al.*, Case No. 9838 (filed on or about June 27, 2014), and *Carter v. tw telecom, et al.*, Case No. 9845 (filed on or about June 30, 2014).

The Class Action Complaints generally allege, among other things, that the individual members of the Company's Board of Directors breached their fiduciary duties owed to the public shareholders of the Company by approving its entry into the Merger Agreement and failing to take steps to maximize the value of the Company to its public shareholders, and that the Company, Level 3, and certain of Level 3's subsidiaries, aided and abetted such breaches of fiduciary duties. In addition, the Class Action Complaints allege, among other things, that the proposal regarding the Level 3 merger undervalues the Company, that the process leading up to the Merger Agreement was flawed, and that certain provisions of the Merger Agreement improperly favor Level 3 and impede a potential alternative transaction. The Class Action Complaints generally seek, among other things, declaratory and injunctive relief concerning the alleged fiduciary breaches, injunctive relief prohibiting the defendants from consummating the proposed Level 3 merger, and other forms of equitable relief. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these lawsuits or reasonably estimate a range of possible loss.

The Company's other pending legal proceedings are limited to litigation incidental to its business. In the opinion of management, the ultimate resolution of these matters are not expected to have a material adverse effect on the Company's financial statements.

9. Supplemental Guarantor Information

The \$480 million principal amount 5 ³/₈ % Senior Notes due 2022 (the "2022 Notes"), \$450 million principal amount 5 ³/₈ % Senior Notes due 2022 (the "2022 Mirror Notes") and \$350 million principal amount 6 ³/₈ % Senior Notes due 2023 (the "2023 Notes") (collectively, the "Senior Notes") are unsecured obligations of Holdings ("Issuer") and are fully and unconditionally guaranteed by the Company ("Parent Guarantor") and substantially all of the Issuer's subsidiaries ("Combined Subsidiary Guarantors"). The guarantees are joint and several. The Combined Subsidiary Guarantors are directly or indirectly wholly owned by the Issuer, which is wholly owned by the Parent Guarantor. A significant amount of the Issuer's cash flow is

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

generated by the Combined Subsidiary Guarantors. As a result, funds necessary to meet the Issuer's debt service obligations are provided in large part by distributions or advances from the Combined Subsidiary Guarantors. The Senior Notes are governed by indentures that contain certain restrictive covenants. These restrictions affect, and in many respects limit or prohibit, among other things, the ability of the Parent Guarantor, the Issuer and its subsidiaries to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, engage in transactions with stockholders and affiliates, issue capital stock of subsidiaries, create liens, sell assets and engage in mergers and consolidations.

The following information sets forth the Company's Condensed Consolidating Balance Sheets as of June 30, 2014 and December 31, 2013 , Condensed Consolidating Statements of Operations for the three and six months ended June 30, 2014 and 2013 , Condensed Consolidating Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013 , and Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2014 and 2013 .

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2014
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 24,546	\$ 165,617	\$ —	\$ —	\$ 190,163
Investments	—	173,564	—	—	173,564
Receivables, net	—	—	106,335	—	106,335
Prepaid expenses and other current assets	—	15,703	10,042	—	25,745
Deferred income taxes	—	54,006	20	—	54,026
Intercompany receivable	804,463	1,570,131	—	(2,374,594)	—
Total current assets	829,009	1,979,021	116,397	(2,374,594)	549,833
Property, plant and equipment, net	—	83,873	1,650,264	—	1,734,137
Deferred income taxes	—	78,942	484	—	79,426
Goodwill	—	—	412,694	—	412,694
Intangible and other assets, net	—	34,280	17,054	—	51,334
Total assets	\$ 829,009	\$ 2,176,116	\$ 2,196,893	\$ (2,374,594)	\$ 2,827,424
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ —	\$ 12,559	\$ 58,173	\$ —	\$ 70,732
Current portion debt and capital lease obligations	—	5,247	2,900	—	8,147
Other current liabilities	—	84,443	131,634	—	216,077
Intercompany payable	—	—	2,374,594	(2,374,594)	—
Total current liabilities	—	102,249	2,567,301	(2,374,594)	294,956
Losses in subsidiary in excess of investment	274,690	831,084	—	(1,105,774)	—
Long-term debt and capital lease obligations, net	—	1,772,122	142,756	—	1,914,878
Long-term deferred revenue	—	—	19,792	—	19,792
Other long-term liabilities	—	11,419	31,419	—	42,838
Stockholders' equity (deficit)	554,319	(540,758)	(564,375)	1,105,774	554,960
Total liabilities and stockholders' equity (deficit)	\$ 829,009	\$ 2,176,116	\$ 2,196,893	\$ (2,374,594)	\$ 2,827,424

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2013

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 24,546	\$ 259,873	\$ —	\$ —	\$ 284,419
Investments	—	194,576	—	—	194,576
Receivables, net	—	—	107,258	—	107,258
Prepaid expenses and other current assets	—	14,434	8,111	—	22,545
Deferred income taxes	—	54,006	20	—	54,026
Intercompany receivable	917,932	1,475,298	—	(2,393,230)	—
Total current assets	942,478	1,998,187	115,389	(2,393,230)	662,824
Property, plant and equipment, net	—	75,142	1,619,814	—	1,694,956
Deferred income taxes	—	95,603	484	—	96,087
Goodwill	—	—	412,694	—	412,694
Intangible and other assets, net	—	36,001	19,898	—	55,899
Total assets	\$ 942,478	\$ 2,204,933	\$ 2,168,279	\$ (2,393,230)	\$ 2,922,460
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ —	\$ 8,298	\$ 30,156	\$ —	\$ 38,454
Current portion debt and capital lease obligations, net	—	29,008	3,462	—	32,470
Other current liabilities	—	87,333	151,039	—	238,372
Intercompany payable	—	—	2,393,230	(2,393,230)	—
Total current liabilities	—	124,639	2,577,887	(2,393,230)	309,296
Losses in subsidiary in excess of investment	306,440	858,499	—	(1,164,939)	—
Long-term debt and capital lease obligations, net	—	1,773,607	143,168	—	1,916,775
Long-term deferred revenue	—	—	20,046	—	20,046
Other long-term liabilities	—	10,526	29,748	—	40,274
Stockholders' equity (deficit)	636,038	(562,338)	(602,570)	1,164,939	636,069
Total liabilities and stockholders' equity (deficit)	\$ 942,478	\$ 2,204,933	\$ 2,168,279	\$ (2,393,230)	\$ 2,922,460

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended June 30, 2014
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 419,703	\$ —	\$ 419,703
Costs and expenses:					
Operating, selling, general and administrative	—	77,167	212,837	—	290,004
Depreciation, amortization and accretion	—	9,063	75,122	—	84,185
Corporate expense allocation	—	(86,230)	86,230	—	—
Total costs and expenses	—	—	374,189	—	374,189
Operating income	—	—	45,514	—	45,514
Interest expense, net	—	(20,052)	(4,712)	—	(24,764)
Interest expense allocation	—	20,052	(20,052)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	20,750	—	20,750
Income tax expense	—	9,236	365	—	9,601
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(9,236)	20,385	—	11,149
Equity in undistributed earnings of subsidiaries	11,149	20,385	—	(31,534)	—
Net income	\$ 11,149	\$ 11,149	\$ 20,385	\$ (31,534)	\$ 11,149

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended June 30, 2013
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 389,483	\$ —	\$ 389,483
Costs and expenses:					
Operating, selling, general and administrative	—	67,167	193,402	—	260,569
Depreciation, amortization and accretion	—	6,707	68,945	—	75,652
Corporate expense allocation	—	(73,874)	73,874	—	—
Total costs and expenses	—	—	336,221	—	336,221
Operating income	—	—	53,262	—	53,262
Interest expense, net	(1,569)	(17,942)	(1,860)	—	(21,371)
Debt extinguishment costs	(327)	(72)	—	—	(399)
Interest expense allocation	1,896	18,014	(19,910)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	31,492	—	31,492
Income tax expense	—	13,672	473	—	14,145
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(13,672)	31,019	—	17,347
Equity in undistributed earnings of subsidiaries	17,347	31,019	—	(48,366)	—
Net income	\$ 17,347	\$ 17,347	\$ 31,019	\$ (48,366)	\$ 17,347

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Six Months Ended June 30, 2014
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 827,996	\$ —	\$ 827,996
Costs and expenses:					
Operating, selling, general and administrative	—	149,108	421,767	—	570,875
Depreciation, amortization and accretion	—	17,654	148,987	—	166,641
Corporate expense allocation	—	(166,762)	166,762	—	—
Total costs and expenses	—	—	737,516	—	737,516
Operating income	—	—	90,480	—	90,480
Interest expense, net	—	(40,540)	(9,724)	—	(50,264)
Debt extinguishment costs	—	(1,282)	—	—	(1,282)
Interest expense allocation	—	41,822	(41,822)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	38,934	—	38,934
Income tax expense	—	17,253	741	—	17,994
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(17,253)	38,193	—	20,940
Equity in undistributed earnings of subsidiaries	20,940	38,193	—	(59,133)	—
Net income	<u>\$ 20,940</u>	<u>\$ 20,940</u>	<u>\$ 38,193</u>	<u>\$ (59,133)</u>	<u>\$ 20,940</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Six Months Ended June 30, 2013
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 770,692	\$ —	\$ 770,692
Costs and expenses:					
Operating, selling, general and administrative	—	131,974	383,239	—	515,213
Depreciation, amortization and accretion	—	13,286	136,761	—	150,047
Corporate expense allocation	—	(145,260)	145,260	—	—
Total costs and expenses	—	—	665,260	—	665,260
Operating income	—	—	105,432	—	105,432
Interest expense, net	(9,705)	(35,820)	(3,909)	—	(49,434)
Debt extinguishment costs	(327)	(72)	—	—	(399)
Interest expense allocation	10,032	35,892	(45,924)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	55,599	—	55,599
Income tax expense	—	24,289	819	—	25,108
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(24,289)	54,780	—	30,491
Equity in undistributed earnings of subsidiaries	30,491	54,780	—	(85,271)	—
Net income	<u>\$ 30,491</u>	<u>\$ 30,491</u>	<u>\$ 54,780</u>	<u>\$ (85,271)</u>	<u>\$ 30,491</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Three Months Ended June 30, 2014
(unaudited)

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Combined Subsidiary Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(amounts in thousands)				
Net income	\$ 11,149	\$ 11,149	\$ 20,385	\$ (31,534)	\$ 11,149
Other comprehensive income, net of tax:					
Unrealized gain on available-for-sale securities	40	40	—	(40)	40
Other comprehensive income, net of tax	40	40	—	(40)	40
Comprehensive income	<u>\$ 11,189</u>	<u>\$ 11,189</u>	<u>\$ 20,385</u>	<u>\$ (31,574)</u>	<u>\$ 11,189</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Three Months Ended June 30, 2013
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net income	\$ 17,347	\$ 17,347	\$ 31,019	\$ (48,366)	\$ 17,347
Other comprehensive loss, net of tax:					
Unrealized loss on available-for-sale securities	(28)	(28)	—	28	(28)
Other comprehensive loss, net of tax	(28)	(28)	—	28	(28)
Comprehensive income	<u>\$ 17,319</u>	<u>\$ 17,319</u>	<u>\$ 31,019</u>	<u>\$ (48,338)</u>	<u>\$ 17,319</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Six Months Ended June 30, 2014
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net income	\$ 20,940	\$ 20,940	\$ 38,193	\$ (59,133)	\$ 20,940
Other comprehensive income, net of tax:					
Unrealized gain on available-for-sale securities	30	30	—	(30)	30
Other comprehensive income, net of tax	30	30	—	(30)	30
Comprehensive income	<u>\$ 20,970</u>	<u>\$ 20,970</u>	<u>\$ 38,193</u>	<u>\$ (59,163)</u>	<u>\$ 20,970</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Six Months Ended June 30, 2013
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net income	\$ 30,491	\$ 30,491	\$ 54,780	\$ (85,271)	\$ 30,491
Other comprehensive loss, net of tax:					
Unrealized loss on available-for-sale securities	(20)	(20)	—	20	(20)
Other comprehensive loss, net of tax	(20)	(20)	—	20	(20)
Comprehensive income	<u>\$ 30,471</u>	<u>\$ 30,471</u>	<u>\$ 54,780</u>	<u>\$ (85,251)</u>	<u>\$ 30,471</u>

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2014
(unaudited)

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Combined Subsidiary Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(amounts in thousands)				
Cash flows from operating activities:					
Net income	\$ 20,940	\$ 20,940	\$ 38,193	\$ (59,133)	\$ 20,940
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, amortization and accretion	—	17,654	148,987	—	166,641
Deferred income taxes	—	17,252	—	—	17,252
Stock-based compensation expense	—	—	18,038	—	18,038
Extinguishment costs, amortization of discount on debt and deferred debt issue costs	—	4,494	—	—	4,494
Intercompany and equity investment changes	99,787	(122,248)	(36,672)	59,133	—
Changes in operating assets and liabilities	—	301	(3,161)	—	(2,860)
Net cash provided by (used in) operating activities	120,727	(61,607)	165,385	—	224,505
Cash flows from investing activities:					
Capital expenditures	—	(26,553)	(169,445)	—	(195,998)
Purchases of investments	—	(109,275)	—	—	(109,275)
Proceeds from sale of investments	—	129,509	—	—	129,509
Other investing activities, net	—	169	5,672	—	5,841
Net cash used in investing activities	—	(6,150)	(163,773)	—	(169,923)
Cash flows from financing activities:					
Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units	(8,163)	—	—	—	(8,163)
Purchases of treasury stock	(112,564)	—	—	—	(112,564)
Excess tax benefits from stock-based compensation	—	794	—	—	794
Retirement of debt obligations	—	(24,418)	—	—	(24,418)
Payment of debt and capital lease obligations	—	(2,875)	(1,612)	—	(4,487)
Net cash used in financing activities	(120,727)	(26,499)	(1,612)	—	(148,838)
Decrease in cash and cash equivalents	—	(94,256)	—	—	(94,256)
Cash and cash equivalents at beginning of period	24,546	259,873	—	—	284,419
Cash and cash equivalents at end of period	\$ 24,546	\$ 165,617	\$ —	\$ —	\$ 190,163

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2013
(unaudited)

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Cash flows from operating activities:					
Net income	\$ 30,491	\$ 30,491	\$ 54,780	\$ (85,271)	\$ 30,491
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, amortization and accretion	—	13,286	136,761	—	150,047
Deferred income taxes	—	24,289	—	—	24,289
Stock-based compensation expense	—	—	17,876	—	17,876
Amortization of discount on debt and deferred debt issue costs	6,244	2,005	—	—	8,249
Intercompany and equity investment changes	385,403	(466,631)	(4,043)	85,271	—
Changes in operating assets and liabilities	(1,039)	15,973	(39,326)	—	(24,392)
Net cash provided by (used in) operating activities	421,099	(380,587)	166,048	—	206,560
Cash flows from investing activities:					
Capital expenditures	—	(22,465)	(165,044)	—	(187,509)
Purchases of investments	—	(157,523)	—	—	(157,523)
Proceeds from sale of investments	—	125,041	—	—	125,041
Other investing activities, net	—	(83)	(382)	—	(465)
Net cash used in investing activities	—	(55,030)	(165,426)	—	(220,456)
Cash flows from financing activities:					
Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units	32,559	—	—	—	32,559
Purchases of treasury stock	(197,310)	—	—	—	(197,310)
Excess tax benefits from stock-based compensation	—	944	—	—	944
Proceeds from modification of debt, net of financing costs	—	49,684	—	—	49,684
Retirement of convertible debt obligations	(256,348)	—	—	—	(256,348)
Payment of debt and capital lease obligations	—	(1,474)	(622)	—	(2,096)
Net cash (used in) provided by financing activities	(421,099)	49,154	(622)	—	(372,567)
Decrease in cash and cash equivalents	—	(386,463)	—	—	(386,463)
Cash and cash equivalents at beginning of period	24,544	782,184	—	—	806,728
Cash and cash equivalents at end of period	\$ 24,544	\$ 395,721	\$ —	\$ —	\$ 420,265

LEVEL 3 COMMUNICATIONS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2014 and the Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended June 30, 2014 and the fiscal year ended December 31, 2013 of Level 3 Communications, Inc. ("Level 3") have been prepared as if Level 3's merger with tw telecom inc. ("tw telecom"), and the assumptions and adjustments described in the accompanying notes herein had occurred on the dates specified below. On June 15, 2014, Level 3 and tw telecom entered into an agreement and plan of merger (the "merger agreement") pursuant to which a direct wholly-owned subsidiary of Level 3 will merge with tw telecom, with tw telecom continuing as the surviving corporation and immediately following such merger, the surviving corporation will merge with another direct wholly-owned subsidiary of Level 3, with such subsidiary continuing as the surviving company (collectively, the "mergers"). For accounting purposes, the mergers will be considered an acquisition of tw telecom by Level 3.

Under the terms of the merger agreement, tw telecom stockholders will receive \$10 cash and 0.7 shares of Level 3 common stock for each share of tw telecom common stock that is owned at closing. On June 15, 2014, the date the merger agreement was signed, tw telecom had approximately 139 million shares outstanding, including approximately 1 million shares reserved for outstanding share based compensation awards, net of estimated shares withheld for employee tax obligations. The unaudited pro forma financial information reflects aggregate consideration of approximately \$7.6 billion for the tw telecom mergers, calculated as follows (in millions):

Number of tw telecom common shares eligible for merger consideration*	139
Multiplied by exchange ratio per merger agreement	0.7
Number of Level 3 shares to be issued*	97.3
Multiplied by price of Level 3 common stock*	\$44.09
Estimated equity consideration	\$4,290
Estimated cash consideration (\$10 cash for each share of tw telecom's common stock)	1,390
Assumption of debt	1,923
Estimated aggregate consideration*	\$7,603

*The estimated purchase price has been determined based on the closing price of Level 3's common stock on June 13, 2014. Pursuant to the acquisition method of accounting, the final purchase price will be based on the number of tw telecom shares outstanding and the price of Level 3's common stock as of the closing date. Subject to stockholder and regulatory approvals, as well as the other closing conditions described herein, the mergers are expected to be completed before the end of 2014.

Based on current information, it is expected that the current Level 3 stockholders will own approximately 71% and the former tw telecom stockholders will own approximately 29% of the Level 3 common shares outstanding after consummation of the mergers. After consideration of all applicable factors pursuant to the accounting rules for business combinations, the parties consider Level 3 to be the "accounting acquirer" for purposes of the preparation of the unaudited pro forma financial information included below because Level 3 is issuing its common stock to acquire tw telecom (at a premium), the board of directors of the combined company will be composed principally of former Level 3 directors and the executive management team of the combined company will largely be led by current Level 3 executives, among other factors. Therefore, for accounting purposes, the mergers will be considered an acquisition of tw telecom by Level 3.

In order to consummate the mergers and to refinance certain existing indebtedness of tw telecom, Level 3 has entered into a financing commitment letter, described below, pursuant to which the lenders have committed, subject to customary conditions, to provide the financing to allow Level 3 to consummate the mergers and to replace certain existing indebtedness of tw telecom in connection with the consummation of the mergers.

The following unaudited pro forma financial information related to the tw telecom mergers was prepared using the acquisition method of accounting for business combinations, and is based on the assumption that the mergers took place as of June 30, 2014 for the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet. The Unaudited Pro Forma

and for the year ended December 31, 2013 are presented as if the mergers occurred on January 1, 2013. Unaudited pro forma adjustments, and the assumptions on which they are based, are described in the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements, which are referred to in this section as the notes. Certain reclassifications have been made relative to tw telecom's historical financial statements in order to present them on a basis consistent with Level 3.

In accordance with the acquisition method of accounting, the actual consolidated financial statements of Level 3 will reflect the mergers only from and after the completion date of the mergers. Level 3 has not yet undertaken a detailed analysis of the fair value of tw telecom's assets and liabilities and will not finalize the purchase price allocation related to the mergers until after the mergers are consummated. Thus, the provisional measurements of fair value reflected are subject to change once the valuations are completed. The final valuation will change the allocation of the purchase price, which could significantly affect the fair value assigned to the assets acquired and liabilities assumed, with a corresponding adjustment to goodwill.

Merger-related costs include transaction costs such as legal, accounting, valuation and other professional services and financing costs. Total merger-related transaction and financing costs expected to be incurred by Level 3 and tw telecom are approximately \$331 million, which includes \$40 million of debt issuance costs incurred in connection with the new financing arrangement. The costs associated with these non-recurring activities do not represent ongoing costs of the combined organization and are therefore, not included in the Unaudited Pro Forma Condensed Combined Statements of Operations, but are included in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash and stockholders' equity, except for the portion related to capitalizable debt issuance costs. Level 3 expects to incur additional merger-related expenses associated with the transaction, including integration activities. Based on current plans and information, Level 3 expects to incur approximately \$170 million of integration costs associated with this transaction, however, the ultimate costs incurred may vary from these estimates. For the purpose of the pro forma information, the estimated integration costs have been excluded as the timing and effects of these actions are too uncertain to meet the criteria for pro forma adjustments.

The unaudited pro forma information presented below has been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. The Unaudited Pro Forma Condensed Combined Financial Statements are not intended to represent or be indicative of the consolidated results of operations or financial position of Level 3 that would have been reported had the mergers been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of Level 3. The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any operating efficiencies and cost savings that we may achieve with respect to combining the companies. Synergies have been excluded from consideration because they are not considered to be factually supportable, which is a required condition for these pro forma adjustments.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Level 3 and tw telecom incorporated into this filing, and Level 3's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2014. Level 3 will change the presentation and classification of certain expense items in its Consolidated Statements of Operations prospectively, beginning with its Form 10-Q for the period ended September 30, 2014, and these changes are reflected in the presentation of Level 3's historical Statement of Operations data for the twelve months ended December 31, 2013 and the six months ended June 30, 2014 included in the Unaudited Pro Forma Condensed Combined Statement of Operations as described further in Note 1 to the Unaudited Pro Forma Condensed Combined Financial Information.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet at June 30, 2014

(dollars in millions)	Historical Level 3	Historical tw telecom	Pro Forma Adjustments	Pro Forma Financing Adjustments	Pro Forma Combined
Assets					
Current Assets:					
Cash and cash equivalents	\$ 637	\$ 190	\$ (1,681) (a)	\$ 1,135 (a)	\$ 281
Investments	—	174	—	—	174
Restricted cash and securities	6	2	—	—	8
Receivables, net	722	106	—	—	828
Other	174	78	(54) (e)	5 (a)	203
Total Current Assets	1,539	550	(1,735)	1,140	1,494
Property, Plant and Equipment, net	8,355	1,734	2 (c)	—	10,091
Restricted Cash and Securities	23	—	—	—	23
Goodwill	2,578	413	4,483 (b)(c)	—	7,474
Other Intangibles, net	169	9	1,135 (c)	—	1,313
Other Assets, net	364	121	(118) (b)(c)(e)	35 (a)	402
Total Assets	\$ 13,028	\$ 2,827	\$ 3,767	\$ 1,175	\$ 20,797
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable	\$ 613	\$ 75	\$ —	\$ —	\$ 688
Current portion of long-term debt	503	8	—	(5) (b)	506
Accrued payroll and employee benefits	145	54	—	—	199
Accrued interest	166	23	—	(20) (a)	169
Current portion of deferred revenue	258	49	(2) (d)	—	305
Other	139	86	—	—	225
Total Current Liabilities	1,824	295	(2)	(25)	2,092
Long-Term Debt, less current portion	7,855	1,915	17 (b)	1,200 (b)	10,987
Deferred Revenue, less current portion	885	20	(8) (d)	—	897
Other Liabilities	785	42	(2) (e)	—	825
Total Liabilities	11,349	2,272	5	1,175	14,801
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	2	2	(1) (g)	—	3
Additional paid-in capital	14,425	1,701	2,588 (g)	—	18,714
Treasury stock	—	(455)	455 (h)	—	—
Accumulated other comprehensive income	55	—	—	—	55
Accumulated deficit	(12,803)	(693)	720 (i)	—	(12,776)
Total Stockholders' Equity	1,679	555	3,762	—	5,996
Total Liabilities and Stockholders' Equity	\$ 13,028	\$ 2,827	\$ 3,767	\$ 1,175	\$ 20,797

See the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statement of Operations
For the twelve months ended December 31, 2013

(dollars in millions, except per share data)	Historical Level 3 as adjusted*	Historical tw telecom as adjusted*	Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 6,313	\$ 1,564	\$ (27) (k)	\$ 7,850
Costs and Expenses				
Network Access Costs	2,471	444	(24) (k)	2,891
Network Related Expenses	1,214	230	—	1,444
Depreciation and Amortization	800	306	121 (c)	1,227
Selling, General and Administrative Expenses	1,162	379	—	1,541
Total Costs and Expenses	5,647	1,359	97	7,103
Operating Income	666	205	(124)	747
Other Income (Expense):				
Interest expense	(649)	(96)	(45) (b)	(790)
Loss on modification and extinguishment of debt, net	(84)	(39)	—	(123)
Other, net	(4)	—	—	(4)
Total Other Expense	(737)	(135)	(45)	(917)
(Loss) Income Before Income Taxes	(71)	70	(169)	(170)
Income Tax Expense	(38)	(34)	23 (j)	(49)
Net (Loss) Income	\$ (109)	\$ 36	\$ (146)	\$ (219)
Basic Earnings per Common Share				
Net (Loss) Income Per Share	\$ (0.49)	\$ 0.25		\$ (0.69)
Shares Used to Compute Basic Net (Loss) Income per Share (in thousands)	222,368	144,920	97,300	319,668
Diluted Earnings per Common Share				
Net (Loss) Income Per Share	\$ (0.49)	\$ 0.24		\$ (0.69)
Shares Used to Compute Diluted Net (Loss) Income per Share (in thousands)	222,368	146,480	97,300	319,668

*Refer to Note 1 to Unaudited Pro Forma Condensed Combined Financial Information

See the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statement of Operations
For the six months ended June 30, 2014

(dollars in millions, except per share data)	Historical Level 3 as adjusted*	Historical tw telecom as adjusted*	Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 3,234	\$ 828	(14) (k)	\$ 4,048
Costs and Expenses				
Network Access Costs	1,227	242	(15) (k)	1,454
Network Related Expenses	594	120	—	714
Depreciation and Amortization	371	166	47 (c)	584
Selling, General and Administrative Expenses	522	209	—	731
Total Costs and Expenses	2,714	737	32	3,483
Operating Income	520	91	(46)	565
Other Income (Expense):				
Interest expense	(300)	(51)	(23) (b)	(374)
Loss on modification and extinguishment of debt, net	—	(1)	—	(1)
Other, net	(38)	—	—	(38)
Total Other Expense	(338)	(52)	(23)	(413)
Income Before Income Taxes	182	39	(69)	152
Income Tax Expense	(19)	(18)	3 (j)	(34)
Net Income	\$ 163	\$ 21	\$ (66)	\$ 118
Basic Earnings per Common Share				
Net Income Per Share	\$ 0.69	\$ 0.15		\$ 0.35
Shares Used to Compute Basic Net Income per Share (in thousands)	236,510	137,219	97,300	333,810
Diluted Earnings per Common Share				
Net Income Per Share	\$ 0.68	\$ 0.15		\$ 0.35
Shares Used to Compute Diluted Net Income per Share (in thousands)	240,890	139,172	97,300	338,190

*Refer to Note 1 to Unaudited Pro Forma Condensed Combined Financial Information

See the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(1) Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Level 3 would have been had the mergers occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect cost savings, operating synergies or revenue enhancements anticipated to result from the mergers, the costs to integrate the operations of Level 3 and tw telecom, or the costs necessary to achieve these cost savings, operating synergies or revenue enhancements. The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Level 3 and tw telecom that are included herein. Certain reclassifications have been made to the historical presentation of tw telecom's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Balance Sheet and relate primarily to other current assets, other current liabilities and other noncurrent liabilities. Level 3 will change the presentation and classification of certain expense items in the Consolidated Statements of Operations prospectively, beginning with its Form 10-Q for the period ended September 30, 2014, to disaggregate "Network Related Expenses" from "Selling, General and Administrative Expenses" in its Consolidated Statements of Operations and change the description of "Cost of Revenue" to "Network Access Costs." Level 3 is making this change to provide additional transparency into certain expense items incurred relative to its communication network that are in addition to the network access costs paid to third parties. These changes in presentation and classification of expense items have been reflected in the Level 3 historical Statement of Operations data for the twelve months ended December 31, 2013 and for the six months ended June 30, 2014 included in the Unaudited Pro Forma Condensed Combined Statement of Operations. Certain reclassifications have been made to the historical presentation of tw telecom's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Statement of Operations primarily related to network access costs, network related expenses, depreciation and amortization and selling, general and administrative expenses.

Changes in Presentation and Classification of Certain Level 3 Expense Items

Historically, Level 3 has included "Network Related Expenses" including facility rent, utilities, maintenance and other costs, each related to the operation of its communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services, operation and maintenance of its communications network, and accretion expense on asset retirement obligations, but excluding depreciation and amortization, within the line item "Selling, General and Administrative Expenses" in its Consolidated Statements of Operations.

Level 3 will disaggregate the presentation of "Network Related Expenses" from "Selling, General and Administrative Expenses" in its Consolidated Statements of Operations going forward. In addition, Level 3 will change the description of "Cost of Revenue" in its Consolidated Statement of Operations to "Network Access Costs." As described above, these changes are reflected in the Unaudited Pro Forma Condensed Combined Statement of Operations.

These changes do not affect Level 3's previously reported Consolidated Total Costs and Expenses, Operating Income, Net Loss or Loss per Share in the Consolidated Statement of Operations, or any items reported in the Consolidated Balance Sheets, Consolidated Statements of Comprehensive Loss, Cash Flows or Changes in Stockholders' Equity (Deficit).

The following table reflects the change of the description of "Cost of Revenue" to "Network Access Costs" and the disaggregation of "Network Related Expenses" from "Selling, General and Administrative Expenses" for the year ended December 31, 2013, and for the six months ended June 30, 2014 in the Condensed Combined Statements of Operations for Level 3, assuming the changes discussed above were in effect for the entire period reported below.

Level 3 Communications, Inc.

(unaudited)

(dollars in millions)	As Previously Reported	Adjustment	Revised Reporting (1)
Year Ended December 31, 2013			
Cost of Revenue	\$ 2,471	\$ (2,471)	\$ —
Network Access Costs	—	2,471	2,471
Network Related Expenses	—	1,214	1,214
Selling, General and Administrative Expenses	2,376	(1,214)	1,162
Total Costs and Expenses	5,647	—	5,647

Six Months Ended June 30, 2014			
Cost of Revenue	\$ 1,227	\$ (1,227)	\$ —
Network Access Costs	—	1,227	1,227
Network Related Expenses	—	594	594
Selling, General and Administrative Expenses	1,116	(594)	522
Total Costs and Expenses	2,714	—	2,714

(1) The description of "Cost of Revenue" has been changed to "Network Access Costs" and the presentation of "Network Related Expenses" has been disaggregated from "Selling, General and Administrative Expenses" in the Consolidated Statements of Operations.

The following unaudited pro forma adjustments have been reflected in the Unaudited Pro Forma Condensed Combined Financial Statements. These adjustments give effect to pro forma events that are (i) directly attributable to the mergers, (ii) factually supportable and (iii) with respect to the condensed combined statements of operations, expected to have a continuing effect on the combined company. As of the date of this filing, Level 3 has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of tw telecom's assets to be acquired and liabilities to be assumed and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform tw telecom's accounting policies to Level 3's accounting policies. However, as indicated in Note 2 to the Unaudited Pro Forma Condensed Combined Financial Statements, Level 3 has made certain adjustments to the June 30, 2014 historical book values of tw telecom's assets and liabilities to reflect certain preliminary estimates of the fair values necessary to reflect adjustments required by the application of the acquisition method of accounting for business combinations. Any excess purchase price over the estimated fair value of tw telecom's net assets has been recorded as goodwill. Actual results will differ from these Unaudited Pro Forma Condensed Combined Financial Statements once Level 3 has determined the final purchase price for tw telecom, has completed the valuation studies necessary to finalize the required purchase price allocations based on the tangible and intangible assets and liabilities of tw telecom at the completion of the mergers, and has finalized any necessary adjustments from conforming accounting policies and further classification changes. The determination of the final purchase price allocations can be highly subjective and it is possible that other professionals applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts. Level 3 is still in the process of completing the detailed valuation studies and other analysis necessary to finalize the necessary purchase price allocation and identifying any related effect there may be on the Unaudited Pro Forma Condensed Combined Financial Statements. There can be no assurance that the finalization of Level 3's review will not result in material changes.

(2) Basis of Preliminary Purchase Price Allocation

The mergers with tw telecom will be accounted for in accordance with the acquisition method of accounting. The following preliminary purchase price is based on Level 3's preliminary estimates and is allocated to tw telecom's tangible and intangible assets and liabilities based on their estimated fair value as of June 30, 2014. The final

determination of the allocation of the purchase price will be based on the fair value of such assets and liabilities as of the actual consummation date of the mergers and will be completed after the mergers are consummated. Such final determination of the purchase price allocation may be significantly different from the preliminary estimates used in these pro forma financial statements. Based on the closing price of Level 3's common stock on June 13, 2014, the purchase price would be approximately \$7.6 billion, including the assumption of debt. The requirement to base the final purchase price on the number of tw telecom shares outstanding and the price of Level 3's common stock as of the closing date will likely result in a per share equity component different from the \$44.09 assumed in these Unaudited Pro Forma Condensed Combined Financial Statements, and that difference may be material. Therefore, the estimated consideration expected to be transferred reflected in these Unaudited Pro Forma Condensed Combined Financial Statements does not purport to represent what the actual consideration transferred will be when the mergers are completed. For example, an increase or decrease by 10% in the Level 3 common stock price as of the close of business on June 13, 2014 (\$44.09 per share) would increase or decrease the consideration expected to be transferred by approximately \$429 million, which would be reflected in these Unaudited Pro Forma Condensed Combined Financial Statements as an increase or decrease to goodwill.

Based upon a preliminary valuation, the total purchase price (as calculated in the manner described above) was allocated to tw telecom's assets and liabilities as follows:

(Dollars in millions)	June 30, 2014
Assets:	
Cash and cash equivalents	\$ 190
Investments	174
Restricted cash and securities	2
Receivables	106
Other current assets	78
Property, plant and equipment	1,736
Goodwill	4,896
Other intangibles	1,144
Other assets	82
Total Assets	8,408
Liabilities:	
Accounts payable	(75)
Current portion of long-term debt	(8)
Accrued payroll and employee benefits	(54)
Accrued interest	(23)
Deferred revenue	(59)
Other current liabilities	(86)
Long-term debt, less current portion	(1,932)
Other noncurrent liabilities	(491)
Total Liabilities	(2,728)
Total Estimated Consideration	\$ 5,680

Upon completion of the final fair value assessment after the mergers, Level 3 anticipates that the ultimate purchase price allocation will differ from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of the acquired assets and assumed liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

The guidance related to business combinations outlines the methodologies for calculating merger consideration and for determining fair values. It also requires that all transaction and restructuring costs related to business combinations be expensed as incurred, and it requires that changes in deferred tax asset valuation allowances and liabilities for tax uncertainties subsequent to the merger date that do not meet certain re-measurement criteria be recorded in the statement of operations. Total merger-related transaction and financing costs expected to be incurred by Level 3 and tw telecom are estimated to be approximately \$331 million and as they are non-recurring, are reflected only in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash, of which \$40 million is attributable to debt issuance costs and the remainder will reduce stockholders' equity.

The Unaudited Pro Forma Condensed Combined Financial Information does not reflect ongoing cost savings, operating synergies or revenue enhancements that Level 3 expects to achieve as a result of the mergers, the costs to integrate the operations of Level 3 and tw telecom and to achieve these cost savings operating synergies or revenue enhancements. Level 3 expects to incur approximately \$170 million of integration costs associated with this transaction. The mergers are expected to create approximately \$200 million in annualized operating cost synergies and approximately \$40 million in annualized capital expenditure savings. Level 3 expects to recognize the operating cost savings from network expense savings and operating expense savings, primarily from the reduction in back office areas, public company costs, supplier savings, management overlap and the combination of network platforms. The synergy and cost savings estimates are forward looking statements and are qualified by reference to the important disclosures set forth under “Forward-Looking Statements.” Level 3 cannot assure that these estimated synergies or cost savings will be achieved.

(3) Accounting Policies

Upon completion of the mergers, Level 3 will continue its review of tw telecom's accounting policies. As a result of that review, Level 3 may identify differences between the accounting policies of the two companies that, when conformed, could have a material effect on the combined financial statements. At this time, Level 3 is not aware of any differences that would have a material effect on the combined financial statements. The Unaudited Pro Forma Condensed Combined Financial Statements do not assume any differences in accounting policies.

(4) Pro Forma Adjustments

- (a) Adjustment to record the cash received from merger-related financing as of June 30, 2014 discussed further below, net of \$ 1,795 million to retire tw telecom's short-term and long-term debt excluding capital lease obligations and debt discount and issuance costs and \$ 20 million of accrued interest on retirement of tw telecom's debt.

Dollars in millions	Financing Adjustments
Proceeds from Level 3 merger-related financing	\$ 3,000
Discount on merger-related financing	(10)
Debt issuance costs of Level 3 merger-related financing (Note 4b), short-term	(5)
Debt issuance costs of Level 3 merger-related financing (Note 4b), long-term	(35)
Repayment of certain of tw telecom's debt	(1,795)
Payment of accrued interest on retirement of tw telecom's debt	(20)
Net proceeds from financing activities	<u>\$ 1,135</u>

Cash of \$1,681 million was assumed to be used for the cash portion of the merger consideration of \$1,390 million and for \$331 million of Level 3's estimated financing and transaction costs, less \$40 million of pro forma financing adjustments for debt issuance costs.

- (b) For the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet, Level 3 has assumed it would borrow through the capital markets transactions an aggregate of \$3.0 billion, comprised of \$2.0 billion aggregate principal amount in a senior secured term loan and \$1.0 billion aggregate principal amount of unsecured senior notes, to fund the cash portion of the merger consideration, the refinancing of tw telecom's short-term and long-term debt, transaction costs related to the mergers and the refinancings and for general corporate purposes. Level 3 expects to seek this financing ahead of the closing of the mergers. The allocation of the debt financing between the senior secured term loan and unsecured senior notes may vary from the amounts assumed for purposes of the Unaudited Pro Forma Condensed Combined Financial Information.

On June 15, 2014, concurrent with the execution of the merger agreement, Level 3 Financing, Inc. and Level 3 entered into a financing commitment letter (the “Commitment Letter”) with the Commitment Parties, as separately defined in the Commitment Letter. The Commitment Letter provides for a senior secured term loan facility in an aggregate amount of up to \$2.4 billion (the “senior secured facility”). The Commitment Letter also provides for a senior unsecured facility bridge financing of \$600 million (the “unsecured facility”). The unsecured facility portion of the Commitment Letter is reduced by the amount of any senior notes or certain

other securities ("debt securities") that are issued in relation to the mergers on or prior to the closing of the mergers. Under certain circumstances, the committed amounts can be allocated from the senior secured facility to the unsecured facility at the option of Level 3. Unless Level 3 or Level 3 Financing, Inc. has obtained an aggregate of \$3.0 billion in the capital markets prior to closing, Level 3 and Level 3 Financing retain the ability to draw on the commitments contained in the Commitment Letter pursuant to the terms and conditions as specified in the Commitment Letter.

On August 12, 2014, Level 3 Escrow II, a wholly-owned, indirect subsidiary of the Company, issued \$1.0 billion aggregate principal amount of its 5.375% Senior Notes due 2022 in a private offering to "qualified institutional buyers." The gross proceeds from the offering of the Notes were deposited into a segregated escrow account and will remain in escrow until the date of the satisfaction of certain escrow conditions including, but not limited to, the substantially concurrent consummation of the proposed acquisition by the Company of tw telecom. The Notes reduce the commitment under the senior secured facility from \$2.4 billion to \$2.0 billion. The adjustments to account for these financing adjustments are as follows:

Dollars in millions	As of June 30, 2014	
	Current Portion of Long-Term Debt	Long-Term Debt, less Current Portion
Level 3's historical debt balance	\$ 503	\$ 7,855
tw telecom's historical debt balance	8	1,915
New debt issued by Level 3, net of discount of \$10 million	—	2,990
Repayment of certain of tw telecom's debt	(5)	(1,790)
Elimination of tw telecom debt discounts	—	17
Total Debt Balance	\$ 506	\$ 10,987

For pro forma purposes, Level 3 assumes that tw telecom debt, except for capital lease obligations, has been replaced with the senior secured facility and \$1.0 billion aggregate principal amount of unsecured senior notes. Level 3 estimates an increase in interest expense of approximately \$45 million in 2013 and an increase of \$23 million in the first six months of 2014 associated with the incremental debt Level 3 will issue in connection with the mergers after retiring tw telecom's existing debt. The change in interest expense for such periods is based on a \$2.0 billion senior secured facility, with an assumed annual interest rate of 4.00% and \$1.0 billion aggregate principal amount of unsecured senior notes with an annual interest rate of 5.375%. The assumed term of the term loan facility is seven years and the term of the unsecured senior notes is eight years. For the purpose of the Unaudited Pro Forma Condensed Combined Statement of Operations, it has been assumed that Level 3 drew down the senior secured facility and issued the unsecured senior notes on January 1, 2013 and, therefore, incurred interest expense of approximately \$140 million in 2013 and \$70 million in the first six months of 2014. This interest expense was offset by the elimination of tw telecom's interest expense due to the retirement of tw telecom's outstanding debt of \$1,821 million for the year ended December 31, 2013 and \$1,795 million for the six months ended June 30, 2014, which corresponds to \$95 million in interest expense in 2013 and \$47 million in the first six months of 2014.

Dollars in millions	Twelve months ended December 31, 2013	Six months ended June 30, 2014
tw telecom's historical interest expense	\$ (95)	\$ (47)
Interest expense resulting from debt Level 3 will issue in connection with the Merger	140	70
Increase in interest expense	\$ 45	\$ 23

The assumed interest rates of 4.00% for the senior secured facility is based on a LIBOR floor of 1.00% plus 3.00%. Based on the LIBOR Rate of 0.24% on June 15, 2014, a decrease of 1% from the base LIBOR rate assumed on the senior secured facility would not change the pro forma interest expense reflected in the Unaudited Pro Forma Condensed Combined Statement of Operations for the twelve months ended December 31, 2013 or the first six months of 2014 given the LIBOR floor. An increase of 1% from the base LIBOR rate assumed on the senior secured facility would increase interest expense on the debt by \$5 million and \$2 million for the twelve months ended December 31, 2013 and the six months ended June 30, 2014, respectively.

Included in the incremental interest expense is additional interest expense of approximately \$6 million for the twelve months ended December 31, 2013 and \$3 million for the first six months of 2014 for the amortization of debt issuance costs associated with the senior secured facility and the unsecured senior notes. Debt issuance costs associated with the senior secured facility and unsecured senior notes were assumed to be approximately \$40 million (\$25 million of costs associated with the senior secured facility amortized over seven years and \$15 million associated with the unsecured senior notes amortized over eight years). The Unaudited Pro Forma Condensed Combined Balance Sheet also includes an adjustment to reduce other noncurrent assets by \$31 million for the elimination of net deferred financing fees and increase long-term debt by \$17 million for the elimination of debt discounts upon retirement of tw telecom's existing debt.

The interest that Level 3 expects to ultimately pay can vary greatly from what is assumed in these Unaudited Pro Forma Condensed Combined Financial Statements and will depend on the actual timing and maturity profile of any permanent debt financing issued and the actual fixed/floating interest rate mix of any permanent debt financing and Level 3's credit rating, amongst other factors.

- (c) Adjustments to reflect the components of the preliminary estimates of the fair value of assets to be acquired by Level 3 at the completion of the mergers.

Dollars in millions	June 30, 2014	Estimated Fair Value	Increase	Estimated Remaining Useful Lives (Years)
Property, Plant and Equipment	\$ 1,734	\$ 1,736	\$ 2	1-33 years
Customer Relationships	9	1,040	1,031	9-10 years
Trademark and trade names	—	104	104	5 years
Goodwill	413	4,896	4,483	Indefinite

Adjustments to reflect fair values were estimated by Level 3 management based on a market approach, considering factors such as asset utilization and estimated useful lives, amongst others. An additional adjustment of \$8 million was recorded to reduce the value of Other Assets, and \$17 million adjustment was made to goodwill to reflect the elimination of tw telecom's debt discounts.

As of the effective date of the mergers, identifiable intangible assets are required to be measured at fair value and these acquired identifiable intangible assets could include assets that are not intended to be used or sold or that are intended to be used in a manner other than their highest and best use. For purposes of these Unaudited Pro Forma Condensed Combined Financial Statements, it is assumed that all identifiable intangible assets will be used and that all assets will be used in a manner that represents the highest and best use of those assets, but it is not assumed that any market participant synergies will be achieved. The consideration of synergies has been excluded because they do not meet the required criteria for being considered a pro forma adjustment. For purposes of the preliminary allocation, Level 3 has estimated a fair value for tw telecom's intangible assets related to trademark and trade names and customer relationships based on the net present value of the projected income stream of those intangible assets. Goodwill is not amortized.

The Unaudited Pro Forma Condensed Combined Statements of Operations have been adjusted to reflect the corresponding adjustments to tw telecom's acquired tangible and intangible assets.

Dollars in millions	Twelve months ended December 31, 2013	Six months ended June 30, 2014
tw telecom's historical depreciation and amortization	\$ (306)	\$ (166)
Depreciation and amortization after fair value adjustments and changes in the estimated useful lives associated with acquired assets	427	213
Increase in depreciation and amortization expense	\$ 121	\$ 47

A 10% change in the allocation between the acquired tangible and intangible assets and goodwill would result in a change in annual depreciation and amortization expense of approximately \$43 million and would cause

Level 3's pro forma basic and diluted loss from continuing operations per common share to change by \$0.13 per share, assuming the 10% change is applied pro rata to the assets.

- (d) Adjustment to record the differences between the estimated fair values and the historical carrying amounts of tw telecom's deferred revenues including the elimination of deferred revenue balances where no future performance obligation exists and deferred revenue attributable to tw telecom contracts with Level 3 existing prior to the mergers. tw telecom had certain deferred revenues on its balance sheet associated with sales of capacity leases, prepaid services and installation activities. These deferred balances arise from tw telecom receiving up-front payments while recognizing the related revenue over the estimated life of the associated contract. The estimated fair value of deferred revenue represents amounts equivalent to the estimated costs to complete plus an appropriate profit margin to fulfill the obligations assumed in the transaction. The estimated amounts presented for purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet are based upon the deferred revenue of tw telecom as of June 30, 2014.

Dollars in millions	June 30, 2014	Estimated Fair Value	Decrease
Current portion of deferred revenue	\$ 49	\$ 47	\$ 2
Deferred Revenue, less current portion	20	12	8

- (e) As of the completion date of the mergers, tw telecom will be consolidated with Level 3 for U.S. federal income tax purposes. Therefore, Level 3 has presented the unaudited pro forma financial statements accordingly to reflect the effect of the consolidation.

As part of the accounting for the mergers, Level 3 will record the acquired assets and liabilities on its books at their estimated fair value as of the date of the mergers. For tax purposes, due to the nature of the acquisition being treated as a non-taxable transaction, Level 3 will assume carryover tax basis of tw telecom's assets and liabilities. This will create material deferred tax liabilities primarily for the book versus tax basis differences of tangible and intangible assets. Based on the preliminary valuation of the intangible and tangible assets, an adjustment of \$449 million was made to the Unaudited Pro Forma Condensed Combined Balance Sheet to record a deferred tax liability for book versus tax differences of the intangible and tangible assets. In the event the valuation of the intangible and tangible assets changes materially in the future, the amount of the recorded deferred tax liability would materially change as well.

Level 3 anticipates that upon consolidation, the portion of the tax provision attributable to tw telecom will be limited to the income tax expense related to indefinite-lived assets due to the substantial net operating losses and full valuation allowance on Level 3's net deferred tax assets. For purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet, Level 3 has reduced tw telecom's net deferred tax assets by \$131 million.

- (f) On the date of completion of the mergers, all outstanding employee stock option awards, restricted stock and restricted stock units of tw telecom will be canceled and exchanged for Level 3 shares and cash in accordance with the terms of the merger agreement. All other tw telecom employee stock plans will be terminated. The employees of tw telecom will participate in Level 3's stock-based compensation programs after completion of the mergers.
- (g) Adjustment to reflect the elimination of tw telecom's common shares outstanding, net of the assumed issuance of common shares as a result of the mergers calculated by multiplying tw telecom's common shares outstanding by the 0.7 share exchange ratio.

Dollars in millions	Adjustments as of June 30, 2014
Issue 97.3 million shares of Level 3 common stock @ \$0.01 par value	\$ 1
Eliminate tw telecom common stock	(2)
Adjustment to common stock	\$ (1)

The related adjustment to additional paid-in capital for the aforementioned changes in common is as follows:

Dollars in millions	Adjustments as of June 30, 2014
Total estimated equity consideration	\$ 4,290
Elimination of tw telecom additional paid-in capital	(1,701)
Common stock	(1)
Adjustment to additional paid-in capital	<u>\$ 2,588</u>

- (h) Adjustment to eliminate tw telecom's treasury stock, which will be canceled upon completion of the mergers.
- (i) Adjustment to eliminate tw telecom's accumulated deficit, to record estimated non-recurring financing and merger-related costs of Level 3 and net adjustments to deferred taxes, as follows:

Dollars in millions	Adjustment as of June 30, 2014
Eliminate tw telecom's accumulated deficit	\$ 693
Estimated financing and merger-related expenses	(291)
Net adjustments to deferred taxes	318
Adjustment to accumulated deficit	<u>\$ 720</u>

The newly created deferred tax liabilities as a result of acquisition accounting will offset tw telecom's deferred tax assets as well as a portion of Level 3's deferred tax assets. As a result, Level 3 has included an adjustment to the Unaudited Pro Forma Condensed Combined Balance Sheet to reflect a one-time release of valuation allowance. In the event of a change to the valuation of tw telecom's assets and liabilities, the amount of the newly created deferred tax liability could change materially, along with the amount of the one-time release of the valuation allowance.

- (j) As of December 31, 2013, Level 3 had net operating loss carry forwards of approximately \$9.1 billion for U.S. federal income tax purposes. tw telecom's net operating loss carry forwards for U.S. federal income tax purposes were \$800 million. Given Level 3's net operating loss carry forward position and full valuation allowance against its net deferred tax assets, income tax expense is primarily related to state and foreign income taxes in the Unaudited Pro Forma Condensed Combined Statements of Operations. With the exception of income tax expense related to indefinite-lived assets, the historical tax provision for tw telecom has been reversed as Level 3 anticipates that upon consolidation with Level 3, tw telecom will not generate other current or deferred tax expense or benefit for U.S. federal and state income tax purposes.

Level 3 is still in the process of completing the detailed valuation studies and other analysis necessary to finalize the necessary adjustments related to income taxes, and related deferred tax assets and liabilities. There can be no assurance that the finalization of Level 3's review will not result in material changes.

- (k) Adjustment to eliminate the historical intercompany transactions between Level 3 and tw telecom.