

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **May 20, 2011**

Level 3 Communications, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other
jurisdiction of incorporation)

0-15658

(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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Item 8.01 Other Events.

As previously announced, on April 10, 2011, Level 3 Communications, Inc. (“Level 3”) entered into a definitive agreement to acquire Global Crossing Ltd. (“Global Crossing”) in a stock-for-stock transaction. Completion of the Global Crossing transaction is subject to, among other things, approval by Level 3 stockholders and Global Crossing stockholders. Level 3 expects the Global Crossing transaction to occur before the end of 2011, although there can be no assurance as to whether or when the transaction will be completed.

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 Global Crossing will be submitted to the stockholders of Level 3 and the stockholders of Global Crossing for their consideration. Level 3 and Global Crossing have filed a registration statement on Form S-4, a joint proxy statement/prospectus and other relevant documents concerning the proposed transaction with the SEC. Level 3 and Global Crossing 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, Global Crossing 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 Global Crossing free of charge at the SEC’s Web Site at <http://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 <http://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 Global Crossing may be obtained free of charge by directing such request to: Global Crossing by telephone at (800) 836-0342 or by submitting a request by e-mail to glbc@globalcrossing.com or a written request to the Secretary, Wessex House, 45 Reid Street, Hamilton HM12 Bermuda or from Global Crossing’s Investor Relations page on its corporate website at <http://www.globalcrossing.com>.

Level 3, Global Crossing 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 Global Crossing, 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 2011 Annual Meeting of Stockholders, which was filed with the SEC on April 4, 2011 and information about the directors and executive officers of Global Crossing is set forth in the proxy statement for Global Crossing’s 2011 Annual Meeting of Stockholders, which was filed with the SEC on April 29, 2011. 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 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the acquisition of Global Crossing 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; Level 3’s and Global Crossing’s plans, objectives, expectations and intentions and other statements contained in this communication that are not historical facts; and (ii) other statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” or words of similar meaning.

These forward-looking statements are based upon management’s current beliefs or expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies and third-party approvals, many of which are beyond our control. The following factors, among others, could cause actual results 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 Amalgamation

among Level 3, Global Crossing and Apollo Amalgamation Sub, Ltd. (the “Amalgamation Agreement”); (2) the inability to complete the transactions contemplated by the Amalgamation Agreement due to the failure to obtain the required stockholder approvals, (3) the inability to satisfy the other conditions specified in the Amalgamation Agreement, including without limitation the receipt of necessary governmental or regulatory approvals required to complete the transactions contemplated by the Amalgamation Agreement; (4) the inability to successfully integrate the businesses of Level 3 and Global Crossing 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 Global Crossing, 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, Global Crossing or others following announcement of the Amalgamation Agreement and transactions contemplated therein; and (8) the possibility that Level 3 or Global Crossing may be adversely affected by other economic, business, and/or competitive factors.

Other important factors that may affect Level 3’s and the combined business’ results of operations and financial condition include, but are not limited to: the current uncertainty in the global financial markets and the global economy; 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; disruptions in the financial markets that could affect Level 3’s ability to obtain additional financing, and Level 3’s ability to: increase and maintain the volume of traffic on its network; develop effective business support systems; manage system and network failures or disruptions; develop new services that meet customer demands and generate acceptable margins; defend intellectual property and proprietary rights; adapt to rapid technological changes that lead to further competition; attract and retain qualified management and other personnel; successfully integrate acquisitions; and meet all of the terms and conditions of debt obligations.

Additional information concerning these and other important factors can be found within Level 3’s and Global Crossing’s respective filings with the SEC, which discuss the foregoing risks as well as other important risk factors that could contribute to such differences or otherwise affect our business, results of operations and financial condition. Statements in this communication should be evaluated in light of these important factors. The forward-looking statements in this communication speak only as of the date they are made. Except for the ongoing obligations of Level 3 and Global Crossing to disclose material information under the federal securities laws, neither Level 3 nor Global Crossing undertakes any obligation to, and expressly disclaim any such obligation to, update or alter any forward-looking statement to reflect new information, circumstances or events 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, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 of Global Crossing are filed herewith as Exhibit 99.1 and incorporated in this Item 9.01(a) by reference; and the unaudited condensed consolidated financial statements as of March 31, 2011 and December 31, 2010 and for the periods ended March 31, 2011 and 2010 of Global Crossing 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 three months ended March 31, 2011 and for the year ended December 31, 2010, giving effect to the Global Crossing transaction, are filed herewith as Exhibit 99.3 and incorporated in this Item 9.01(b) by reference.

(c) Shell Company Transactions

Not applicable.

(d) Exhibits

23.1 Consent of Ernst & Young LLP.

99.1 Audited consolidated financial statements of Global Crossing as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.

99.2 Unaudited condensed consolidated financial statements of Global Crossing as of March 31, 2011 and December 31, 2010 and for the periods ended March 31, 2011 and 2010.

99.3 Unaudited pro forma condensed combined financial statements of Level 3 as of and for the three months ended March 31, 2011 and for the year ended December 31, 2010.

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/ Neil J. Eckstein

Neil J. Eckstein, Senior Vice President

Date: May 20, 2011

Exhibit Index

Exhibit	Description
23.1	Consent of Ernst & Young LLP.
99.1	Audited consolidated financial statements of Global Crossing as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.
99.2	Unaudited condensed consolidated financial statements of Global Crossing as of March 31, 2011 and December 31, 2010 and for the periods ended March 31, 2011 and 2010.
99.3	Unaudited pro forma condensed combined financial statements of Level 3 as of and for the three months ended March 31, 2011 and for the year ended December 31, 2010.

Consent of Independent Registered Public Accounting Firm

We consent to the use of our report dated February 23, 2011, with respect to the consolidated financial statements and schedule of Global Crossing Limited included in the Form 8-K of Level 3 Communications, Inc. filed with the Securities and Exchange Commission on May 20, 2011, and to the incorporation by reference in the Registration Statements of Level 3 Communications, Inc. (Form S-8 No.'s 333-79533, 333-42465, 333-68447, 333-58691, 333-52697, 333-115472, and 333-115751, and Form S-3 No.'s 333-153644, 333-154976, 333-156709, 333-160493, and 333-162854).

/s/ Ernst & Young LLP

Iselin, New Jersey
May 20, 2011

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Global Crossing Limited

We have audited the accompanying consolidated balance sheets of Global Crossing Limited and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity (deficit), cash flows, and comprehensive loss for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global Crossing Limited and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2010 the Company adopted ASC Topic 605 with respect to accounting and reporting for revenue-generating arrangements with multiple deliverables. Also in 2009, the Company adopted ASC Topic 805 with respect to accounting for the reversal of pre-emergence valuation allowances.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Global Crossing Limited's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Iselin, New Jersey
February 23, 2011

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share information)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 372	\$ 477
Restricted cash and cash equivalents—current portion	4	9
Accounts receivable, net of allowances of \$45 and \$50	324	328
Prepaid costs and other current assets	<u>91</u>	<u>101</u>
Total current assets	<u>791</u>	<u>915</u>
Restricted cash and cash equivalents—long term	5	7
Property and equipment, net of accumulated depreciation of \$1,514 and \$1,216	1,179	1,280
Intangible assets, net (including goodwill of \$208 and \$175)	227	198
Other assets	<u>108</u>	<u>88</u>
Total assets	<u>\$ 2,310</u>	<u>\$ 2,488</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 297	\$ 312
Accrued cost of access	78	87
Short term debt and current portion of long term debt	27	37
Obligations under capital leases—current portion	51	49
Deferred revenue—current portion	184	174
Other current liabilities	<u>376</u>	<u>384</u>
Total current liabilities	<u>1,013</u>	<u>1,043</u>
Long term debt	1,311	1,295
Obligations under capital leases	72	90
Deferred revenue	338	334
Other deferred liabilities	<u>53</u>	<u>86</u>
Total liabilities	<u>2,787</u>	<u>2,848</u>
SHAREHOLDERS' DEFICIT:		
Common stock, 110,000,000 shares authorized, \$.01 par value, 60,497,709 and 60,219,817 shares issued and outstanding as of December 31, 2010 and 2009, respectively	1	1
Preferred stock with controlling shareholder, 45,000,000 shares authorized, \$.10 par value, 18,000,000 shares issued and outstanding	2	2
Additional paid-in capital	1,443	1,427
Accumulated other comprehensive income (loss)	15	(24)
Accumulated deficit	<u>(1,938)</u>	<u>(1,766)</u>
Total shareholders' deficit	<u>(477)</u>	<u>(360)</u>
Total liabilities and shareholders' deficit	<u>\$ 2,310</u>	<u>\$ 2,488</u>

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share and per share information)

	Year Ended December 31,		
	2010	2009	2008
Revenue	\$ 2,609	\$ 2,536	\$ 2,599
Cost of revenue (excluding depreciation and amortization, shown separately below):			
Cost of access	(1,159)	(1,159)	(1,211)
Real estate, network and operations	(408)	(406)	(423)
Third party maintenance	(104)	(103)	(107)
Cost of equipment and other sales	(107)	(98)	(94)
Total cost of revenue	(1,778)	(1,766)	(1,835)
Gross margin	831	770	764
Selling, general and administrative	(431)	(428)	(491)
Depreciation and amortization	(337)	(340)	(326)
Operating income (loss)	63	2	(53)
Other income (expense):			
Interest income	2	7	10
Interest expense	(191)	(160)	(176)
Other income (expense), net	(51)	11	(26)
Loss before pre-confirmation contingencies and benefit (provision) for income taxes	(177)	(140)	(245)
Net gain on pre-confirmation contingencies	—	—	10
Loss before benefit (provision) for income taxes	(177)	(140)	(235)
Benefit (provision) for income taxes	5	(1)	(49)
Net loss	(172)	(141)	(284)
Preferred stock dividends	(4)	(4)	(4)
Loss applicable to common shareholders	\$ (176)	\$ (145)	\$ (288)
Loss per common share, basic and diluted:			
Loss applicable to common shareholders	\$ (2.91)	\$ (2.45)	\$ (5.16)
Weighted average number of common shares	60,418,995	59,290,355	55,771,867

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(in millions, except share information)

	Common Stock		Preferred Stock		Other Shareholders' Equity (Deficit)			Total Shareholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	
Balance at December 31, 2007	54,552,045	\$ 1	18,000,000	\$ 2	\$ 1,345	\$ (42)	\$ (1,341)	\$ (35)
Realization of pre-emergence valuation allowances	—	—	—	—	30	—	—	30
Issuance of common stock from exercise of stock options	123,071	—	—	—	1	—	—	1
Issuance of common stock from vested stock units	2,210,508	—	—	—	1	—	—	1
Common stock withheld for employee taxes from vested stock units	(189,312)	—	—	—	(3)	—	—	(3)
Preferred stock dividends (\$0.22 per preferred share)	—	—	—	—	(4)	—	—	(4)
Foreign currency translation adjustment	—	—	—	—	—	21	—	21
Stock compensation expense of awards classified as equity	—	—	—	—	29	—	—	29
Unrealized derivative gain on cash flow hedge	—	—	—	—	—	9	—	9
Change in pension liability	—	—	—	—	—	(11)	—	(11)
Net loss	—	—	—	—	—	—	(284)	(284)
Balance at December 31, 2008	56,696,312	\$ 1	18,000,000	\$ 2	\$ 1,399	\$ (23)	\$ (1,625)	\$ (246)
Issuance of common stock from exercise of stock options	14,666	—	—	—	—	—	—	—
Issuance of common stock from vested stock units	5,244,369	—	—	—	—	—	—	—
Common stock withheld for employee taxes from vested stock units	(1,735,530)	—	—	—	(13)	—	—	(13)
Preferred stock dividends (\$0.22 per preferred share)	—	—	—	—	(4)	—	—	(4)
Foreign currency translation adjustment	—	—	—	—	—	(4)	—	(4)
Stock compensation expense of awards classified as equity	—	—	—	—	18	—	—	18
Stock compensation reclass from liability to equity	—	—	—	—	27	—	—	27
Unrealized derivative loss on cash flow hedge	—	—	—	—	—	(4)	—	(4)
Change in pension liability	—	—	—	—	—	7	—	7
Net loss	—	—	—	—	—	—	(141)	(141)
Balance at December 31, 2009	60,219,817	\$ 1	18,000,000	\$ 2	\$ 1,427	\$ (24)	\$ (1,766)	\$ (360)
Issuance of common stock from exercise of stock options	50,000	—	—	—	1	—	—	1
Issuance of common stock from vested stock units	278,696	—	—	—	—	—	—	—
Common stock withheld for employee taxes from vested stock units	(50,804)	—	—	—	(1)	—	—	(1)
Preferred stock dividends (\$0.22 per preferred share)	—	—	—	—	(4)	—	—	(4)
Foreign currency translation adjustment	—	—	—	—	—	30	—	30
Stock compensation expense of awards classified as equity	—	—	—	—	20	—	—	20
Change in pension liability	—	—	—	—	—	9	—	9
Net loss	—	—	—	—	—	—	(172)	(172)
Balance at December 31, 2010	60,497,709	\$ 1	18,000,000	\$ 2	\$ 1,443	\$ 15	\$ (1,938)	\$ (477)

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year Ended December 31,		
	2010	2009	2008
Cash flows provided by (used in) operating activities:			
Net loss	\$ (172)	\$ (141)	\$ (284)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of property and equipment	(1)	—	(4)
Loss on sale of marketable securities	2	—	2
Non-cash loss on extinguishment of debt	5	15	—
Non-cash income tax provision	—	—	35
Deferred income tax	(23)	(20)	(1)
Non-cash stock compensation expense	20	18	55
Depreciation and amortization	337	340	326
Provision for doubtful accounts	3	7	6
Amortization of prior period IRUs	(25)	(22)	(15)
Deferred reorganization costs	—	(3)	(3)
Gain on pre-confirmation contingencies	—	—	(10)
Change in long term deferred revenue	33	42	83
Other	54	(28)	45
Change in operating working capital:			
—Changes in accounts receivable	(2)	17	(25)
—Changes in accounts payable and accrued cost of access	(32)	(36)	49
—Changes in other current assets	3	(16)	(52)
—Changes in other current liabilities	(19)	83	(4)
Net cash provided by operating activities	<u>183</u>	<u>256</u>	<u>203</u>
Cash flows provided by (used in) investing activities:			
Purchases of property and equipment	(167)	(174)	(192)
Purchases of marketable securities	(10)	—	(11)
Genesis acquisition, net of cash acquired	(7)	—	—
Proceeds from sale of property and equipment	—	—	10
Proceeds from sale of marketable securities	8	4	16
Change in restricted cash and cash equivalents	<u>8</u>	<u>2</u>	<u>31</u>
Net cash used in investing activities	<u>(168)</u>	<u>(168)</u>	<u>(146)</u>
Cash flows provided by (used in) financing activities:			
Proceeds from short and long term debt	150	741	10
Repayment of capital lease obligations	(58)	(75)	(59)
Repayment of long term debt (including current portion)	(179)	(597)	(24)
Premium paid on extinguishment of debt	(2)	(14)	—
Finance costs incurred	(6)	(23)	—
Proceeds from sales/leasebacks	—	7	—
Proceeds from exercise of stock options	1	—	1
Payment of employee taxes on share-based compensation	<u>(1)</u>	<u>(13)</u>	<u>(3)</u>
Net cash provided by (used in) financing activities	<u>(95)</u>	<u>26</u>	<u>(75)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(25)</u>	<u>3</u>	<u>(19)</u>
Net increase (decrease) in cash and cash equivalents	(105)	117	(37)
Cash and cash equivalents, beginning of year	<u>477</u>	<u>360</u>	<u>397</u>
Cash and cash equivalents, end of year	<u>\$ 372</u>	<u>\$ 477</u>	<u>\$ 360</u>

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)

	Year Ended December 31,		
	2010	2009	2008
Net loss	\$ (172)	\$ (141)	\$ (284)
Foreign currency translation adjustment	30	(4)	21
Unrealized derivative gain (loss) on cash flow hedges	—	(4)	9
Change in pension liability	9	7	(11)
Comprehensive loss	<u>\$ (133)</u>	<u>\$ (142)</u>	<u>\$ (265)</u>

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except countries, cities, carriers,
percentage, share and per share information)

1. BACKGROUND AND ORGANIZATION

Global Crossing Limited or “GCL” is a holding company with all of its revenue generated by its subsidiaries and substantially all of its assets owned by its subsidiaries. GCL and its subsidiaries (collectively, the “Company”) are a global communications service provider. The Company offers a full range of data, voice and collaboration services and delivers service to approximately 40 percent of the companies in the Fortune 500, as well as 700 carriers, mobile operators and Internet service providers around the world. The Company delivers converged IP services to more than 700 cities in more than 70 countries, and has 17 data centers located in major business centers. The Company’s operations are based principally in North America, Europe, Latin America and a portion of the Asia/Pacific region. The vast majority of the Company’s revenue is generated from monthly services. The Company reports financial results based on three separate operating segments: (i) Global Crossing (U.K.) Telecommunications Ltd (“GCUK”) and its subsidiaries (collectively, the “GCUK Segment”); (ii) GC Impsat Holdings I Plc (“GC Impsat”) and its subsidiaries (collectively, the “GC Impsat Segment”); and (iii) GCL and its other subsidiaries (collectively, the “Rest of World Segment” or “ROW Segment”) (see Note 21).

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A summary of the basis of presentation and the significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These consolidated financial statements include the accounts of GCL and its subsidiaries over which it exercises control. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company’s results as of and for the years ended December 31, 2010, 2009 and 2008.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, the disclosure of contingent assets and liabilities in the consolidated financial statements and the accompanying notes, and the reported amounts of revenue and expenses and cash flows during the periods presented. Actual amounts and results could differ from those estimates. The estimates the Company makes are based on historical factors, current circumstances and the experience and judgment of the Company’s management. The Company evaluates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in the Company’s evaluations.

References to U.S. GAAP in this Annual Report are to the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification TM, (the “Codification” or “ASC”).

Principles of Consolidation

The consolidated financial statements include the accounts of GCL and its wholly-owned subsidiaries. Under U.S. GAAP, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

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

Revenue Recognition

Services

Revenue derived from telecommunication and maintenance services, including sales of capacity under operating-type leases, are recognized as services are provided. Non-refundable payments received from customers on billings made before the relevant criteria for revenue recognition are satisfied are included in deferred revenue in the accompanying consolidated balance sheets.

Operating Leases

The Company offers customers flexible bandwidth products to multiple destinations for stipulated periods of time and many of the Company's contracts for subsea circuits are entered into as part of a service offering. Consequently, the Company defers revenue related to those circuits and amortizes the revenue over the appropriate term of the contract. Accordingly, the Company treats non-refundable cash received prior to the completion of the earnings process as deferred revenue in the accompanying consolidated balance sheets.

Telecom Installation Revenue and Costs

In accordance with SEC Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"), as amended by SEC Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB No. 104"), the Company generally amortizes revenue related to installation services on a straight-line basis over the average contracted customer relationship (generally 24 months). In situations where the contracted period is significantly longer than the average, the actual contract term is used.

The Company capitalizes installation costs incurred for new facilities and connections from the Global Crossing network to networks of other carriers in order to provision customer orders. The costs are capitalized to deferred installation costs (current portion and long-term portions—see Note 6) and amortized using the straight-line method into depreciation and amortization over the average contracted relationship (generally 24 months). In situations where the contracted period is significantly longer, the actual contract term is used.

Gross vs. Net Revenue Recognition

In the vast majority of transactions the Company acts as the principal party responsible for delivering services to customers. Where the Company acts as the principal in the transaction and has the risks and rewards of ownership, transactions are recorded gross in the consolidated statements of operations. In the event the Company does not act as a principal in the transaction, transactions are recorded on a net basis in the consolidated statements of operations.

Additionally, U.S. GAAP requires that companies disclose their accounting policy regarding the gross or net presentation of taxes which are assessed by a governmental authority that are directly imposed on revenue-producing transactions between sellers and customers. These taxes may include, but are not limited to, sales, use, value-added and some excise taxes. In addition, if such taxes are significant, and are presented on a gross basis, the amounts of those taxes should be disclosed. The Company's policy is generally to record these taxes on a net basis.

Revenue-Generating Arrangements with Multiple Deliverables

See "Recently Issued and Recently Adopted Accounting Pronouncements" for a description of the Company's policy for revenue-generating arrangements with multiple deliverables.

Operating Expenses

Cost of Access

The Company's cost of access primarily comprises charges for leased lines for dedicated facilities and usage-based voice charges paid to local exchange carriers and interexchange carriers to originate and/or terminate switched voice traffic. The Company's policy is to record access expense as services are provided by vendors.

The recognition of cost of access expense during any reported period involves the use of significant management estimates and requires reliance on non-financial systems given that bills from access vendors are generally received significantly in arrears of service being provided. Switched voice traffic costs are accrued based on the minutes recorded by the Company's switches, multiplied by the estimated rates for those minutes for that month. Leased line access costs are estimated based on the number of circuits and the average circuit cost, according to the Company's leased line inventory system, adjusted for contracted rate changes. Upon final receipt of invoices, the estimated costs are adjusted to reflect actual expenses incurred.

Disputes

The Company and contracted third parties perform monthly bill verification procedures to identify errors in vendors' billing processes. The bill verification procedures include the examination of bills, comparing billed rates with rates used by the cost of access expense estimation systems during the cost of access monthly close process, evaluating the trend of invoiced amounts by vendors, and reviewing the types of charges being assessed. If the Company believes that it has been billed inaccurately, it will dispute the charge with the vendor and begin resolution procedures. The Company records a charge to the cost of access expense and a corresponding increase to the access accrual based on the last eighteen months of historical loss rates for the particular type of dispute. If the Company ultimately reaches an agreement with an access vendor to settle a disputed amount which is different than the corresponding accrual, the Company recognizes the difference in the period in which the settlement is reached as an adjustment to cost of access expense.

Operating Leases

The Company maintains commitments for office and equipment space, automobiles, equipment rentals, network capacity contracts and other leases, under various non-cancelable operating leases. The lease agreements, which expire at various dates into the future, are subject, in many cases, to renewal options and provide for the payment of taxes, utilities and maintenance. Certain lease agreements contain escalation clauses over the term of the lease related to scheduled rent increases resulting from the pass through of increases in operating costs, property taxes and the effect on costs from changes in consumer price indices. The Company recognizes rent expense on a straight-line basis and records a liability representing the rent expensed but not invoiced in other deferred liabilities. Any leasehold improvements related to operating leases are amortized over the lesser of their economic lives or the remaining lease term. Rent-free periods and other incentives granted under certain leases are charged to rent expense on a straight-line basis over the related terms of such leases.

See Note 19 for the Company's estimated future minimum lease payments and rental expense on operating leases.

Cash and Cash Equivalents, Restricted Cash and Cash Equivalents (Current and Long-Term)

The Company considers cash in banks and short-term highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents and restricted cash and cash equivalents are stated at cost, which approximates fair value. Restricted cash and cash equivalents comprise cash collateral for letters of credit or performance bonds issued in favor of certain of the Company's vendors and deposits securing real estate obligations.

Allowance for Doubtful Accounts and Sales Credits

The Company provides allowances for doubtful accounts and sales credits. Allowances for doubtful accounts are charged to selling, general, and administrative expenses, while allowances for sales credits are charged to revenue. The adequacy of the reserves is evaluated monthly by the Company utilizing several factors including the length of time the receivables are past due, changes in the customer’s credit worthiness, the customer’s payment history, the length of the customer’s relationship with the Company, the current economic climate, and current industry trends. A specific reserve requirement review is performed on customer accounts with larger aged balances. A general reserve requirement is performed on accounts not already included under the specific reserve requirement utilizing past loss experience and the factors previously mentioned. Service level requirements are assessed to determine sales credit requirements where necessary. Changes in the financial viability of significant customers and worsening of economic conditions may require changes to its estimate of the recoverability of the receivables. Such changes in estimates are recorded in the period in which these changes become known.

Property and Equipment, net

Property and equipment, net, which includes amounts under capitalized leases, were stated at their estimated fair values upon emergence from reorganization proceedings on December 9, 2003 (the “Effective Date”) as determined by the Company’s reorganization value. The Company determined the fair value of its property and equipment as of the Effective Date by using a replacement cost approach and, in the limited circumstances described below, a market approach. Under the replacement cost approach, fair value was determined by examining an asset’s replacement cost and adjusting for loss in value due to physical depreciation and economic and functional obsolescence. The replacement cost estimates were based on vendor pricing, inclusive of discounts, available to the Company at the Effective Date for technology available at the time, and were not based on prices that may have been available through equipment purchases from financially distressed communications companies. For assets where actual vendor pricing information as of the Effective Date was not available to the Company, the market approach was used. Under the market approach, fair value was determined by comparing recent sales of similar assets and adjusting for factors such as physical differences, age, and economic and functional obsolescence. The estimates were based on market comparables obtained from various sources, including discussions with equipment brokers and dealers.

Purchases of property and equipment, net, including amounts under capital leases, subsequent to the Effective Date are stated at cost, net of depreciation and amortization. Major enhancements are capitalized, while expenditures for repairs and maintenance are expensed when incurred. Costs incurred prior to the capital project’s completion are reflected as construction in progress, which is included in property and equipment and is depreciated starting on the date the project is complete. Direct internal costs of constructing or installing property and equipment are capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, with the exception of leasehold improvements and assets acquired through capital leases, which are depreciated over their estimated useful lives if the lease transfers ownership or contains a bargain purchase option, otherwise the term of the lease.

Estimated useful lives of the Company’s property and equipment are as follows as of December 31, 2010:

Buildings	10-40 years
Leasehold improvements	Lesser of 20 years or remaining lease term
Furniture, fixtures and equipment	3-7 years
Transmission equipment	3-25 years

When property or equipment is retired and disposed of, the cost and accumulated depreciation is relieved from the accounts, and resulting gains or losses are reflected in other income (expense), net.

The Company annually evaluates the recoverability of its long-lived assets and evaluates such assets for impairment whenever events or circumstances indicate that the carrying amount of such assets (or group of assets) may not be recoverable. Impairment is determined to exist if the estimated future undiscounted cash flows are less than the carrying value of such asset. The amount of any recognizable impairment would be determined as the difference between the fair value and the carrying value of the asset. As a result of a history of operating losses and negative cash flows, during 2010 management performed a recoverability test of our long-lived assets as of December 31, 2010. The results of the test indicate that no impairment of the Company's long-lived assets existed as of December 31, 2010.

Internally Developed Software

The Company capitalizes the cost of developing internal-use software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Capitalized costs are included in property and equipment in the consolidated balance sheet. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized software costs are amortized using the straight-line method over a 5 year period (see Note 7).

Intangibles

Intangibles consist primarily of customer contracts, customer relationships and internally developed software and goodwill related to the 2006, 2007 and 2010 acquisitions of Fibernet Group Plc ("Fibernet"), Impsat and Genesis Networks Inc. ("Genesis Networks"), respectively. The fair values attributable to the identified intangibles as of the acquisition dates were based on a number of significant assumptions as determined by the Company. Identifiable intangible assets with finite lives are amortized using the straight-line method over their applicable estimated useful lives (see Note 8). Goodwill and intangibles with indefinite lives are not amortized but are reviewed for impairment at least annually (beginning with the first anniversary of the acquisition date). The Company performed annual impairment reviews of the goodwill acquired as part of the Fibernet and Impsat acquisitions during the year ended December 31, 2010. The results of the reviews indicate that no impairment exists.

Deferred Financing Costs

Costs incurred to obtain financing through the issuance of debt and other financing agreements (see Note 10) have been reflected as an asset included in "other assets" in the accompanying December 31, 2010 and 2009 consolidated balance sheets. Debt financing costs are amortized to interest expense over the lesser of the term or the expected payment date of the debt obligation using the effective interest rate method.

Restructuring

The components of the restructuring liability represent the fair value of direct costs of exiting lease commitments for certain real estate facility locations and employee termination costs, along with certain other costs associated with approved restructuring plans (see Note 3). Restructuring programs initiated prior to December 31, 2002 were recorded upon management's commitment to an exit plan, which was generally before the exit activity had occurred. Restructuring programs initiated after December 31, 2002 were recorded when a liability had been incurred. The Company has applied the relevant accounting provisions for exit costs to all restructuring programs initiated after December 31, 2002 except for those programs related to business acquisitions. Restructuring programs related to business acquisitions consummated prior to December 31, 2008

were recorded as an acquired liability included in the allocation of acquisition cost. For business combinations completed on or after January 1, 2009, the costs related to restructuring programs are expensed as incurred. Adjustments for changes in assumptions are recorded in the period such changes become known. Changes in assumptions, especially as they relate to contractual lease commitments and related anticipated third-party sub-lease payments, could have a material effect on the restructuring liabilities.

Derivative Instruments

Derivatives are measured at fair value and recognized as either assets or liabilities in the Company's consolidated balance sheets. Changes in fair value of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or loss in the Company's consolidated statement of operations in the current period. Changes in the fair values of the derivative instruments used effectively as fair value hedges are recognized in income (loss), along with the change in the value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in income (loss) when the hedged item is recognized in income (loss).

For the years ended December 31, 2010, 2009 and 2008, hedge ineffectiveness was not material to our results of operations.

Fair Value of Financial Instruments

The Company does not enter into financial instruments for trading or speculative purposes. The carrying amounts of financial instruments classified as current assets and liabilities, other than marketable securities, approximate their fair value due to their short maturities. The fair value of marketable securities, short-term investments, debt, including short-term and long-term portions and derivative instruments are based on market quotes, current interest rates, or management estimates, as appropriate (see Note 18).

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset, characterized as leasehold improvements, and depreciated over the lesser of 20 years or the remaining lease term.

Income Taxes

The provision for income taxes, income taxes payable and deferred income taxes are determined using the liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. A valuation allowance is provided when the Company determines that it is more likely than not that a portion of the deferred tax asset balance will not be realized.

The Company follows the guidance with respect to accounting for uncertainty in income taxes located in ASC Topic 740 which states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" is defined as a likelihood of greater than 50% based on the facts, circumstances and information available at the reporting date.

The Company's reorganization has resulted in a significantly modified capital structure as a result of applying fresh-start accounting on the Effective Date. Fresh-start accounting has important consequences on the

accounting for the realization of valuation allowances, related to net deferred tax assets that existed on the Effective Date but which arose in pre-emergence periods. Specifically, fresh start accounting requires the reversal of such allowances to be recorded as a reduction of intangible assets established on the Effective Date until exhausted, and thereafter as additional paid in capital (see Note 13). This treatment does not result in any change in liabilities to taxing authorities or in cash flows. On January 1, 2009, new accounting standards became effective which require the reversal of pre-emergence valuation allowances to be recorded as a reduction of tax expense.

At each period end, it is necessary for the Company to make certain estimates and assumptions to compute the provision for income taxes including allocations of certain transactions to different tax jurisdictions, amounts of permanent and temporary differences, the likelihood of deferred tax assets being recovered and the outcome of contingent tax risks. These estimates and assumptions are revised as new events occur, more experience is acquired and additional information is obtained. The impact of these revisions is recorded in income tax expense or benefit in the period in which they become known.

Foreign Currency Translation and Transactions

For transactions that are in a currency other than the entity's functional currency, translation adjustments are recorded in the accompanying consolidated statements of operations. For those subsidiaries not using the U.S. Dollar as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expense transactions are translated at average exchange rates during the period. Resulting translation adjustments are recorded directly to a separate component of shareholders' deficit and are reflected in the accompanying consolidated statements of comprehensive loss.

The Company's foreign exchange transaction gains (losses) included in "other income (expense), net" in the consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 were \$(44), \$40, and \$(30), respectively.

Loss Per Common Share

Basic loss per common share ("EPS") is computed as loss applicable to common shareholders divided by the weighted-average number of common shares outstanding for the period. Loss applicable to common shareholders includes preferred stock dividends for the years ended December 31, 2010, 2009 and 2008 respectively (see Note 15).

Stock-Based Compensation

Share-based awards granted to employees are recognized as compensation expense over the service period (generally the vesting period) based on their fair values.

Certain stock-based awards have graded vesting (i.e. portions of the award vest at different dates during the vesting period). The fair value of the awards is determined using a single expected life for the entire award (the average expected life for the awards that vest on different dates). The Company recognizes the related compensation cost of such awards on a straight-line basis; provided that the amount amortized at any given date may be no less than the portion of the award vested as of such date.

See Note 16 for a detailed description of stock-based compensation plans.

Concentration of Credit Risk

The Company has some concentration of credit risk among its customer base. The Company's trade receivables, which are unsecured, are geographically dispersed and include customers both large and small and in

numerous industries. Trade receivables from the carrier sales channels are generated from sales of services to other carriers in the telecommunications industry. At December 31, 2010 and 2009, the Company's trade receivables related to the carrier sales channel represented approximately 42% and 43%, respectively, of the Company's consolidated receivables. Also as of December 31, 2010 and 2009, the Company's receivables due from various agencies of the United Kingdom ("U.K.") government together represented approximately 5% and 5%, respectively, of consolidated receivables. The Company performs ongoing credit evaluations of its larger customers' financial condition. The Company maintains a reserve for potential credit losses, based on the credit risk applicable to particular customers, historical trends and other relevant information. As of December 31, 2010 and 2009, no one customer accounted for more than 2% or 2%, respectively, of consolidated accounts receivable, net.

Currency Risk

Certain of the Company's current and prospective customers derive their revenue in currencies other than U.S. Dollars but are invoiced by the Company in U.S. Dollars. The obligations of customers with revenue in foreign currencies may be subject to unpredictable and indeterminate increases in the event that such currencies depreciate in value relative to the U.S. Dollar. Furthermore, such customers may become subject to exchange control regulations restricting the conversion of their revenue currencies into U.S. Dollars. In either event, the affected customers may not be able to pay the Company in U.S. Dollars. In addition, where the Company issues invoices for its services in currencies other than U.S. Dollars, the Company's operating results may suffer due to currency translations in the event that such currencies depreciate relative to the U.S. Dollar and the Company cannot or does not elect to enter into currency hedging arrangements in respect of those payment obligations. Declines in the value of foreign currencies (such as the devaluation of the Venezuelan bolivar discussed below) relative to the U.S. Dollar could adversely affect the Company's ability to market its services to customers whose revenue is denominated in those currencies.

Certain Latin American economies have experienced shortages in foreign currency reserves and have adopted restrictions on the use of certain mechanisms to expatriate local earnings and convert local currencies into U.S. Dollars. Any such shortages or restrictions may limit or impede the Company's ability to transfer or to convert such currencies into U.S. Dollars and to expatriate such funds for the purpose of making timely payments of interest and principal on the Company's indebtedness. In addition, currency devaluations in one country may have adverse effects in another country.

In Venezuela, the official bolivares—U.S. Dollar exchange rate established by the Venezuelan Central Bank ("BCV") and the Venezuelan Ministry of Finance has historically attributed to the bolivar a value significantly greater than the value that prevailed on the former unregulated parallel market. The official rate is the rate used by the Comisión de Administración de Divisas ("CADIVI"), an agency of the Venezuelan government, to exchange bolivares pursuant to an official process that requires application and government approval. The Company uses the official rate to record the assets, liabilities and transactions of its Venezuelan subsidiary. Effective January 12, 2010, the Venezuelan government devalued the Venezuelan bolivar. The official rate increased from 2.15 Venezuelan bolivares to the U.S. Dollar to 4.30 for goods and services deemed "non-essential" and 2.60 for goods and services deemed "essential". This devaluation reduced the Company's net monetary assets (including unrestricted cash and cash equivalents) by approximately \$27 based on the bolivares balances as of such date, resulting in a corresponding foreign exchange loss, included in other expense, net in the Company's consolidated statement of operations for 2010. Effective January 1, 2011, the Venezuela government further increased the official rate for goods and services deemed "essential" to 4.30 Venezuelan bolivares to the U.S. Dollar. This change had no effect on the carrying value of the Company's net monetary assets.

In an attempt to control inflation, on May 18, 2010, the Venezuelan government announced that the unregulated parallel currency exchange market would be shut down and that the BCV would be given control over the previously unregulated portions of the exchange market. In June 2010, a new regulated currency trading system controlled by the BCV, the Transaction System for Foreign Currency Denominated Securities

("SITME"), commenced operations and established an initial weighted average implicit exchange rate of approximately 5.30 bolivares to the U.S. Dollar. Subject to the limitations and restrictions imposed by the BCV, entities domiciled in Venezuela may access the SITME by buying U.S. Dollar denominated securities through banks authorized by the BCV. The purpose of the new regulated system is to supplement the CADIVI application and approval process with an additional process that allows for quicker and smaller exchanges.

As indicated above, the conversion of bolivares into foreign currencies is limited by the current exchange control regime. Accordingly, the acquisition of foreign currency by Venezuelan companies to honor foreign debt, pay dividends or otherwise expatriate capital is subject to either the limitations and restrictions of the SITME or the CADIVI registration, application and approval process, and is also subject to the availability of foreign currency within the guidelines set forth by the National Executive Power for the allocation of foreign currency. Approvals under the CADIVI process have been less forthcoming at times, resulting in a significant buildup of excess cash in the Company's Venezuelan subsidiary and a significant increase in the Company's exchange rate and exchange control risks.

At December 31, 2010, the Company had \$14 of obligations registered and subject to approval by CADIVI for the conversion of bolivares into foreign currencies. The Company cannot predict the timing and extent of any CADIVI approvals to honor foreign debt, distribute dividends or otherwise expatriate capital using the official Venezuelan exchange rate. Some approvals have been issued within a few months while others have taken more than one year. During 2010 and 2009, the Company received \$9 and \$7, respectively, of approvals from CADIVI to convert bolivares to U.S. Dollars at both the essential and non-essential official rates. In 2010, the Company participated in a debt auction held by the Venezuelan government and used bolivares to purchase \$10 of U.S. Dollar-denominated bonds at par value in connection with the Company's currency exchange risk mitigation efforts. The Company received approval to purchase the bonds and sold these bonds immediately upon receipt at a price of \$8 paid in U.S. Dollars, which resulted in an approximate 25% discount. The loss of \$2 was included in other income (expense), net in the Company's consolidated statement of operations for 2010. In 2008, the Company participated in a debt auction held by the Venezuelan government to purchase \$10 par value of U.S. Dollar-denominated bonds in connection with the Company's currency exchange risk mitigation efforts. The purchase price of the bonds was \$11. The Company received approval to purchase the bonds and sold these bonds immediately upon receipt at a price of \$8, which resulted in an approximate 27% discount. The loss was included in other income (expense), net in the Company's consolidated statements of operations. To date, the Company has not executed any exchanges through SITME. If the Company was to successfully avail itself of the SITME process to convert a portion of its Venezuelan subsidiary's cash balances into U.S. Dollars, the Company would incur currency exchange losses in the period of conversion based on the difference between the official exchange rate and the SITME rate. Additionally, if the Company was to determine in the future that the SITME rate was the more appropriate rate to use to measure bolivar-based assets, liabilities and transactions, reported results would be further adversely affected.

As of December 31, 2010, approximately \$37 (valued at the fixed official CADIVI rate of 4.30 Venezuelan bolivares to the U.S. Dollar at December 31, 2010 (the "CADIVI rate")) of the Company's cash and cash equivalents was held in Venezuelan bolivares. For 2010, the Company's Venezuelan subsidiary contributed approximately \$52 of the Company's consolidated revenue and \$30 of the Company's consolidated OIBDA, in each case based on the CADIVI rate. These amounts do not include any allocated corporate overhead costs or transfer pricing adjustments. As of December 31, 2010, the Company's Venezuelan subsidiary had \$37 of net monetary assets of which \$4 were denominated in U.S. Dollars and \$33 were denominated in Venezuelan bolivares at the CADIVI rate. As of December 31, 2010, the Company's Venezuelan subsidiary had \$70 of net assets. In light of the Venezuelan exchange control regime, none of these net assets (other than the \$4 of cash denominated in U.S. Dollars and held outside of Venezuela) may be transferred to GCL in the form of loans, advances or cash dividends without the consent of a third party (i.e., CADIVI or SITME).

The Company conducts a significant portion of its business using the British Pound Sterling, the Euro and the Brazilian Real. Appreciation of the U.S. Dollar adversely impacts the Company's consolidated revenue. Since the Company tends to incur costs in the same currency in which the Company realizes revenue, the impact

on operating income and operating cash flow is largely mitigated. In addition, the appreciation of the U.S. Dollar relative to foreign currencies reduces the U.S. Dollar value of cash balances held in those currencies.

Pension Benefits

The Company applies the guidance in ASC Topic 715 with respect to accounting for its defined benefit pension plans. As such, the Company recognizes in its statement of financial condition the funded status of its defined benefit postretirement plans, which is measured as the difference between the fair value of the plan assets and the benefit obligation. U.S. GAAP also requires an entity to recognize changes in the funded status within accumulated other comprehensive income, net of tax to the extent such changes are not recognized in earnings as components of periodic net benefit cost (see Note 17).

Comprehensive Loss

Comprehensive loss includes net loss and other non-owner related income (charges) in equity not included in net loss, such as unrealized gains and losses on marketable securities classified as available for sale, foreign currency translation adjustments related to foreign subsidiaries, changes in the unrealized gains and losses on cash flow hedges, and the impact of recognizing changes of the funded status of pension plans.

Advertising Costs

The Company expenses the cost of advertising as incurred. Advertising expense was \$2, \$2, and \$5 for the years ended December 31, 2010, 2009 and 2008, respectively, and is included in selling, general and administrative expenses as reported in the consolidated statements of operations.

Recently Issued and Recently Adopted Accounting Pronouncements

In October 2009, the FASB issued amendments to ASC Topic 605, with respect to accounting and reporting guidance for revenue-generating arrangements with multiple deliverables, which (a) amend the requirements entities must meet in order for elements to be considered separate units of accounting; (b) eliminate the requirement that entities have objective and reliable evidence of fair value for undelivered items in order to separate them from other elements in the arrangements; and (c) replace the residual method of allocating consideration with the relative selling price method. Under the relative selling price method for allocating consideration, entities must establish an estimated selling price for any units for which objective and reliable evidence of fair value or third party evidence of selling price is not determinable. ASC Topic 605 expands the qualitative and (if adoption impacts are significant) quantitative information required to be disclosed concerning revenue-generating arrangements with multiple deliverables.

This amended accounting guidance is effective for fiscal years beginning after June 15, 2010, with early adoption, as of the first fiscal year beginning after issuance of the amendments, permitted. It may be adopted prospectively to all new or significantly modified arrangements or retrospectively to all arrangements. The Company has elected to early adopt the new accounting guidance for revenue arrangements with multiple deliverables on a prospective basis as of January 1, 2010 and there was no significant impact to the Company's consolidated financial results for the year ended December 31, 2010.

The Company enters into managed service agreements with multiple deliverables, such as professional services as well as telecommunication services and solutions, which generally have minimum contract terms between two and seven years. Professional services are generally delivered during initial stages of contracts and telecommunication services over the contract term. Until the adoption of new guidance, a delivered element was considered a separate unit of accounting when it had value to the customer on a standalone basis, there was objective and reliable evidence of its fair value in the arrangement, and delivery or performance of undelivered elements was considered probable and substantially under the Company's control. When the fair value of all

elements could be determined, the Company allocated consideration to each undelivered unit of accounting using the relative fair value method, with unit values determined by internal or third-party analyses of market based prices. Otherwise, the residual value method would be used to allocate consideration to the combined undelivered elements, which would be deferred until final arrangement performance. In all cases, revenue from such arrangements was recognized when performance of the deliverable had occurred and all other revenue recognition criteria were met.

Upon adoption of the amended guidance for multiple element arrangements, the Company determines an estimated selling price for any elements for which objective and reliable evidence or third party evidence is not available and then allocate consideration to all elements using the relative selling price method. The Company establishes vendor specific objective evidence using the price charged for a deliverable when sold separately or using the price established by management having the relevant authority. The best estimate of selling price is established considering internal factors, such as margin objectives and pricing practices. Revenue from these arrangements is recognized when performance of the deliverable occurs and all other revenue recognition criteria are met. There was no substantial change to the units of accounting the Company typically identifies in such multiple deliverable agreements. The Company does not expect a significant impact on the pattern and timing of revenue recognition in the financial statements of future periods.

3. RESTRUCTURING

At December 31, 2010 and 2009, restructuring liabilities are included in other current liabilities and other deferred liabilities in our consolidated balance sheets. Below is a description of the Company's significant restructuring plans:

2007 Restructuring Plan

During 2007, the Company adopted a restructuring plan as a result of the Impsat acquisition under which redundant Impsat employees were terminated. As a result, the Company incurred cash restructuring costs of approximately \$8 for severance and related benefits. The liabilities associated with this restructuring plan have been accounted for as part of the purchase price of Impsat. As of December 31, 2010 and 2009, the remaining liability of the 2007 restructuring plan including accrued interest was \$3 and \$7, respectively, all related to the GC Impsat Segment. In July 2009, the Company settled one claim initiated in October 2007 by a former director and officer of Impsat to be paid out in installments through February 2011. In February 2010, the Company settled another claim initiated in November 2007 by a former officer of Impsat which was fully paid in April 2010.

2003 and Prior Restructuring Plans

Prior to the Company's emergence from bankruptcy on December 9, 2003, the Company adopted certain restructuring plans as a result of the slowdown of the economy and telecommunications industry, as well as its efforts to restructure while under Chapter 11 bankruptcy protection. As a result of these activities, the Company eliminated employees and vacated facilities. All amounts incurred for employee separations were paid as of December 31, 2004 and it is anticipated that the remainder of the restructuring liability, all of which relates to facility closings, will be paid through 2025.

The undiscounted facilities closing reserve, which represents estimated future cash flows, is composed of continuing building lease obligations and broker commissions for the restructured sites (aggregating \$73 as of December 31, 2010), offset by anticipated receipts from existing and future third-party subleases. As of December 31, 2010, anticipated third party sublease receipts were \$64, representing \$48 from subleases already entered into and \$16 from subleases projected to be entered into in the future.

The table below reflects the activity associated with the restructuring reserve relating to the restructuring plans initiated during and prior to 2003 for the years ended December 31, 2010 and 2009:

	Facility Closings
Balance at January 1, 2009	\$ 18
Change in estimated liability	6
Deductions	(8)
Foreign currency impact	1
Balance at December 31, 2009	\$ 17
Deductions	(6)
Foreign currency impact	(1)
Balance at December 31, 2010	<u>\$ 10</u>

4. ACQUISITIONS

Genesis Networks Acquisition

On October 29, 2010, the Company acquired 100% of the capital stock of Genesis Networks, a privately held company providing high performance rich media and video-based applications, serving many of the world's major broadcasters, producers and aggregators of specialized programming. The Company paid a purchase price for Genesis Networks of approximately \$8 and repaid a portion of the debt and other liabilities assumed as part of the acquisition for total consideration including direct costs of \$27.

The Genesis Networks network connects 70 cities on five continents and links important international media centers through 225 on-net points. The acquisition of Genesis Networks will enable us to provide value-added solutions to address specialized video transmission requirements across multiple industries. The results of Genesis Networks' operations are included in the Company's consolidated financial statements commencing on October 29, 2010.

The following table summarizes the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed at the date of acquisition, based on their preliminary estimated fair values:

	At October 29, 2010
Other current assets	\$ 6
Other assets	7
Goodwill	29
Total assets acquired	<u>42</u>
Short and long term debt, including capital lease obligations	14
Other current liabilities	19
Other liabilities	1
Total liabilities assumed	<u>34</u>
Net assets acquired	<u>\$ 8</u>

All of the goodwill and all other amounts noted above are recorded in the ROW Segment. None of the goodwill is deductible for tax purposes.

Approximately \$14 of short term and long term debt was subsequently repaid.

Since the date of its acquisition on October 29, 2010, Genesis Networks provided approximately \$4 of the Company's consolidated revenue and \$(1) of our consolidated net loss for the year ended December 31, 2010.

Pro Forma Financial Information

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Genesis Networks had occurred at January 1, 2009:

	Year Ended December 31,	
	2010	2009
Revenue	\$ 2,632	\$ 2,562
Net loss applicable to common shareholders (1)	\$ (184)	\$ (162)
Net loss applicable to common shareholders per common share—basic and diluted	\$ (3.05)	\$ (2.73)

- (1) Net loss applicable to common shareholders was adjusted to exclude \$4 of acquisition-related costs incurred in 2010 while net loss applicable to common shareholders in 2009 was adjusted to include these costs.

Included in the pro forma consolidated results of operations for the year ended December 31, 2010 are the following significant items: (i) a \$6 property tax refund recorded in the U.K. which is included in real estate, network and operations in the accompanying consolidated statements of operations; (ii) a \$27 foreign exchange loss as a result of the devaluation of the Venezuelan bolivar which is included in other income (expense), net in the accompanying consolidated statements of operations (see Note 2); (iii) a \$6 loss on the early extinguishment of the 5% Convertible Notes which is included in other income (expense), net in the accompanying consolidated statements of operations (see Note 10); (iv) a reduction in our valuation allowance against our deferred tax assets by \$34 which is recorded in provision for income taxes in the accompanying consolidated statements of operations (see Note 13); and (v) \$6 of revenue for the completion of a customer contract and a \$7 equipment sale related to a new managed services contract.

Included in the pro forma consolidated results of operations for the year ended December 31, 2009 are the following significant items: (i) \$13 for one customer's buyout of certain long term obligations which is included in revenue in the accompanying consolidated statements of operations; (ii) a \$6 favorable regulatory ruling related to a reduction in access charges in the U.K. which is included in access charges in the accompanying consolidated statements of operations; (iii) a \$5 retroactive property tax assessment (\$3 and \$2, respectively, in our GCUK and ROW Segments) which is included in real estate, network and operations in the accompanying consolidated statements of operations; (iv) a \$29 loss on the early extinguishment of the GC Impsat Notes and the Senior Secured Term Loans which is included in other income (expense), net in the accompanying consolidated statements of operations (see Note 10); and (v) a reduction in our valuation allowance against our deferred tax assets by \$20 which is recorded in provision for income taxes in the accompanying consolidated statements of operations (see Note 13).

The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated result of operations that would have been reported had the Genesis Networks acquisition been completed as of the beginning of the periods presented, nor should it be taken as indicative of the Company's future consolidated results of operations.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	December 31,	
	2010	2009
Accounts receivable:		
Billed	\$ 315	\$ 318
Unbilled	54	60
Total accounts receivable	369	378
Allowances	(45)	(50)
Accounts receivable, net of allowances	\$ 324	\$ 328

The fair value of accounts receivable balances approximates their carrying value because of their short-term nature. The Company has some concentrations of credit risk from other telecommunications providers within its carrier sales channels (see Note 2).

6. PREPAID COSTS AND OTHER CURRENT ASSETS

Prepaid assets and other current assets consist of the following:

	December 31,	
	2010	2009
Prepaid taxes, including value added taxes in foreign jurisdictions	\$ 24	\$ 37
Prepaid capacity, third party maintenance and deferred installation costs	17	19
Prepaid rent and insurance	8	8
Income tax receivable	9	13
Other	33	24
Total prepaid costs and other current assets	<u>\$ 91</u>	<u>\$ 101</u>

7. PROPERTY AND EQUIPMENT

Property and equipment, including assets held under capital leases, consist of the following:

	December 31,	
	2010	2009
Land	\$ 23	\$ 23
Buildings	121	118
Leasehold improvements	72	71
Furniture, fixtures and equipment	190	167
Transmission equipment	2,257	2,070
Construction in progress	30	47
Total property and equipment	\$ 2,693	\$ 2,496
Accumulated depreciation	(1,514)	(1,216)
Property and equipment, net	<u>\$ 1,179</u>	<u>\$ 1,280</u>

Assets recorded under capital lease agreements included in property and equipment consisted of \$225 and \$221 of cost less accumulated depreciation of \$115 and \$100 at December 31, 2010 and 2009, respectively.

Labor related to internally developed software in the amount of \$40 and \$32 was capitalized at December 31, 2010 and 2009, respectively. The accumulated depreciation related to this internal labor was \$13 and \$7 at December 31, 2010 and 2009, respectively.

Depreciation and amortization expense related to property and equipment including cost of access installation costs (see Note 2) for the years ended December 31, 2010, 2009 and 2008 was approximately \$333, \$336 and \$321, respectively.

8. INTANGIBLES

Goodwill

Changes in the carrying amount of goodwill are as follows:

	<u>GCUK</u>	<u>GC Impsat</u>	<u>ROW</u>	<u>Total</u>
Balance at December 31, 2008	\$ 4	\$ 143	\$ —	\$ 147
Foreign currency impact	1	27	—	28
Balance at December 31, 2009	\$ 5	\$ 170	\$ —	\$ 175
Goodwill acquired	—	—	29	29
Foreign currency impact	—	4	—	4
Balance at December 31, 2010	<u>\$ 5</u>	<u>\$ 174</u>	<u>\$ 29</u>	<u>\$ 208</u>

Goodwill in the ROW Segment resulted from the Company's acquisition of Genesis Networks on October 29, 2010 while goodwill in the GC Impsat and GCUK Segments resulted from the Company's acquisitions of Impsat on May 9, 2007 and Fibernet on October 11, 2006, respectively.

Other Intangible Assets

	<u>Estimated Useful Life</u>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Customer contracts	4 yrs	\$ 4	\$ (4)	\$ 4	\$ (3)
Customer relationships	10-12 yrs	30	(11)	30	(9)
Software	1-4 yrs	3	(3)	3	(2)
Total		<u>\$ 37</u>	<u>\$ (18)</u>	<u>\$ 37</u>	<u>\$ (14)</u>

Intangible asset amortization expense was \$4, \$4 and \$5 for the years ended December 31, 2010, 2009 and 2008, respectively.

The following table projects the expected future amortization of the above intangible assets for the next five years:

Year Ending December 31,	
2011	\$ 3
2012	3
2013	3
2014	3
2015	2
	<u>\$ 14</u>

9. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	December 31,	
	2010	2009
Accrued taxes, including value added taxes in foreign jurisdictions	\$ 105	\$ 117
Accrued payroll, bonus, commissions, and related benefits	58	58
Customer deposits	34	34
Accrued preferred dividends (1)	26	—
Accrued interest	31	29
Accrued real estate and related costs	14	22
Accrued third party maintenance costs	9	10
Accrued restructuring costs—current portion	8	12
Accrued professional fees	8	9
Income taxes payable	5	10
Accrued capital expenditures	5	4
Other	73	79
Total other current liabilities	<u>\$ 376</u>	<u>\$ 384</u>

(1) For further information see Note 20, “Related Party Transactions.”

10. DEBT

Outstanding debt obligations consist of the following:

	December 31,	
	2010	2009
12% Senior Secured Notes	\$ 750	\$ 750
GCUK Senior Secured Notes	429	439
9% Senior Notes	150	—
5% Convertible Notes	—	144
Other	20	26
Unamortized discount, net of premium	(11)	(27)
Total debt obligations	1,338	1,332
Less: current portion of long term debt and short term debt	(27)	(37)
Non-current debt obligations	<u>\$ 1,311</u>	<u>\$ 1,295</u>

Future maturities of debt are as follows as of December 31, 2010:

2011	\$ 27
2012	4
2013	3
2014	414
2015	750
Thereafter	151
Total future maturities	1,349
Unamortized discount, net of premium	(11)
Total debt obligations	<u>\$ 1,338</u>

As of December 31, 2010 and 2009, \$887 and \$865, respectively, of the Company's total debt obligations were obligations of the GCL parent company. At December 31, 2010, these GCL debt obligations consisted of the 12% Senior Secured Notes and the 9% Senior Notes, and as of December 31, 2009, the 12% Senior Secured Notes and the 5% Convertible Notes. As of December 31, 2010, the future maturities of GCL's debt for the years 2011, 2012, 2013, 2014, 2015 and thereafter were nil, nil, nil, nil, \$750 and \$150. As of December 31, 2010, GCL has guaranteed \$15 of the debt obligations of certain of its subsidiaries.

9% Senior Notes

On November 16, 2010, the Company issued \$150 aggregate principal amount of 9% senior notes due November 15, 2019 (the "9% Senior Notes") at an issue price of 100% of their par value. Interest on the notes accrues at the rate of 9% per annum and is payable semi-annually in arrears on May 15 and November 15 of each year through maturity, commencing on May 15, 2011.

The 9% Senior Notes are guaranteed by the vast majority of the Company's direct and indirect subsidiaries other than the subsidiaries comprising the GCUK Segment and certain other subsidiaries described in the notes indenture (see Note 24, "Guarantees of Parent Company Debt"). The 9% Senior Notes and the guarantees are senior unsecured obligations. Accordingly, they rank equally in right of payment with all of the Company's and the guarantors' other existing and future senior indebtedness and are effectively subordinated to all of the Company's and the guarantors' existing and future secured indebtedness to the extent of the collateral securing such indebtedness.

The indenture governing the notes contains covenants that, among other things, restrict the Company's ability and the ability of the Company's restricted subsidiaries to: (1) incur or guarantee additional indebtedness or issue disqualified stock or preferred stock; (2) pay dividends or make other distributions; (3) make certain investments (including investments in the GCUK Segment); (4) enter into arrangements that restrict dividends or other payments to the Company from its restricted subsidiaries; (5) create liens; (6) sell assets, including capital stock of subsidiaries; (7) engage in transactions with affiliates; (8) merge or consolidate with other companies or sell substantially all of the Company's assets; and (9) designate subsidiaries as restricted. These covenants are subject to a number of important limitations and exceptions.

The Company used the proceeds from the issuance of the 9% Senior Notes to: (i) redeem the 5% Convertible Notes at an optional redemption price equal to 101% of their principal amount; and (ii) pay the estimated initial purchaser discounts, professional fees and other transaction fees and expenses in connection with the offering.

Included in other income (expense), net in the Company's consolidated statement of operations for 2010 is a charge of \$6 recorded in connection with the early extinguishment of the 5% Convertible Notes.

At any time prior to November 15, 2013, the Company may on any one or more occasions redeem up to 35% of the aggregate original principal amount of the 9% Senior Notes at a redemption price equal to 109% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more equity offerings by GCL. The Company may also redeem any of the 9% Senior Notes at any time prior to November 15, 2014 at a price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest, if any. In addition, on or after November 15, 2014, the Company may redeem all or a part of the 9% Senior Notes at the redemption prices of 104.5%, 102.25% or 100% of par during 2014, 2015, and 2016 and thereafter, respectively.

The 9% Senior Notes are not registered under the Securities Act and the initial purchasers agreed to sell the notes only: (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act; and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. However, the Company is required to register an identical series of notes with the SEC

and to offer to exchange those registered notes for the notes issued in connection with the initial offering by November 16, 2011, subject to possible extensions under certain circumstances. Under specified circumstances, including if the exchange offer would not be permitted by applicable law or SEC policy, the Company and the guarantors would be required to file a shelf registration statement for the resale of the 9% Senior Notes. In the event of registration default, the Company is obligated to pay special interest in an amount equal to 0.25% per annum on the principal amount of the notes, with such rate increasing by an additional 0.25% for each subsequent 90-day period until the registration default is cured, up to a maximum rate of additional interest of 1.00% per annum. The maximum possible additional interest payable in the period from November 16, 2011 to November 15, 2019 (the maturity date) would be \$11.

12% Senior Secured Notes

On September 22, 2009, the Company issued \$750 in aggregate principal amount of 12% senior secured notes due September 15, 2015 (the “12% Senior Secured Notes”) at an issue price of 97.944% of their par value. Interest on the notes accrues at the rate of 12% per annum and is payable semi-annually in arrears on March 15 and September 15 of each year through maturity, commencing on March 15, 2010. The transaction was intended to simplify the Company’s capital structure and to improve the Company’s liquidity and financial flexibility by effectively extending the May 2012 maturity of the Company’s Term Loan Agreement, reducing contractual restrictions on intercompany transactions between the Company’s GC Impsat and ROW Segments, and increasing the Company’s consolidated cash balance.

The 12% Senior Secured Notes are guaranteed by the vast majority of the Company’s direct and indirect subsidiaries other than the subsidiaries comprising the GCUK Segment and certain other subsidiaries as described in the notes indenture (see Note 24, “Guarantees of Parent Company Debt”). The obligations of GCL and the guarantors in respect of the notes are senior obligations which rank equal in right of payment with all of their existing and future senior indebtedness. In addition, the 12% Senior Secured Notes are secured by first-priority liens, subject to certain exceptions, on GCL’s and certain of the guarantor’s existing and future assets. These assets generally include the “Specified Tangible Assets” (defined in the notes indenture as cash and cash equivalents, accounts receivable from third parties and property, plant and equipment (other than property, plant and equipment under capital leases and leasehold improvements)) of GCL and the “Grantor Guarantors” organized in “Approved Jurisdictions” (as such terms are defined in the notes indenture). The book value of such “Specified Tangible Assets” as of December 31, 2010 was \$1,103, which exceeds the \$1,000 threshold required to make restricted payments pursuant to certain of the exceptions to the covenants in the notes indenture.

The indenture governing the notes contains covenants that, among other things, limit the Company’s ability and the ability of the Company’s subsidiaries (other than those comprising the GCUK Segment) to: (1) incur or guarantee additional indebtedness or issue disqualified stock or preferred stock; (2) pay dividends or make other distributions; (3) make certain investments (including investments in the GCUK Segment); (4) enter into arrangements that restrict dividends or other payments to the Company from the Company’s restricted subsidiaries; (5) create liens; (6) sell assets, including capital stock of subsidiaries; (7) engage in transactions with affiliates; (8) merge or consolidate with other companies or sell substantially all of the Company’s assets; and (9) designate subsidiaries as restricted. These covenants are subject to a number of important limitations and exceptions.

The Company used proceeds from the issuance of the 12% Senior Secured Notes to: (i) repay the Term Loan Agreement in full, together with a 1% prepayment penalty and unpaid interest to but not including the date of repayment (total cost of \$348); (ii) purchase all of the GC Impsat Notes validly tendered in a tender offer for such notes, including a consent fee of 5% of the principal amount of those notes tendered by the early withdrawal date (total cost of \$237); and (iii) pay the estimated initial purchaser discounts, professional fees and other transactions fees and expenses in connection with the offering. After these costs, the remaining \$125 was used for general corporate purposes.

Included in other income (expense), net in the Company's consolidated statement of operations for 2009 is a charge of approximately \$29 recorded in connection with the early extinguishment of the GC Impsat Notes and Term Loan Agreement.

At any time prior to September 15, 2012, the Company may on any one or more occasions redeem up to 35% of the aggregate original principal amount of the 12% Senior Secured Notes at a redemption price equal to 112% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more equity offerings by GCL. The Company may also redeem any of the 12% Senior Secured Notes at any time prior to September 15, 2012 at a price equal to 100% of the principal amount, plus a make-whole premium and accrued interest, if any. In addition, on or after September 15, 2012, 2013 and 2014, the Company may redeem all or a part of the 12% Senior Secured Notes at the redemption prices of 106%, 103% or 100% of par, respectively.

On August 2, 2010, the Company completed an offer to exchange the notes issued on September 22, 2009 for an identical series of notes that have been registered under the Securities Act of 1933, as amended (the "Securities Act") with the SEC. All \$750 aggregate outstanding principal amount of notes participated in the exchange offer which satisfied the obligation incurred by the Company under a registration rights agreement that the Company entered into in connection with the original issuance of the notes.

GCUK Senior Secured Notes

On December 23, 2004, Global Crossing (UK) Finance PLC ("GCUK Finance"), a wholly owned financing subsidiary of the Company's Global Crossing (UK) Telecommunications Limited subsidiary (together with its subsidiaries, "GCUK") issued \$200 in aggregate principal amount of 10.75% U.S. Dollar denominated senior secured notes and 105 pounds sterling aggregate principal amount of 11.75% pounds sterling denominated senior secured notes (collectively, the "GCUK Notes"). The U.S. Dollar and pound sterling denominated notes were issued at a discount of approximately \$3 and 2 pounds sterling, respectively, which resulted in the Company receiving gross proceeds, before underwriting fees, of approximately \$398. The GCUK Notes mature on the tenth anniversary of their issuance. Interest is payable in cash semi-annually on June 15 and December 15.

On December 28, 2006, GCUK Finance issued an additional 52 pounds sterling aggregate principal amount of pound sterling denominated GCUK Notes. The additional notes were issued at a premium of approximately 5 pounds sterling, which resulted in the Company receiving gross proceeds, before underwriting fees, of approximately \$111.

The GCUK Notes are senior obligations of GCUK Finance and rank equal in right of payment with all of its future debt. GCUK has guaranteed the GCUK Notes as a senior obligation ranking equal in right of payment with all of its existing and future senior debt. The GCUK Notes are secured by certain assets of GCUK and GCUK Finance, including the capital stock of GCUK Finance, but certain material assets of GCUK do not serve as collateral for the GCUK Notes.

GCUK Finance may redeem the GCUK Notes in whole or in part, at any time on or after December 15, 2009 at redemption prices decreasing from 105.375% (for the U.S. Dollar denominated notes) or 105.875% (for the pounds sterling denominated notes) in 2009 to 100% of the principal amount in 2012 and thereafter. GCUK Finance may also redeem either series of notes, in whole but not in part, upon certain changes in tax laws and regulations.

The GCUK Notes were issued under an indenture which includes covenants and events of default that are customary for high-yield senior note issuances. The indenture governing the GCUK Notes limits GCUK's ability to, among other things: (i) incur or guarantee additional indebtedness, (ii) pay dividends or make other distributions to repurchase or redeem its stock; (iii) make investments or other restricted payments, (iv) create liens; (v) enter into certain transactions with affiliates (vi) enter into agreements that restrict the ability of its material subsidiaries to pay dividends; and (vii) consolidate, merge or sell all or substantially all of its assets.

As required by the indenture governing the GCUK Notes, within 120 days after the end of each twelve month period ending December 31, GCUK must offer (the “Excess Cash Offer”) to purchase a portion of the GCUK Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date, using 50% of “Designated GCUK Cash Flow” from that period. “Designated GCUK Cash Flow” means GCUK’s consolidated net income plus non-cash charges minus capital expenditures, calculated in accordance with the terms of the indenture governing the GCUK Notes. With respect to the 2009 Excess Cash Offer, the Company made an offer for \$18 and purchased less than \$1 in principal amount of the GCUK Notes, exclusive of accrued but unpaid interest.

With respect to the 2010 Excess Cash Offer, the Company anticipates making an offer of approximately \$17, exclusive of accrued but unpaid interest. Any such offer is required to be made within 120 days of year-end, and the associated purchases are required to be completed within 150 days after year-end.

A loan or dividend payment by GCUK to the Company and its affiliates is a restricted payment under the indenture governing the GCUK Notes. Under the indenture such a payment (i) may be made only if GCUK is not then in default under the indenture and would be permitted at that time to incur additional indebtedness under the applicable debt incurrence test; (ii) may generally be made only within ten business days of consummation of each Excess Cash Offer; and (iii) would generally be limited to 50% of GCUK’s Designated GCUK Cash Flow plus the portion, if any, of the applicable Excess Cash Offer that the holders of the notes decline to accept. In addition, so long as GCUK is not then in default under the indenture, GCUK may make up to 10 pounds sterling (approximately \$15 at the exchange rate at December 31, 2010) in the aggregate in restricted payments in excess of 50% of Designated GCUK Cash Flow for a given period; provided that any such excess payments shall reduce the amount of restricted payments permitted to be paid out of future Designated GCUK Excess Cash Flow. The terms of any inter-company loan by GCUK to the Company or the Company’s other subsidiaries are required by the GCUK Notes indenture to be at arm’s length and must be agreed to by the board of directors of GCUK, including its independent members. In the exercise of their fiduciary duties, GCUK’s directors will require GCUK to maintain a minimum cash balance in an amount they deem prudent.

In order to better manage the Company’s foreign currency risk, the Company entered into a five-year cross- currency interest rate swap transaction with an affiliate of Goldman Sachs & Co. to minimize exposure of any U.S. Dollar/pound sterling currency fluctuations related to interest payments on the \$200 U.S. Dollar denominated GCUK Notes. The swap transaction converted the U.S. Dollar currency rate on interest payments to a specified pound sterling amount. In addition, the hedge counterparty was granted a security interest in the collateral securing the GCUK Notes ranking equally with the security interest holders of the GCUK Notes. The hedging arrangements were subject to early termination upon events of default under the indenture governing the GCUK Notes.

For accounting purposes, the cross-currency interest rate swap was classified as a cash flow hedge. The Company measured the effectiveness of this derivative instrument on a cumulative basis, comparing changes in the cross-currency interest rate swaps cash flows since inception with changes in the hedged item’s cash flows (the interest payment on the \$200 U.S. Dollar-denominated GCUK Notes). The cross-currency interest rate swap expired in 2009.

5% Convertible Notes

On May 30, 2006, the Company completed a public offering of \$144 aggregate principal amount of 5% convertible senior notes due 2011 (the “5% Convertible Notes”) for total gross proceeds of \$144. The 5% Convertible Notes ranked equal in right of payment with any other senior indebtedness of Global Crossing Limited, except to the extent of the value of any collateral securing such indebtedness. The notes were priced at par value, would have matured on May 15, 2011, and accrued interest at 5% per annum, payable semi-annually on May 15 and November 15 of each year. The 5% Convertible Notes could have been converted at any time prior to maturity at the option of the holder into shares of the Company’s common stock at a conversion price of

approximately \$22.98 per share. At any time prior to maturity, the Company could have unilaterally and irrevocably elected to settle the Company's conversion obligation in cash and, if applicable, shares of the Company's common stock, calculated as set forth in the indenture governing the 5% Convertible Notes. The Company could have been required to repurchase, for cash, all or a portion of the notes upon the occurrence of a fundamental change (i.e., a change in control or a delisting of the Company's common stock) at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, or, in certain cases, to convert the notes at an increased conversion rate based on the price paid per share of the Company's common stock in a transaction constituting a fundamental change.

Concurrent with the closing of the 5% Convertible Notes offering the Company purchased a portfolio of U.S. treasury securities with total face value of \$21 for \$20, and pledged these securities to collateralize the first six interest payments due on the 5% Convertible Notes.

During 2010, we used the proceeds from the issuance of the 9% Senior Notes to redeem the 5% Convertible Notes at an optional redemption price equal to 101% of their principal amount. See "9% Senior Notes" above.

In May 2008, the FASB revised the guidance for debt in ASC Topic 470 with respect to debt with conversion and other options to clarify the accounting for convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) and to specify that issuers of convertible instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. These amendments to ASC Topic 470 were required to be applied on a retrospective basis for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The 5% Convertible Notes were within the scope of these amendments to ASC Topic 470.

Upon adoption of these amendments to ASC Topic 470 on January 1, 2009, the Company reclassified \$38 of the carrying value of the 5% Convertible Notes to additional paid-in capital. In addition, the cumulative effect of this adoption resulted in an increase to the Company's accumulated deficit of \$17 related to prior period amortization of the debt discount and associated deferred financing fees.

As of December 31, 2009 the principal amount of the liability component, its unamortized discount and its net carrying value were \$144, \$14 and \$130. As of December 31, 2009, the carrying amount of the equity component was \$38. At December 31, 2009, if the 5% Convertible Notes were converted into shares of the Company's common stock at a conversion price of \$22.98 per share, approximately 6.3 million shares of our common stock would have been issued.

For each of the years ended December 31, 2010, 2009 and 2008, the effective interest rate for the 5% Convertible Notes was 12.75%. For the years ended December 31, 2010, 2009 and 2008, interest expense for the 5% Convertible Notes related to the coupon and the amortization of the debt discount was \$16 (\$16 after-tax), \$15 (\$15 after-tax) and \$15 (\$15 after-tax), respectively.

Other Financing Activities

During 2010, the Company entered into various debt agreements to finance various equipment purchases and software licenses. The total debt obligation resulting from these agreements was \$15. These agreements have terms that range from 6 to 48 months with a weighted average effective interest rate of 10%. In addition, the Company entered into various capital leasing arrangements that aggregated \$41. These agreements have terms that range from 12 to 48 months with a weighted average effective interest rate of 11.1%.

11. OBLIGATIONS UNDER CAPITAL LEASES

The Company has capitalized the future minimum lease payments of property and equipment under leases that qualify as capital leases. At December 31, 2010, future minimum payments under these capital leases are as follows and are included in obligations under capital leases in the accompanying consolidated balance sheet:

Year Ending December 31,	
2011	\$ 61
2012	37
2013	16
2014	7
2015	5
Thereafter	<u>32</u>
Total minimum lease payments	158
Less: amount representing interest	<u>(35)</u>
Present value of minimum lease payments	123
Less: current portion	<u>(51)</u>
Long term obligations under capital leases	<u>\$ 72</u>

As of December 31, 2010, none of the Company's obligations under capital leases were obligations of the GCL parent company. As of December 31, 2010, GCL has guaranteed \$40 of the capital lease obligations of certain of its subsidiaries.

12. SHAREHOLDERS' DEFICIT

Preferred Stock

On the Effective Date, GCL issued 18,000,000 shares of 2% cumulative senior convertible preferred stock to a subsidiary of ST Telemedia (the "GCL Preferred Stock"). The GCL Preferred Stock accumulates dividends at the rate of 2% per annum. Those dividends will not be payable in cash until after GCL and its subsidiaries achieve cumulative operating earnings before interest, taxes, depreciation and amortization (but excluding the contribution of (i) sales-type lease revenue (ii) revenue recognized from the amortization of indefeasible rights of use not recognized as sales-type leases and (iii) any revenue recognized from extraordinary transactions or from the disposition of assets by the Company or any subsidiary other than in the ordinary course of business) of \$650 or more as demonstrated in the audited consolidated financial statements. The GCL Preferred Stock has a par value of \$.10 per share and a liquidation preference of \$10 per share (for an aggregate liquidation preference of \$180). The GCL Preferred Stock ranks senior to all other capital stock of GCL, provided that any distribution to shareholders following a disposition of all or any portion of the assets of GCL will be shared pro rata by the holders of Common Stock and Preferred Stock on an as-converted basis. Each share of GCL Preferred Stock is convertible into one share of GCL Common Stock at the option of the holder.

The preferred stock votes on an as-converted basis with the GCL common stock, but has class voting rights with respect to any amendments to the terms of the GCL Preferred Stock. As long as ST Telemedia beneficially owns at least 15% or more of GCL Common Stock on a non-diluted and as-converted basis, excluding up to 3,478,261 shares of GCL common stock reserved or issued under the new management stock incentive plan ("Stock Incentive Plan") adopted by GCL on the Effective Date, its approval will be required for certain major corporate actions of the Company and/or its subsidiaries. Those corporate actions include (i) the appointment or replacement of the chief executive officer, (ii) material acquisitions or dispositions, (iii) mergers, consolidations or reorganizations, (iv) issuance of additional equity securities (other than enumerated exceptions), (v) incurrence of indebtedness above specified amounts, (vi) capital expenditures in excess of specified amounts, (vii) the commencement of bankruptcy or other insolvency proceedings, and (viii) certain affiliate transactions.

At December 31, 2010 and 2009, accrued dividends were \$26 and \$22, respectively, and are included in “other current liabilities” and “other deferred liabilities”, respectively, in the accompanying consolidated balance sheets. Payment of the preferred dividend is predicated on the Company achieving a certain earnings-related objective as demonstrated by audited financial statements, which objective the Company achieved during 2010. After the initial payment on or after April 15, 2011 of accrued dividends accumulated since the preferred stock was issued in December 2003 through March 31, 2011, subsequent quarterly preferred stock dividends in the amount of \$0.9 are expected to be payable on the fifteenth day of each July, October, January and April.

Common Stock

GCL is authorized to issue up to 110,000,000 shares of common stock. 18,000,000 shares of common stock are reserved for the conversion of the GCL Preferred Stock, while an additional 19,378,261 shares of common stock are reserved for issuance under GCL’s 2003 Stock Incentive Plan at December 31, 2010.

Each share of GCL common stock has a par value of \$.01 and entitles the holder thereof to one vote on all matters to be approved by stockholders. The amended and restated by-laws of GCL contain certain special protections for minority shareholders, including certain obligations of ST Telemedia, or other third parties, to offer to purchase shares of GCL Common Stock under certain circumstances.

13. INCOME TAX

The benefit (provision) for income taxes is comprised of the following:

	Year Ended December 31,		
	2010	2009	2008
Current	\$ (18)	\$ (21)	\$ (14)
Deferred	23	20	(35)
Total income tax provision	<u>\$ 5</u>	<u>\$ (1)</u>	<u>\$ (49)</u>

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. Bermuda does not impose a statutory income tax and consequently the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in jurisdictions that impose income taxes.

The current tax provision includes income, asset and withholding taxes for the years ended December 31, 2010, 2009 and 2008 of \$18, \$21, and \$14, respectively. The deferred tax benefits for the years ended December 31, 2010 and 2009 of \$(23) and \$(20), respectively, resulted from a partial release of a valuation allowance on deferred tax assets. Fresh start accounting resulted in a net deferred tax provision of \$30 in 2008 resulting from the utilization of pre-emergence net deferred tax assets that were offset by a full valuation allowance. The reversal of the valuation allowance that existed at the fresh start date was first recorded as a reduction of intangibles to zero and thereafter as an increase in additional paid-in-capital. The new accounting standard for business combinations also amended guidance for accounting for income taxes codified in ASC Topic 740 such that as of January 1, 2009 the reversal of pre-emergence valuation allowances are recorded as a reduction of tax expense.

The deferred income tax provision reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

The following is a summary of the significant items giving rise to components of the Company's deferred tax assets and liabilities:

	December 31,			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Property and equipment	\$ 241	\$ —	\$ 311	\$ —
Net operating loss ("NOL") carry forwards	1,753	—	1,747	—
Accounts receivable basis difference	200	—	175	—
Deferred revenue	—	(30)	—	(22)
Other	79	—	103	—
	2,273	(30)	2,336	(22)
Valuation allowance	(2,200)	—	(2,294)	—
	<u>\$ 73</u>	<u>\$ (30)</u>	<u>\$ 42</u>	<u>\$ (22)</u>

The Company's valuation allowance changed in the amount of \$(94), nil and \$(369) for the years ended December 31, 2010, 2009 and 2008, respectively. In evaluating the amount of valuation allowance required, the Company considers each subsidiary's prior operating results, future plans and expectations and prudent and feasible tax planning strategies. The utilization period of the NOL carry forwards and the turnaround period of other temporary differences are also considered.

A substantial amount of the Company's pre-emergence NOL's and other deferred assets generated prior to the bankruptcy have been reduced as a result of the discharge and cancellation of various pre-petition liabilities. As of December 31, 2010 the Company has NOL carry forwards of \$4,722, \$1,165, \$505 and \$1 in Europe, North America, Latin America and Asia, respectively, with various expiration dates or unlimited expiration.

During 2008, the Company realized \$5 of tax benefits as a result of the reversal of valuation allowances for deferred tax assets acquired as part of the Impsat acquisition. The recognition of the tax benefits for those items (by elimination of the valuation allowance) after the acquisition date resulted in a reduction of goodwill. This accounting treatment does not result in any change in liabilities to taxing authorities or in cash flows. The new accounting standard for business combinations also amended guidance for accounting for income taxes codified in ASC Topic 740, such that as of January 1, 2009 the reversal of pre-acquisition valuation allowances are recorded as a reduction of tax expense.

The total amount of the unrecognized tax benefits as of the date of December 31, 2010 and 2009 was \$28 and \$29, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2008	\$ 20
Additions for tax positions of prior years	15
Decrease for tax positions of prior years	(3)
Balance at December 31, 2008	\$ 32
Additions for tax positions of prior years	1
Decrease for tax positions of prior years	(2)
Settlements	(2)
Balance at December 31, 2009	\$ 29
Additions for tax positions of prior years	1
Decrease for tax positions of prior years	(2)
Balance at December 31, 2010	<u>\$ 28</u>

Included in the balance of unrecognized tax benefits at December 31, 2010 and 2009, are \$24 and \$24, respectively of tax benefits that, if recognized, would affect the effective tax rate. The Company also recognizes interest accrued related to unrecognized tax benefits in interest expense, and penalties in income tax expense. For the years ended December 31, 2010 and 2009, the Company (released)/accrued \$(2) and \$3, respectively, of interest and penalties related to unrecognized tax benefits. The Company had approximately \$19, \$21 and \$18 for the payment of interest and penalties accrued in other current liabilities and other deferred liabilities at December 31, 2010, 2009 and 2008, respectively. It is not expected that the amount of unrecognized tax benefits will change significantly in the next twelve months.

During 2007, the Company received notification from the Internal Revenue Service that its audit of the Company's 2002, 2003 and 2004 tax years had resulted in the tax returns being accepted as filed, without change. Accordingly, the Company is no longer subject to U.S. federal income tax examination for periods prior to 2005. With respect to the United Kingdom, as of December 31, 2010, the Company is no longer subject to income tax inquiries by Her Majesty's Revenue & Customs for the years up to and including 2007. The Company is also subject to taxation in various U.S. states and other non-U.S. jurisdictions.

The Company and its subsidiaries' income tax returns are routinely examined by various tax authorities. In connection with such examinations, tax authorities have raised issues and proposed tax adjustments. The Company is reviewing the issues raised and will contest any adjustments it deems inappropriate. In management's opinion, adequate provision for income taxes has been made for all years that are open to audit.

14. REORGANIZATION ITEMS

Pre-confirmation Contingencies

During the year ended December 31, 2008, the Company settled various third-party disputes and revised its estimated liability for other disputes related to periods prior to the emergence from chapter 11 proceedings. The Company has accounted for this in accordance with AICPA Practice Bulletin 11, which was nullified as of the effective date of the new standard for accounting for business combinations (See Note 2). The resulting net gain on the settlements and change in estimated liability of \$10 is included within net gain on pre-confirmation contingencies in the consolidated statement of operations for the year ended December 31, 2008. The most significant portion of the gain is a result of settlements with certain tax authorities and changes in the estimated liability for other income and non-income tax contingencies.

15. LOSS PER COMMON SHARE

Basic loss per common share is computed as loss applicable to common shareholders divided by the weighted-average number of common shares outstanding for the period. Loss applicable to common shareholders includes preferred stock dividends of \$4 for each of the years ended December 31, 2010, 2009 and 2008.

Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. However, since the Company had net losses for each of the years ended December 31, 2010, 2009 and 2008; diluted loss per common share is the same as basic loss per common share, as any potentially dilutive securities would reduce the loss per share.

Diluted loss per share for the years ended December 31, 2010, 2009 and 2008 does not include the effect of the following potential shares, as they are anti-dilutive:

Potential common shares excluded from the calculation of diluted loss per share	Year Ended December 31,		
	2010	2009	2008
		(millions)	
Convertible preferred stock	18	18	18
Employee stock awards	2	1	1
Total	20	19	19

Employee stock awards to purchase less than one million shares for \$15.39 per share and approximately one million shares for \$10.16 or \$15.39 per share were not included in the above table for the years ended December 31, 2010 and December 31, 2009, respectively, as the exercise price was greater than the average market price per share.

The 5% Convertible Notes which were convertible into approximately 6.3 million shares at a conversion price of \$22.98 per share were not included in the above table for each of the years ended December 31, 2009 and 2008 as the conversion price is greater than the average market price per share. The 5% Convertible Notes were retired in 2010 (see Note 10 for additional information related to the early retirement of the 5% Convertible Notes).

16. STOCK-BASED COMPENSATION AND ANNUAL BONUS

The Company recognized \$20, \$18, and \$55, respectively, of non-cash stock related expenses for the year ended December 31, 2010, 2009 and 2008. These expenses are included in selling, general and administrative expenses and real estate, network and operations in the consolidated statements of operations. Stock-related expenses for each period relate to share-based awards granted under Global Crossing Limited 2003 Stock Incentive Plan (the “2003 Stock Incentive Plan”) and reflect awards outstanding during such period, including awards granted both prior to and during such period. Under the 2003 Stock Incentive Plan, the Company is authorized to issue, in the aggregate, share-based awards of up to 19,378,261 common shares to employees, directors and consultants who are selected to participate. As of December 31, 2010, unrecognized compensation expense related to the unvested portion of all restricted stock units was approximately \$15 and is expected to be recognized over the next 2.1 years.

Sales Equity Program

During 2008, the Company adopted the Global Crossing Sales Equity Program (“Sales Equity Program”) for the Company’s sales, sales support and sales engineering employees excluding those in Latin America, Canada and Asia. This program allowed management level employees to elect to receive 100% of their earned commissions in fully vested shares of common stock of GCL. Non-management employees could elect to receive 50% of their earned commissions in fully vested shares of common stock and the remaining 50% will be paid in cash. As an additional incentive for participating in the Sales Equity Program, the value of the portion paid in stock was increased by 5%, which was subsequently increased to 7.5% effective June 1, 2008. Included in the total 2008 non-cash stock related expenses was \$10 related to this program. This program was cancelled in the fourth quarter of 2008.

Stock Options

Stock options are exercisable over a ten-year period, vest over a three-year period and have an exercise price of \$10.16 or \$15.39 per share. No stock options were granted during 2008, 2009 and 2010.

Information regarding options outstanding for the years ended December 31, 2010, 2009 and 2008 is summarized below:

	Number Outstanding	Weighted Average Exercise Price
Balance as of January 1, 2008	1,251,479	\$ 12.00
Exercised	(123,071)	\$ 10.96
Forfeited	(81,327)	\$ 15.34
Balance as of December 31, 2008	1,047,081	\$ 11.55
Exercised	(14,666)	\$ 10.16
Forfeited	(54,334)	\$ 11.86
Balance as of December 31, 2009	978,081	\$ 11.51
Exercised	(50,000)	\$ 10.44
Forfeited	(6,667)	\$ 15.39
Balance as of December 31, 2010	<u>921,414</u>	\$ 11.54

The following table summarizes information concerning outstanding and exercisable options for the year ended December 31, 2010:

		Options Outstanding		Options Exercisable	
		Weighted- Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price per Share	Number Exercisable	Weighted- Average Exercise Price per Share
Exercise Prices	Number Outstanding				
\$ 10.16	677,605	2.9	\$ 10.16	677,605	\$ 10.16
\$ 15.39	243,809	4.0	\$ 15.39	243,809	\$ 15.39
Total	<u>921,414</u>	3.2	\$ 11.54	<u>921,414</u>	\$ 11.54

The weighted average remaining contractual term was 3.2 years for stock options exercisable as of December 31, 2010. The total intrinsic value of options outstanding and exercisable was approximately \$2 as of December 31, 2010. The total intrinsic value for stock options exercised was nil, nil and \$1, during 2010, 2009 and 2008, respectively.

At December 31, 2010, there was no unrecognized compensation expense for stock options.

Restricted Stock Units

During the year ended December 31, 2010, the members of the Board of Directors and its Executive Committee were granted awards totaling 24,144 fully vested shares of common stock, representing both installments of the directors' annual retainer fees that was payable in shares rather than cash. Also, during the year ended December 31, 2010, the members of the Board of Directors and its Executive Committee were granted awards totaling 86,748 restricted shares of common stock with a one year cliff vesting on July 8, 2011. These awards were made in accordance with the Company's annual long-term incentive program for Board of Directors and Executive Committee members.

During the year ended 2010, in conjunction with the Company's annual long-term incentive program for 2010, the Company awarded to certain employees 577,389 restricted stock units which vest on February 1, 2013.

During the year ended December 31, 2009, the members of the Board of Directors and its Executive Committee were granted awards totaling 21,261 fully vested shares of common stock, representing the first

installment of the directors' annual retainer fees that was payable in shares rather than cash. The second installment of the directors' annual retainer fees were paid in cash and was expected to be paid in cash going forward. Also, during the year ended December 31, 2009, the members of the Board of Directors and its Executive Committee were granted awards totaling 28,140 restricted shares of common stock with a one year cliff vesting on June 4, 2010. These awards were made in accordance with the Company's annual long-term incentive program for Board of Directors and Executive Committee members.

During the year ended 2009, in conjunction with the Company's annual long-term incentive program for 2009, the Company awarded to certain employees 1,093,285 restricted stock units which vest on March 12, 2012.

During the year ended December 31, 2008, the members of the Board of Directors and its Executive Committee were granted awards totaling 17,686 fully vested shares of common stock, representing both installments of the directors' annual retainer fees that was payable in shares rather than cash. Also, during the year ended December 31, 2008, the members of the Board of Directors and its Executive Committee were granted awards totaling 50,112 restricted shares of common stock, of which, all vested on June 24, 2009. These awards were made in accordance with the Company's annual long-term incentive program for Board of Directors and Executive Committee members.

During the year ended 2008, in conjunction with the Company's annual long-term incentive program for 2008, the Company awarded to certain employees 568,500 restricted stock units which vest on March 4, 2011. In addition, during 2008 several employees were granted small awards of unrestricted shares of common stock and restricted stock units which vested in 2009.

The following table summarizes restricted stock units granted, forfeited and canceled for the years ended December 31, 2010, 2009 and 2008:

	Number of Restricted Stock Units	Weighted- Average Issue Price
Balance as of January 1, 2008	1,372,856	
Granted	674,566	\$ 20.00
Vested	(485,709)	
Vested RSUs withheld for tax purposes	(148,976)	
Forfeited	(193,596)	
Balance as of December 31, 2008	1,219,141	
Granted	1,167,686	\$ 7.15
Vested	(345,623)	
Vested RSUs withheld for tax purposes	(78,222)	
Forfeited	(149,265)	
Balance as of December 31, 2009	1,813,717	
Granted	688,281	\$ 13.68
Vested	(227,892)	
Vested RSUs withheld for tax purposes	(50,804)	
Forfeited	(52,300)	
Balance as of December 31, 2010	<u>2,171,002</u>	

Performance Share Grants

In connection with the Company's annual long-term incentive program for 2010, the Company awarded to certain employees 577,389 performance share opportunities which vest on December 31, 2012, subject to continued employment through the vesting date and subject to earlier pro-rata payout in the event of death or

long-term disability. Each participant's target performance share opportunity is based on total shareholder return over a three year period as compared to two peer groups. Depending on how the Company ranks in total shareholder return as compared to the two peer groups, each performance share grantee may earn 0% to 200% of the target number of performance shares. No payout will be made if the average ranking of the Company's total shareholder return relative to each of the two peer groups (weighted equally) is below the 30th percentile, and the maximum payout of 200% will be made if such average ranking is at or above the 80th percentile.

In connection with the Company's annual long-term incentive program for 2009, the Company awarded to certain employees 1,093,285 performance share opportunities which vest on December 31, 2011, subject to continued employment through the vesting date and subject to earlier pro-rata payout in the event of death or long-term disability. Each participant's target performance share opportunity is based on total shareholder return over a three year period as compared to two peer groups. Depending on how the Company ranks in total shareholder return as compared to the two peer groups, each performance share grantee may earn 0% to 200% of the target number of performance shares. No payout will be made if the average ranking of the Company's total shareholder return relative to each of the two peer groups (weighted equally) is below the 30th percentile, and the maximum payout of 200% will be made if such average ranking is at or above the 80th percentile.

In connection with the Company's annual long-term incentive program for 2008, the Company awarded to certain employees 936,500 performance share opportunities which vest on December 31, 2010 and must be paid out by March 15, 2011, subject to continued employment through the vesting date and subject to earlier pro-rata payout in the event of death or long-term disability. Each participant's target performance share opportunity is based on total shareholder return over a three year period as compared to two peer groups. Depending on how the Company ranks in total shareholder return as compared to the two peer groups, each performance share grantee may earn 0% to 200% of the target number of performance shares. No payout will be made if the average ranking of the Company's total shareholder return relative to each of the two peer groups (weighted equally) is below the 30th percentile, and the maximum payout of 200% will be made if such average ranking is at or above the 80th percentile. The Company paid out 235,800 performance shares under this plan on January 20, 2011 of which 71,523 were withheld in connection with the payment of related withholding taxes for executive officers and certain other employees restricted from selling their shares of Company stock due to legal and policy restrictions applicable to corporate insiders.

Annual Bonus Program

During 2010, the Board of Directors of the Company adopted the 2010 Annual Bonus Program (the "2010 Bonus Program"). The 2010 Bonus Program was an annual bonus applicable to substantially all non-sales employees of the Company, which was intended to retain such employees and to motivate them to achieve the Company's financial and business goals. Each participant is provided a target award under the 2010 Bonus Program expressed as a percentage of base salary. Actual awards under the 2010 Bonus Program were to be paid in the sole discretion of the Compensation Committee of the Board of Directors based upon such factors as the Committee deems relevant, including the extent to which the Company achieved specified targets for earnings and cash flow. The amount is expected to be paid out in cash. As of December 31, 2010, \$19 had been accrued in other current liabilities for this bonus plan, including employer liability for payroll taxes and charges.

During 2009, the Board of Directors of the Company adopted the 2009 Annual Bonus Program (the "2009 Bonus Program"). The 2009 Bonus Program was an annual bonus applicable to substantially all non-sales employees of the Company, which was intended to retain such employees and to motivate them to achieve the Company's financial and business goals. Each participant was provided a target award under the 2009 Bonus Program expressed as a percentage of base salary. Actual awards under the 2009 Bonus Program were to be paid in the sole discretion of the Compensation Committee of the Board of Directors based upon such factors as the Committee deemed relevant, including the extent to which the Company achieved specified targets for earnings and cash flow. As of December 31, 2009, \$16 had been accrued in other current liabilities for this bonus plan, including employer liability for payroll taxes and charges, and \$16 in cash was paid out in 2010.

During 2008, the Board of Directors of the Company adopted the 2008 Annual Bonus Program (the “2008 Bonus Program”). The 2008 Bonus Program was an annual bonus applicable to substantially all non-sales employees of the Company intended to retain such employees and to motivate them to achieve the Company’s financial and business goals. Each participant was provided a target award under the 2008 Bonus Program expressed as a percentage of base salary. Actual awards under the 2008 Bonus Program were to be paid only if the Company achieved specified thresholds for earnings, net change in unrestricted cash and cash equivalents and/or customer satisfaction. The payout for each performance opportunity was calculated independently. Effective February 12, 2009, the Compensation Committee and Board of Directors certified the financial results and approved the payout which was made primarily in restricted stock units vesting no later than April 8, 2009. The amount of the shares to be paid was set using a 30-day average of the Company’s Common Stock. As of December 31, 2008, \$31 had been accrued for this bonus plan, including employer liability for payroll taxes and charges which was included in other current liabilities and other deferred liabilities. Under the 2008 annual bonus program, 4,728,664 common shares vested in March and April 2009 of which 1,636,520 were withheld in connection with the payment of related withholding taxes for all employees with a tax liability.

17. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a number of defined contribution plans. The principal defined contribution plans are discussed individually below. Other defined contribution plans are not individually significant and therefore have been summarized in aggregate below.

The Global Crossing Limited Employees’ Retirement Savings Plan (the “401(k) Plan”) qualifies under Section 401(k) of the Internal Revenue Code. Each eligible employee may contribute on a tax-deferred basis a portion of his or her annual earnings not to exceed certain limits. Effective January 1, 2011, the Company reinstated matching employee contributions to this plan which previously had been suspended in March 2009. The Company plan will provide 100% matching contributions up to the first 1% of eligible compensation and 50% matching contributions up to the next 5% of eligible compensation. The Company’s contributions to the 401(k) Plan vest immediately. Expenses recorded by the Company relating to the 401(k) Plan for the years ended December 31, 2010, 2009 and 2008 were approximately nil, \$1 and \$5, respectively.

Up until October 31, 2010, the Company maintained a defined contribution plan for the employees of GCUK. Each eligible employee contributed on a tax-deferred basis up to 4% of his or her annual basic salary with the Company contributing up to 8% of salary. As of this date, this defined contribution section of the Global Crossing Pension Scheme closed. On November 1, 2010, a new Group Personal Pension arrangement was established. There is a minimum employee contribution of 4% of basic salary with the Company matching the employee contribution up to a maximum of 6% of basic salary. Expenses recorded by the Company relating to these plans were approximately \$3, \$3 and \$3 for the years ended December 31, 2010, 2009 and 2008, respectively.

Other defined contribution plans sponsored by the Company are individually not significant. On an aggregate basis the expenses recorded by the Company relating to these plans were approximately \$2, \$3 and \$3, for the years ended December 31, 2010, 2009 and 2008, respectively.

Defined Benefit Plans

The Company sponsors both contributory and non-contributory employee pension plans available to eligible employees of Global Crossing North America, Inc. and GCUK. The plans provide defined benefits based on years of service and final average salary.

Global Crossing North America, Inc.’s pension plan was frozen on December 31, 1996. As of that date, all existing plan participants became 100% vested and all employees hired thereafter are not eligible to participate in the plan.

GCUK has two separate pension plans: the Global Crossing Pension Scheme (“GCUK Pension Plan”) and the Global Crossing Shared Cost Section of the Railways Pension Scheme (“GCUK Railway Pension Plan”). Both pension plans were closed to new employees on December 31, 1999. The GCUK Railway Pension Plan is a pension plan that splits the costs 60%/40% between the Company and the employees, respectively.

Effective November 1, 2010, the GCUK Pension Plan was amended with the result that the participant’s life assurance benefits are now administered outside of the plan. This amendment has had the effect of reducing the projected benefit obligation by \$6 at December 31, 2010.

The Company uses a December 31 measurement date for all pension plans.

Changes in the projected benefit obligation for all pension plans sponsored by the Company are as follows:

	Pension Plans	
	December 31,	
	2010	2009
Projected benefit obligation at beginning of period	\$ 89	\$ 79
Service cost	1	1
Interest cost	5	5
Amendments	(6)	—
Actuarial gain	—	(1)
Benefits paid	(3)	(3)
Foreign exchange	(3)	8
Projected benefit obligation at end of period	<u>\$ 83</u>	<u>\$ 89</u>

Changes in the fair value of assets for all pension plans sponsored by the Company are as follows:

	Pension Plans	
	December 31,	
	2010	2009
Fair value of plan assets at beginning of period	\$ 77	\$ 62
Actual return on plan assets	8	10
Employer contribution	4	2
Benefits paid	(3)	(3)
Foreign exchange	(3)	6
Fair value of plan assets at end of period	<u>\$ 83</u>	<u>\$ 77</u>

The funded status for all pension plans sponsored by the Company are as follows:

	Pension Plans	
	December 31,	
	2010	2009
Funded status	\$ —	\$ (12)
Funded status attributable to employees	<u>3</u>	<u>4</u>
Accrued benefit cost, net	<u>\$ 3</u>	<u>\$ (8)</u>

The GCUK Railway Pension Plan projected benefit obligation exceeded the fair value of plan assets at December 31, 2010 and 2009. The projected benefit obligation and fair value of plan assets for this plan was \$58 and \$51, respectively at December 31, 2010 and \$60 and \$49, respectively at December 31, 2009.

The GCUK Pension Plan projected benefit obligation exceeded the fair value of plan assets at December 31, 2009. The projected benefit obligation and fair value of plan assets for this plan was \$15 and \$11, respectively.

Details of the effect on operations of the Company's pension plans are as follows:

	Pension Plans					
	Year Ended December 31,					
	2010		2009		2008	
Service cost	\$	1	\$	1	\$	2
Interest cost on projected benefit obligation		4		4		4
Expected return on plan assets		(4)		(3)		(5)
Amortization of net loss		—		1		—
Net cost	\$	1	\$	3	\$	1

Actuarial assumptions used to determine benefit obligations for the Company's pension plans are as follows:

	December 31,	
	2010	2009
Discount rate	5.50%-5.60%	5.90%-6.10%
Rate of compensation increase	4.45%	4.45%

Actuarial assumptions used to determine net periodic costs for the Company's pension plans are as follows:

	Year Ended December 31,		
	2010	2009	2008
Discount rate	5.90%-6.10%	5.90%	5.60%-6.25%
Expected long-term return on plan assets	5.30%-8.04%	5.30%-8.16%	4.50%-8.50%
Rate of compensation increase	4.45%	3.75%	4.00%

In order to project the expected long-term return on plan assets, the Company reviews long-term historical returns and expected risk, return and correlation for each major asset class.

Investment strategies for the two significant pension plans are as follows:

The GCUK Railway Pension Plan, which represents approximately 62% of the Company's total plan assets as at December 31, 2010 invests in a range of pooled funds covering different asset classes, includes equities and fixed interest securities, bonds, property, infrastructure, commodities, and cash. These funds adopt the principles which involve setting limits to the amount of investment risk each pooled fund is prepared to take compared to the set benchmark. The equity pooled fund which represents the majority of the assets comprises a substantial portion of assets managed on an index tracking basis. The target allocation is 55% in equity securities, 25% in debt securities, 10% in real estate and 10% in other; at December 31, 2010 the actual allocation was 58% in equities securities, 14% in debt securities, 16% in real estate and 12% in other.

The Global Crossing North America, Inc. pension plan, which represents approximately 22% of the Company's total plan assets at December 31, 2010, invests in a variety of funds to provide wide diversification of asset classes and achieve a superior long term investment return compared with fixed income securities. The fund invests in a variety of mutual funds that track U.S. and/or international indexes as well corporate and government bonds. The target allocation is 65% in equities and 35% in debt securities; at December 31, 2010 the actual allocation was 65% in equities and 35% in debt securities.

Items Measured at Fair Value

The Company classifies and discloses pension plan assets in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data. Unquoted securities are measured at their estimated fair value based on advice from investment managers; pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads; and commercial properties are included at open market value as at the year-end date which have been valued by qualified independent surveyors.

The following tables summarize the fair values, and levels within the fair value hierarchy in which the fair value measurements fall for pension plan asset classes at December 31, 2010 and 2009:

Asset Class	Fair Value Measurements at December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
U.S. large-cap (1)	\$ 8	\$ —	\$ 8	\$ —
U.S. small-cap	1	—	1	—
Non-U.S. large-cap (2)	6	—	6	—
Total equity securities	15	—	15	—
Fixed income securities:				
U.S. Other Fixed Income (3)	6	—	6	—
Non-U.S. Treasuries/Government Bonds (4)	9	6	3	—
Non-U.S. Corporate bonds	2	—	2	—
Total Fixed Income	17	6	11	—
Pooled funds:				
Global equity (5)	24	—	24	—
Non government bond (6)	4	—	4	—
Government bond (7)	3	—	3	—
Cash plus (8)	5	—	—	5
Property (9)	5	—	—	5
Private equity (10)	6	—	—	6
Infrastructure (11)	3	—	—	3
Commodities	1	—	—	1
Total pooled funds	51	—	31	20
Total	\$ 83	\$ 6	\$ 57	\$ 20

- (1) This class includes investments that track unmanaged U.S. large-cap indexes.
- (2) This class includes investments that track unmanaged international indexes primarily in U.K., EU and Japan.
- (3) This class includes investments in U.S. intermediate-term bonds.
- (4) This class represents investments in U.K. government bonds.
- (5) This class comprises investments in approximately 51% quoted equities and fixed interest securities, 31% unquoted unitized insurance policies, partnerships and hedge funds, 15% cash deposits and cash instruments and 3% unquoted fixed interest securities.

- (6) This class includes investments in bonds and other investments with bond characteristics.
- (7) This class includes investments diversified in government bond markets worldwide.
- (8) This class comprises investments in approximately 80% unquoted unitized insurance policies, partnerships and hedge funds, 16% cash deposits and cash instruments and 4% quoted equities.
- (9) This class primarily includes investments in 84% U.K. commercial property either directly or indirectly and 16% cash deposits and cash instruments.
- (10) This class includes investments in 58% unquoted unitized insurance policies, partnerships and hedge funds and 42% Global equity pooled fund.
- (11) This class includes investments in 74% unquoted unitized insurance policies, partnerships and hedge funds, 24% quoted equities and 2% cash deposits and cash instruments.

Asset Class	Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
U.S. large-cap (1)	\$ 8	\$ —	\$ 8	\$ —
U.S. small-cap	1	—	1	—
Non-U.S. large-cap (2)	5	—	5	—
Total equity securities	14	—	14	—
Fixed income securities:				
U.S. Other Fixed Income (3)	6	—	6	—
Non-U.S. Treasuries/Government Bonds (4)	7	5	2	—
Non-U.S. Corporate bonds	1	—	1	—
Total Fixed Income	14	5	9	—
Pooled funds:				
Global equity (5)	19	—	19	—
Global bond (hedged) (6)	7	—	7	—
Cash plus (7)	5	—	—	5
Property (8)	5	—	—	5
Private equity (9)	8	—	—	8
Infrastructure (10)	4	—	—	4
Commodities	1	—	—	1
Total pooled funds	49	—	26	23
Total	\$ 77	\$ 5	\$ 49	\$ 23

- (1) This class includes investments that track unmanaged U.S. large-cap indexes.
- (2) This class includes investments that track unmanaged international indexes primarily in U.K., EU and Japan.
- (3) This class includes investments in U.S. intermediate-term bonds.
- (4) This class represents investments in U.K. government bonds.
- (5) This class comprises investments in approximately 48% quoted equities and fixed interest securities, 20% cash deposits and cash instruments, 20% unquoted unitized insurance policies, partnerships and hedge funds and 12% derivative contracts.
- (6) This class comprises investments in approximately 76% quoted fixed interest securities, 16% cash deposits and cash instruments and 8% derivative contracts.
- (7) This class comprises investments in approximately 80% unquoted unitized insurance policies, partnerships and hedge funds, 16% cash deposits and cash instruments and 4% quoted equities.
- (8) This class primarily includes investments in 84% U.K. commercial property either directly or indirectly and 16% cash deposits and cash instruments.

- (9) This class includes investments in 57% unquoted unitized insurance policies, partnerships and hedge funds and 43% Global equity pooled fund.
- (10) This class includes investments in 74% unquoted unitized insurance policies, partnerships and hedge funds, 24% quoted equities and 2% cash deposits and cash instruments.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Pooled Funds					
	Cash plus	Property	Private equity	Infrastructure	Commodities	Total
Beginning balance at January 1, 2009	\$ 5	\$ 4	\$ 8	\$ 4	\$ —	\$ 21
Actual return on plan assets:						
Relating to assets still held at the reporting date	1	1	—	—	—	2
Purchases, sales, and settlements	(1)	—	—	—	1	—
Ending balance at December 31, 2009	\$ 5	\$ 5	\$ 8	\$ 4	\$ 1	\$ 23
Actual return on plan assets:						
Relating to assets still held at the reporting date	—	—	1	(1)	—	—
Purchases, sales, and settlements	—	—	(3)	—	—	(3)
Ending balance at December 31, 2010	\$ 5	\$ 5	\$ 6	\$ 3	\$ 1	\$ 20

The total accumulated benefit obligation (“ABO”) for all pension plans sponsored by the Company was \$75 and \$76, at December 31, 2010 and 2009, respectively.

Information for pension plan with an accumulated benefit obligation in excess of plan assets

As of December 31, 2009, the ABO of the GCUK Railway Pension Plan exceeded the fair value of the GCUK Railway Plan’s assets by \$4. The ABO and fair value of assets relating this plan were \$53 and \$49. None of the Company’s pension plans’ ABO exceeded the fair value of their respective pension plans assets at December 31, 2010.

	Pension Plans	
	December 31,	
	2010	2009
Projected benefit obligation	\$ —	\$ 60
Accumulated benefit obligation	—	53
Fair value of plan assets	—	49

The Company expects to make total contributions of approximately \$1 in 2011 in respect of all pension plans.

Benefit Payments

The following table summarizes expected benefit payments from the Company’s various pension plans through 2020. Actual benefits payments may differ from expected benefit payments.

	Pension Plans
2011	\$ 3
2012	3
2013	3
2014	4
2015	4
2016-2020	20

18. FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accrued expenses and obligations under capital leases approximate their fair (see Note 2, “Basis of Presentation and Significant Accounting Policies” regarding the January 12, 2010 devaluation of the Venezuelan bolivar by the Venezuelan government). The fair values of the Company’s debt are based on market quotes and management estimates. Management believes the carrying value of other debt approximates fair value as of December 31, 2010 and 2009, respectively.

The fair values of our debt are as follows:

	December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
12% Senior Secured Notes	\$ 737	\$ 846	\$ 735	\$ 816
GCUK Senior Secured Notes	431	444	441	441
9% Senior Notes	150	150	—	—
5% Convertible Notes	—	—	130	139
Other debt	20	20	26	26

19. COMMITMENTS, CONTINGENCIES AND OTHER

Contingencies

Amounts accrued for contingent liabilities are included in other current liabilities and other deferred liabilities at December 31, 2010 and 2009. In accordance with the accounting for contingencies as governed by ASC Topic 450, the Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Further, with respect to loss contingencies, where it is probable that a liability has been incurred and there is a range in the expected loss and no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Although the Company believes it has accrued for the following matters in accordance with ASC Topic 450, litigation is inherently unpredictable and it is possible that cash flows or results of operations could be materially and adversely affected in any particular period by the unfavorable developments in, or resolution or disposition of, one or more of these contingencies. The following is a description of the material legal proceedings and claims involving the Company commenced or pending during 2010. Estimates of reasonably possible losses may change from time to time and actual losses may be materially different from estimated amounts.

AT&T Corp. (SBC Communications) Claim

On November 17, 2004, AT&T’s local exchange carrier affiliates commenced an action against certain U.S. subsidiaries of GCL and other defendants in the U.S. District Court for the Eastern District of Missouri. The complaint and amended complaint alleged that the Company, through certain unnamed intermediaries characterized by Plaintiffs as “least cost routers,” terminated long distance traffic to avoid the payment of interstate and intrastate access charges. Plaintiffs alleged damages in the amount of approximately \$20 for the time period from February 2002 through August 2004.

On January 5, 2011, the parties executed a Settlement and Release Agreement settling this and other claims between the parties on terms that are not material to the Company.

A claim was filed against GCL and certain of its subsidiaries in the Company's bankruptcy proceedings by the U.S. Department of Commerce (the "Commerce Department") on October 30, 2002 asserting that an undersea cable owned by Pacific Crossing Ltd., a former subsidiary of the Company ("PCL"), violates the terms of a Special Use permit issued by the National Oceanic and Atmospheric Administration ("NOAA"). The Company believes responsibility for the asserted claim rests entirely with the Company's former subsidiary. In 2009, NOAA agreed with the Global Crossing Creditors' Committee to accept an allowed unsecured claim of \$2 in the Global Crossing bankruptcy. The claim was paid by the Creditors' Committee in 2009 and the claim has been expunged.

Qwest Rights-of-Way Litigation

A large portion of the Company's North American network comprises indefeasible rights of use purchased from Qwest Communications Corporation on a fiber-optic communication system constructed by Qwest within rights-of-way granted to certain railroads by various landowners. In May 2001, a purported class action was commenced on behalf of such landowners in the U.S. District Court for the Southern District of Illinois against Qwest and three of the Company's subsidiaries, among other defendants. The complaint alleges that the railroads had only limited rights-of-way granted to them that did not include permission to install fiber-optic cable for use by Qwest or any other entities. The action seeks actual damages in an unstated amount and alleges that the wrongs done by the Company involve fraud, malice, intentional wrongdoing, willful or wanton conduct and/or reckless disregard for the rights of the plaintiff landowners. As a result, plaintiffs also request an award of punitive damages. The Company made a demand of Qwest to defend and indemnify the Company in the lawsuit. In response, Qwest has appointed defense counsel to protect the Company's interests.

The plaintiffs' claims against the Company relating to periods of time prior to the Company's January 28, 2002 bankruptcy filing were discharged in accordance with the Company's Plan of Reorganization. By agreement between the parties, the Plan of Reorganization preserved plaintiffs' rights to pursue any post-confirmation claims of trespass or ejectment. If the plaintiffs were to prevail, the Company could lose its ability to operate large portions of its North American network. However, the Company believes that it would be entitled to indemnification from Qwest for any losses under the terms of the IRU agreement under which the Company originally purchased this capacity, and Qwest has reaffirmed this indemnification obligation.

Multiple attempts have been made to settle the above class action lawsuit and many similar class action lawsuits that have been pending against Qwest in other courts regarding the rights of way issue. In 2002, a proposed settlement was submitted to the U.S. District Court for the Northern District of Illinois and was preliminarily approved by the District Court, but rejected by the Court of Appeals for the Seventh Circuit in 2004. During 2008, the parties to the various class actions reached preliminary agreement to settle all of the pending cases and the parties submitted to the U.S. District Court for Massachusetts a motion for class certification and for approval of the proposed settlement. The District Court granted preliminary approval of the settlement and a number of objections to the settlement were filed. In a memorandum and order dated September 10, 2009, the District Court concluded that it did not have subject matter jurisdiction over the claims, denied final approval of the settlement and dismissed the case in its entirety. A number of the plaintiff groups then requested the Court to modify its decision. In a revised memorandum and order dated December 9, 2009, the Court reiterated its holding that the Court lacked subject matter jurisdiction over the claims and dismissed the case. Although the Company is not currently a defendant in any pending class action lawsuits involving the Qwest network, if the plaintiffs in such lawsuits were to prevail, Qwest could be forced to breach its contractual obligations to provide the Company with the aforementioned indefeasible rights of use.

Peruvian Tax Audit

Beginning in 2005, one of the Company's Peruvian subsidiaries received a number of assessments for tax, penalty and interest based upon a tax examination conducted during 2004 by the Peruvian tax authorities

(SUNAT) for calendar years 2001 and 2002. The SUNAT examiner took the position that the Company incorrectly documented its importations and incorrectly deducted its foreign exchange losses against its foreign exchange gains on loan balances. The total amount of the asserted claims, including potential interest and penalties, was \$27, consisting of \$3 for income tax withholding in connection with the import of services for calendar years 2001 and 2002, \$7 in connection with value-added taxes (VAT) in connection with the import of services for calendar years 2001 and 2002, \$16 in connection with the disallowance of VAT credits for periods beginning in 2005 and \$1 for income tax in connection with foreign exchange deductions claimed during calendar year 2002. Due to accrued interest and foreign exchange effects, the total assessments have effectively increased to \$69.

The Company challenged the tax assessments during 2005 by filing administrative claims before SUNAT. During August 2006 and June 2007 SUNAT rejected the Company's administrative claims, thereby confirming the assessments. Appeals were filed in September 2006 and July 2007 in the Tax Court, which is the highest administrative authority. The Tax Court is currently reviewing the September 2006 appeal. At this time the Company cannot estimate the loss or range of loss that could reasonably be expected to result from this matter.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against subsidiaries within the GC Impsat Segment for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys fees and statutorily mandated inflation adjustments) as a result of their separation from the Company or termination of service relationships. The asserted claims aggregate approximately \$50.

The Company has asserted defenses to these claims in the court proceedings denying liability and estimates that the range of loss that could reasonably be expected to result from these claims is between \$9 and \$17.

Brazilian Tax Claims

In November 2002 and in October 2004, the Brazilian tax authorities of the States of Parana and São Paulo, respectively, issued two tax infraction notices against Impsat's Brazilian subsidiary for the collection of the Import Duty and the Tax on Manufactured Products, plus fines and interest that amount to approximately \$10. The notices informed Impsat Brazil that the taxes were levied because a specific document (Declaração de Necessidade—"Statement of Necessity") was not provided by Impsat Brazil at the time of importation, in breach of MERCOSUR rules. Objections were filed on behalf of Impsat Brazil arguing that the Argentine exporter (Corning Cable Systems Argentina S.A.) complied with the MERCOSUR rules. In the case of the São Paulo infraction notice, a favorable first instance decision was granted. However, due to the amount involved, the case was remitted to official compulsory review by the Federal Taxpayers Council. In the case of the Parana infraction notice, an unfavorable administrative decision was issued, and the Company will appeal such decision in court.

In December 2004, March 2009 and April 2009, the São Paulo tax authorities issued tax assessments against Impsat Brazil for the collection of Tax on Distribution of Goods and Services ("ICMS") supposedly due on the lease of movable properties (in the case of the December 2004 and March 2009 assessments) and the sale of internet access services (in the case of the April 2009 assessment) by treating such activities as the provision of communications services, for which ICMS tax actually applies. Including penalties and interest, these assessments amount to approximately \$36. Impsat Brazil filed objections to these assessments, arguing that the lease of assets and the provision of internet access are not communication services subject to ICMS. The objection to the December 2004 assessment was rejected in the State Administrative Court, and the Company will appeal such decision. The objections to the March and April 2009 assessments are still pending final administrative decisions.

The Company believes there are reasonable grounds to have all of the Brazilian tax assessments cancelled and estimates that the range of loss that could reasonably be expected to result from these assessments is between nil and \$9.

Paraguayan Government Contract Claim

In 2005 and 2003, respectively, the National Telecommunications Commission of Paraguay (“CONATEL”) commenced separate administrative investigations against a joint venture (“JV 1”) between GC Impsat’s Argentine subsidiary and Electro Import S.A. and another joint venture (“JV 2”) between GC Impsat’s Argentine subsidiary and Loma Plata S.A. Both administrative investigations involve alleged breaches by the joint ventures of their obligations under government contracts relating to the installation and operation of public telephones and/or phone booths in Paraguay and under the regulatory licenses under which they operate. JV 1 and JV 2 have asserted various defenses in pending administrative proceedings relating to these matters. The Company estimates that \$9 is the maximum loss that the Company could reasonably be expected to incur as a result of these matters.

Customer Bankruptcy Claim

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

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

The Court dismissed the customer’s bankruptcy case by order dated November 25, 2009, retained the adversary proceeding (including the customer’s counterclaim), which is still pending. On December 26, 2009, the Company terminated service to the customer. The Company amended its complaint to include allegations relating to the manipulation of traffic data, so called “ANI stripping,” and the customer filed an amended answer, affirmative defenses and counterclaims. The Court established January 15, 2011 as the cut-off date for all discovery, except for a few depositions that are being completed.

On January 14, 2011, the Company filed a motion for summary judgment asserting that the customer is not entitled to recover any damages (other than those based on rescission-type theories) because it is precluded by the limitation of liability provisions in the contract and applicable law. Briefing on this motion is continuing and a hearing is scheduled for March 17, 2011. The lower end of the customer’s most recent damage estimate is approximately \$150, and it has alleged damages substantially in excess of that amount. While the final outcome

of this matter is uncertain, the Company believes it has good defenses to limit substantially the amount of damages recoverable by the customer, including defenses based upon the limitation of liability provisions in the contract.

Brazilian Municipal Telecommunications Services Fees

In April and May 2010, the Company's Brazilian subsidiaries received collection notifications from the municipality of Rio de Janeiro regarding fees in the amount of approximately \$80 for the use of public space (including both air space and underground space) relating to ducts containing telecommunications cables. The Company is challenging the fees on multiple grounds, including the lack of objective criteria for the calculation of the fees, the existence of prior court injunctions barring collection of the fees and the unconstitutionality of the assessment. On August 26, 2010, a justice of the Brazilian Supreme Court ruled unconstitutional a decree of the municipality that purported to tax the use of public air space and subsoil for the installation and passage of equipment utilized to provide telecommunication services. An appeal has been filed requesting a review by the full Brazilian Supreme Court. Separately, the Company requested the municipality to suspend collection of the fees until final resolution of the asserted objections. This request was granted as to one of the Company's Brazilian subsidiaries that had been assessed a fee of \$70, and the Company expects the request to be granted as to the other Brazilian subsidiary that had been assessed the remaining \$10 fee. Based on subsequent developments and analyses conducted after receipt of the collection notices, the Company does not at this time believe that this matter can reasonably be expected to result in a material loss.

Commitments

Cost of Access, Third Party Maintenance and Other Purchase Commitment Obligations

The Company has purchase commitments with third-party access vendors that require it to make payments to purchase network services, capacity and telecommunications equipment through 2015. Some of these access vendor commitments require the Company to maintain minimum monthly and/or annual billings, in certain cases based on usage. In addition, the Company has purchase commitments with third parties that require it to make payments for maintenance services for certain portions of its network through 2026. Further, the Company has purchase commitments with other vendors.

The following table summarizes the Company's purchase commitments at December 31, 2010:

	Total	Less than 1 year (2011)	1-3 years (2012-2013)	3-5 years (2014-2015)	More than 5 years
Cost of access services	\$ 230	\$ 119	\$ 92	\$ 19	\$ —
Third-party maintenance services	309	66	76	34	133
Purchase and other obligations	242	150	38	26	28
Total	\$ 781	\$ 335	\$ 206	\$ 79	\$ 161

As of December 31, 2010, none of the Company's total purchase commitments were commitments of the GCL parent company. From time to time in the ordinary course of business, GCL will provide commercial guarantees in favor of third parties in support of its subsidiaries' purchase commitments and payment obligations.

Operating leases—The Company as Lessee and Lessor

The Company has commitments under various non-cancelable operating leases for office and equipment space, automobiles, equipment rentals, network capacity contracts and other leases. Additionally, the Company has various sublet arrangements with third parties. Estimated future minimum lease payments on operating leases and future minimum sublease receipts, excluding obligations and receipts, respectively, related to restructured properties (see Note 3), are approximately as follows:

	Future Minimum Lease Payments	Future Minimum Sublease Receipts
Year Ending December 31,		
2011	\$ 103	\$ 4
2012	88	4
2013	83	3
2014	78	2
2015	71	2
Thereafter	360	6
Total	<u>\$ 783</u>	<u>\$ 21</u>

Rental expense related to office and equipment space, automobiles, equipment rentals and other leases for the years ended December 31, 2010, 2009 and 2008 was \$133, \$127 and \$133, respectively. Sublease income for the years ended December 31, 2010, 2009 and 2008 was \$5, \$8 and \$7, respectively.

20. RELATED PARTY TRANSACTIONS

Commercial and other relationships between the Company and ST Telemedia

During the years ended December 31, 2010, 2009 and 2008 the Company provided approximately \$1, nil, and nil, respectively, of telecommunications services to subsidiaries and affiliates of the Company's indirect majority shareholder and parent company, ST Telemedia. Also, during the years ended December 31, 2010, 2009 and 2008 the Company received approximately \$7, \$5, and \$6 of co-location services from subsidiaries and affiliates of ST Telemedia. The Company purchased capital equipment of \$1, \$1 and nil from subsidiaries and affiliates of ST Telemedia during the years ended December 31, 2010, 2009, and 2008, respectively. Additionally, during the years ended December 31, 2010, 2009 and 2008, the Company accrued dividends of \$4, \$4 and \$4, respectively, related to preferred stock held by affiliates of ST Telemedia.

As of December 31, 2010 and 2009, the Company had approximately \$27 and \$24, respectively, due to ST Telemedia and its subsidiaries and affiliates, and nil and nil due from ST Telemedia and its subsidiaries and affiliates. The amounts due to ST Telemedia and its subsidiaries and affiliates at December 31, 2010 and 2009 primarily relate to dividends accrued on the GCL Preferred Stock, and are included in "other current liabilities" at December 31, 2010 and in "other deferred liabilities" at December 31, 2009 in the accompanying consolidated balance sheets.

21. SEGMENT REPORTING

Operating segments are defined in ASC Topic 280 as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision makers ("CODMs") in deciding how to assess performance and allocate resources. The Company's CODMs assess performance and allocate resources based on three separate operating segments which management operates and manages as strategic business units: (i) the GCUK Segment; (ii) the GC Impsat Segment; and (iii) the ROW Segment.

The GCUK Segment is a provider of managed network communications services providing a wide range of telecommunications services, including data, IP and voice services to government and other public sector organizations, major corporations and other communications companies in the U.K. The GC Impsat Segment is a provider of telecommunication services including IP, voice, data center and information technology services to corporate and government clients in Latin America. The ROW Segment represents all the operations of Global Crossing Limited and its subsidiaries excluding the GCUK and GC Impsat Segments and comprises operations primarily in North America, with smaller operations in Europe, Latin America, and a portion of the Asia/Pacific region. This segment also includes our subsea fiber optic network, serving many of the world's largest corporations and many other telecommunications carriers with a full range of managed telecommunication services including data, IP and voice products. The services provided by all the Company's segments support a migration path to a fully converged IP environment.

The CODMs measure and evaluate the Company's reportable segments based on operating income (loss) before depreciation and amortization ("OIBDA"). OIBDA, as defined by the Company, is operating income (loss) before depreciation and amortization. OIBDA differs from operating income (loss), as calculated in accordance with U.S. GAAP and reflected in the Company's consolidated financial statements, in that it excludes depreciation and amortization. Such excluded expenses primarily reflect the non-cash impacts of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods. In addition, OIBDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for reinvestment, distributions or other discretionary uses.

OIBDA is an important part of the Company's internal reporting and planning processes and a key measure to evaluate profitability and operating performance, make comparisons between periods, and to make resource allocation decisions.

There are material limitations to using non-U.S. GAAP financial measures. The Company's calculation of OIBDA may differ from similarly titled measures used by other companies, and may not be comparable to those other measures. Additionally, OIBDA does not include certain significant items such as depreciation and amortization, interest income, interest expense, income taxes, other non-operating income or expense items, preferred stock dividends, and gains and losses on pre-confirmation contingencies. OIBDA should be considered in addition to, and not as a substitute for, other measures of financial performance reported in accordance with U.S. GAAP.

The Company believes that OIBDA is a relevant indicator of operating performance, especially in a capital-intensive industry such as telecommunications. OIBDA provides the Company with an indication of the underlying performance of its everyday business operations. It excludes the effect of items associated with the Company's capitalization and tax structures, such as interest income, interest expense and income taxes, and of other items not associated with the Company's everyday operations.

Segment Information

The following tables provide operating financial information for the Company's three reportable segments and a reconciliation of segment results to consolidated results.

	Year Ended December 31,		
	2010	2009	2008
Revenues from external customers			
GCUK	\$ 477	\$ 470	\$ 599
GC Impsat	560	495	475
ROW	1,572	1,571	1,525
Total consolidated	<u>\$ 2,609</u>	<u>\$ 2,536</u>	<u>\$ 2,599</u>
Intersegment revenues			
GC Impsat	\$ 9	\$ 9	\$ 7
ROW	21	15	11
Total	<u>\$ 30</u>	<u>\$ 24</u>	<u>\$ 18</u>
Total segment operating revenues			
GCUK	\$ 477	\$ 470	\$ 599
GC Impsat	569	504	482
ROW	1,593	1,586	1,536
Less: intersegment revenues	(30)	(24)	(18)
Total consolidated	<u>\$ 2,609</u>	<u>\$ 2,536</u>	<u>\$ 2,599</u>

	Year Ended December 31,		
	2010	2009	2008
OIBDA			
GCUK	\$ 100	\$ 93	\$ 134
GC Impsat	176	160	138
ROW	124	89	1
Total consolidated	<u>\$ 400</u>	<u>\$ 342</u>	<u>\$ 273</u>

A reconciliation of OIBDA to Income (Loss) Applicable to Common Shareholders follows:

	Year Ended December 31, 2010				
	GCUK	GC Impsat	ROW	Eliminations	Total Consolidated
OIBDA	\$ 100	\$ 176	\$ 124	\$ —	\$ 400
Depreciation and amortization	(64)	(82)	(191)	—	(337)
Operating income (loss)	36	94	(67)	—	63
Interest income	7	2	20	(27)	2
Interest expense	(56)	(22)	(140)	27	(191)
Other expense, net	(9)	(26)	(16)	—	(51)
Benefit for income taxes	—	5	—	—	5
Preferred stock dividends	—	—	(4)	—	(4)
Income (loss) applicable to common shareholders	<u>\$ (22)</u>	<u>\$ 53</u>	<u>\$ (207)</u>	<u>\$ —</u>	<u>\$ (176)</u>

	Year Ended December 31, 2009				
	GCUK	GC Impsat	ROW	Eliminations	Total Consolidated
OIBDA	\$ 93	\$ 160	\$ 89	\$ —	\$ 342
Depreciation and amortization	(66)	(87)	(187)	—	(340)
Operating income (loss)	27	73	(98)	—	2
Interest income	8	6	9	(16)	7
Interest expense	(53)	(33)	(90)	16	(160)
Other income (expense), net	18	—	(7)	—	11
Benefit (provision) for income taxes	(1)	2	(2)	—	(1)
Preferred stock dividends	—	—	(4)	—	(4)
Income (loss) applicable to common shareholders	<u>\$ (1)</u>	<u>\$ 48</u>	<u>\$ (192)</u>	<u>\$ —</u>	<u>\$ (145)</u>

	Year Ended December 31, 2008				
	GCUK	GC Impsat	ROW	Eliminations	Total Consolidated
OIBDA	\$ 134	\$ 138	\$ 1	\$ —	\$ 273
Depreciation and amortization	(84)	(81)	(161)	—	(326)
Operating income (loss)	50	57	(160)	—	(53)
Interest income	8	3	6	(7)	10
Interest expense	(65)	(35)	(83)	7	(176)
Other income (expense), net	(57)	(20)	51	—	(26)
Net gain on pre-confirmation contingencies	—	4	6	—	10
Provision for income taxes	(1)	(17)	(31)	—	(49)
Preferred stock dividends	—	—	(4)	—	(4)
Loss applicable to common shareholders	<u>\$ (65)</u>	<u>\$ (8)</u>	<u>\$ (215)</u>	<u>\$ —</u>	<u>\$ (288)</u>

	December 31,		
	2010	2009	2008
Total Assets			
GCUK	\$ 564	\$ 601	\$ 656
GC Impsat	845	807	693
ROW	<u>1,430</u>	<u>1,654</u>	<u>1,369</u>
Total segments	2,839	3,062	2,718
Less: Intercompany loans and accounts receivable	<u>(529)</u>	<u>(574)</u>	<u>(369)</u>
Total consolidated assets	<u>\$ 2,310</u>	<u>\$ 2,488</u>	<u>\$ 2,349</u>

	December 31,		
	2010	2009	2008
Purchases of Property and Equipment			
GCUK	\$ 23	\$ 19	\$ 42
GC Impsat	60	68	56
ROW	<u>84</u>	<u>87</u>	<u>94</u>
Total consolidated capital expenditures	<u>\$ 167</u>	<u>\$ 174</u>	<u>\$ 192</u>

	December 31,	
	2010	2009
Unrestricted Cash		
GCUK	\$ 76	\$ 60
GC Impsat	170	154
ROW	126	263
Total consolidated unrestricted cash	<u>\$ 372</u>	<u>\$ 477</u>
	December 31,	
	2010	2009
Restricted Cash		
ROW	\$ 9	\$ 16
Total consolidated restricted cash	<u>\$ 9</u>	<u>\$ 16</u>

Eliminations include intersegment eliminations and other reconciling items.

The Company accounts for intersegment sales of products and services and asset transfers at current market prices.

Geographic Information

Company information provided on geographic sales is based on the order location of the customer. Long-lived assets are based on the physical location of the assets. The following table presents revenue and long-lived asset information for geographic areas:

	Year Ended December 31,		
	2010	2009	2008
Revenue (1) :			
United States	\$ 1,337	\$ 1,328	\$ 1,305
United Kingdom	597	588	714
Other countries	675	620	580
Consolidated worldwide	<u>\$ 2,609</u>	<u>\$ 2,536</u>	<u>\$ 2,599</u>
	Year ended December 31,		
	2010	2009	2008
Revenue:			
Data Services	\$ 1,642	\$ 1,547	\$ 1,548
Voice Services	795	826	893
Collaboration Services	172	163	158
Consolidated worldwide	<u>\$ 2,609</u>	<u>\$ 2,536</u>	<u>\$ 2,599</u>

	December 31,	
	2010	2009
Long-lived assets (2) :		
United States	\$ 325	\$ 347
United Kingdom	241	281
International waters	140	161
Other countries	473	491
Other	227	198
Consolidated worldwide	<u>\$ 1,406</u>	<u>\$ 1,478</u>

- (1) There were no individual customers for the years ended December 31, 2010, 2009 and 2008 that accounted for more than 10% of consolidated revenue.
- (2) Long-lived assets include property and equipment and intangible assets.

22. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	2010	2009	2008
SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING ACTIVITIES:			
Fair value of assets acquired	\$ 42	\$ —	\$ —
Less liabilities assumed	34	—	—
Net assets acquired	8	—	—
Less cash acquired	(1)	—	—
Business acquisition, net of cash acquired	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ —</u>
SUPPLEMENTAL INFORMATION ON NON-CASH FINANCING ACTIVITIES:			
Capital lease and debt obligations incurred	<u>\$ 56</u>	<u>\$ 59</u>	<u>\$ 48</u>

	Year Ended December 31,		
	2010	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest and income taxes:			
Cash paid for interest	<u>\$ 157</u>	<u>\$ 117</u>	<u>\$ 138</u>
Cash paid for income taxes	<u>\$ 17</u>	<u>\$ 16</u>	<u>\$ 13</u>

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present the unaudited quarterly results for the years ended December 31, 2010 and 2009.

	2010 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 648	\$ 630	\$ 648	\$ 683
Cost of access	(305)	(276)	(289)	(289)
Real estate, network and operations	(99)	(103)	(101)	(105)
Third party maintenance	(27)	(26)	(25)	(26)
Cost of equipment and other sales	(24)	(26)	(25)	(32)
Total cost of revenue	(455)	(431)	(440)	(452)
Selling, general and administrative	(116)	(106)	(99)	(110)
Depreciation and amortization	(88)	(82)	(82)	(85)
Operating income (loss)	(11)	11	27	36
Net loss (1) (2)	(119)	(47)	(6)	—
Loss applicable to common shareholders	(120)	(48)	(7)	(1)
Loss per share:				
Loss applicable to common shareholders per common share, basic and diluted	\$ (1.99)	\$ (0.79)	\$ (0.12)	\$ (0.02)
Shares used in computing basic and diluted loss per share	60,267,487	60,434,227	60,477,559	60,493,579
	2009 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 609	\$ 633	\$ 643	\$ 651
Cost of access	(286)	(285)	(288)	(300)
Real estate, network and operations	(97)	(98)	(106)	(105)
Third party maintenance	(24)	(27)	(26)	(26)
Cost of equipment and other sales	(23)	(22)	(23)	(30)
Total cost of revenue	(430)	(432)	(443)	(461)
Selling, general and administrative	(104)	(108)	(109)	(107)
Depreciation and amortization	(79)	(82)	(89)	(90)
Operating income (loss)	(4)	11	2	(7)
Net income (loss) (3) (4)	(58)	27	(73)	(37)
Income (loss) applicable to common shareholders	(59)	26	(74)	(38)
Income (loss) per share:				
Income (loss) applicable to common shareholders per common share, basic	\$ (1.04)	\$ 0.43	\$ (1.23)	\$ (0.63)
Shares used in computing basic income (loss) per share	56,923,415	59,904,503	60,135,114	60,153,853
Income (loss) applicable to common shareholders per common share, diluted (5)	\$ (1.04)	\$ 0.34	\$ (1.23)	\$ (0.63)
Shares used in computing diluted income (loss) per share	56,923,415	78,540,571	60,135,114	60,153,853

- (1) During the fourth quarter of 2010, the Company recorded a charge of \$6 in other income (expense), net in connection with the early extinguishment of the 5% Convertible Notes.

- (2) During the fourth quarter of 2010, the Company recorded a \$34 reduction in its valuation allowance against deferred tax assets which was recorded in provision for income taxes.
- (3) During the third quarter of 2009, the Company recorded a charge of \$29 in other income (expense), net in connection with the early extinguishment of the GC Impsat Notes and Term Loan Agreement.
- (4) During the fourth quarter of 2009, the Company recorded a \$20 reduction in its valuation allowance against Brazilian deferred tax assets which was recorded in provision for income taxes.
- (5) Preferred stock dividends included in the dilutive calculation were \$1 for the three months ended June 30, 2009.

The sum of the quarterly net loss per share amounts may not equal the full-year amount since the computations of the weighted average number of shares outstanding for each quarter and the full year are made independently.

24. GUARANTEES OF PARENT COMPANY DEBT

On September 22, 2009, GCL issued \$750 in aggregate principal amount of 12% Senior Secured Notes due September 15, 2015 (the “Original 12% Senior Secured Notes”). The Original 12% Senior Secured Notes were guaranteed by a majority of the Company’s direct and indirect subsidiaries (the “Guarantors”), and were not registered under the Securities Act. As required under a registration rights agreement, the Company registered an identical series of notes (the “12% Senior Secured Exchange Notes”) under the Securities Act with the SEC and offered to exchange those 12% Senior Secured Exchange Notes for the Original 12% Senior Secured Notes. All \$750 aggregate outstanding principal amount of Original 12% Senior Secured Notes were exchanged for 12% Senior Secured Exchange Notes in the exchange offer. The 12% Senior Secured Exchange Notes are also guaranteed by the Guarantors. In connection with the registration of the 12% Senior Secured Exchange Notes and related guarantees, GCL is required to provide the financial information in respect of those notes set forth under Rule 3-10 of Regulation S-X, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered” (“Rule 3-10”).

On November 16, 2010, GCL issued \$150 in aggregate principal amount of the 9% Senior Notes due November 15, 2019 (the “Original 9% Senior Notes”). The Original 9% Senior Notes which are not registered under the Securities Act are guaranteed by the same group of direct and indirect subsidiaries of the Company that guarantee the 12% Senior Secured Exchange Notes. Pursuant to a registration rights agreement to which the Company is a party, the Company is required to register an identical series of notes (the “9% Senior Exchange Notes”) with the SEC and to offer to exchange those registered 9% Senior Exchange Notes for the Original 9% Senior Notes. The 9% Senior Exchange Notes will also be guaranteed by the Guarantors. In connection with the registration of the 9% Senior Exchange Notes and related guarantees, GCL will be required to provide the financial information in respect of those notes set forth under Rule 3-10.

The condensed consolidating financial information below in respect of the obligors on the 12% Senior Secured Exchange Notes has been prepared and presented pursuant to Rule 3-10. Although Rule 3-10 will not apply to the Original 9% Senior Notes until the exchange offer is completed, the below financial information is equally applicable to the obligors on the Original 9% Senior Notes since the obligors on the Original 9% Senior Notes and the 12% Senior Secured Exchange Notes are identical. The column labeled Parent Company represents GCL’s stand alone results and its investment in all of its subsidiaries accounted for using the equity method. The Guarantors and the non-Guarantor subsidiaries are presented in separate columns and represent all the applicable subsidiaries on a combined basis. Intercompany eliminations are shown in a separate column.

Condensed Consolidated Balance Sheet

	December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 2	\$ 261	\$ 109	\$ —	\$ 372
Restricted cash and cash equivalents—current portion	—	4	—	—	4
Accounts receivable, net of allowances	—	243	81	—	324
Accounts and loans receivable from affiliates	325	184	233	(742)	—
Prepaid costs and other current assets	—	51	41	(1)	91
Total current assets	327	743	464	(743)	791
Restricted cash and cash equivalents—long term	—	5	—	—	5
Property and equipment, net of accumulated depreciation	—	834	345	—	1,179
Intangible assets, net	—	178	49	—	227
Investments in subsidiaries	(494)	(180)	—	674	—
Loans receivable from affiliates	653	107	54	(814)	—
Other assets	29	55	24	—	108
Total assets	\$ 515	\$ 1,742	\$ 936	\$ (883)	\$ 2,310
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 1	\$ 205	\$ 91	\$ —	\$ 297
Accrued cost of access	—	66	12	—	78
Accounts and loans payable to affiliates	27	537	178	(742)	—
Short term debt and current portion of long term debt	—	9	18	—	27
Obligations under capital leases—current portion	—	36	15	—	51
Deferred revenue—current portion	—	123	61	—	184
Other current liabilities	68	176	132	—	376
Total current liabilities	96	1,152	507	(742)	1,013
Loans payable to affiliates	9	707	98	(814)	—
Long term debt	887	9	415	—	1,311
Obligations under capital leases	—	53	19	—	72
Deferred revenue	—	272	67	(1)	338
Other deferred liabilities	—	43	10	—	53
Total liabilities	992	2,236	1,116	(1,557)	2,787
SHAREHOLDERS' DEFICIT:					
Total shareholders' deficit	(477)	(494)	(180)	674	(477)
Total liabilities and shareholders' deficit	\$ 515	\$ 1,742	\$ 936	\$ (883)	\$ 2,310

Condensed Consolidated Balance Sheet

	December 31, 2009				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 95	\$ 293	\$ 89	\$ —	\$ 477
Restricted cash and cash equivalents—current portion	—	9	—	—	9
Accounts receivable, net of allowances	—	241	87	—	328
Accounts and loans receivable from affiliates	316	77	242	(635)	—
Prepaid costs and other current assets	1	54	46	—	101
Total current assets	412	674	464	(635)	915
Restricted cash and cash equivalents—long term	—	7	—	—	7
Property and equipment, net of accumulated depreciation	2	891	387	—	1,280
Intangible assets, net	—	145	53	—	198
Investments in subsidiaries	(511)	(190)	—	701	—
Loans receivable from affiliates	678	94	80	(852)	—
Other assets	27	45	16	—	88
Total assets	\$ 608	\$ 1,666	\$ 1,000	\$ (786)	\$ 2,488
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 4	\$ 211	\$ 97	\$ —	\$ 312
Accrued cost of access	—	74	13	—	87
Accounts and loans payable to affiliates	30	450	155	(635)	—
Short term debt and current portion of long term debt	—	3	34	—	37
Obligations under capital leases—current portion	—	36	13	—	49
Deferred revenue—current portion	—	113	61	—	174
Other current liabilities	39	197	148	—	384
Total current liabilities	73	1,084	521	(635)	1,043
Loans payable to affiliates	8	713	131	(852)	—
Long term debt	865	7	423	—	1,295
Obligations under capital leases	—	66	24	—	90
Deferred revenue	—	262	72	—	334
Other deferred liabilities	22	45	19	—	86
Total liabilities	968	2,177	1,190	(1,487)	2,848
SHAREHOLDERS' DEFICIT:					
Total shareholders' deficit	(360)	(511)	(190)	701	(360)
Total liabilities and shareholders' deficit	\$ 608	\$ 1,666	\$ 1,000	\$ (786)	\$ 2,488

Condensed Consolidated Statement of Operations

	Year Ended December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ 1,927	\$ 682	\$ —	\$ 2,609
Revenue—affiliates	—	35	67	(102)	—
Total revenue	—	1,962	749	(102)	2,609
Cost of revenue	(12)	(1,317)	(449)	—	(1,778)
Cost of revenue—affiliates	—	(67)	(35)	102	—
Total cost of revenue	(12)	(1,384)	(484)	102	(1,778)
Gross margin	(12)	578	265	—	831
Selling, general and administrative	(16)	(318)	(97)	—	(431)
Depreciation and amortization	(2)	(235)	(100)	—	(337)
Operating income (loss)	(30)	25	68	—	63
Other income (expense):					
Interest income	—	1	1	—	2
Interest income—affiliates	—	6	7	(13)	—
Interest expense	(114)	(17)	(60)	—	(191)
Interest expense—affiliates	—	(7)	(6)	13	—
Other expense, net	(6)	(34)	(11)	—	(51)
Loss from equity investments in subsidiaries	(22)	(3)	—	25	—
Loss before benefit (provision) for income taxes	(172)	(29)	(1)	25	(177)
Benefit (provision) for income taxes	—	7	(2)	—	5
Net loss	(172)	(22)	(3)	25	(172)
Preferred stock dividends	(4)	—	—	—	(4)
Loss applicable to common shareholders	\$ (176)	\$ (22)	\$ (3)	\$ 25	\$ (176)

Condensed Consolidated Statement of Operations

	Year Ended December 31, 2009				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ 1,876	\$ 660	\$ —	\$ 2,536
Revenue—affiliates	—	28	46	(74)	—
Total revenue	—	1,904	706	(74)	2,536
Cost of revenue	(14)	(1,327)	(425)	—	(1,766)
Cost of revenue—affiliates	—	(46)	(28)	74	—
Total cost of revenue	(14)	(1,373)	(453)	74	(1,766)
Gross margin	(14)	531	253	—	770
Selling, general and administrative	(19)	(292)	(117)	—	(428)
Depreciation and amortization	(1)	(232)	(107)	—	(340)
Operating income (loss)	(34)	7	29	—	2
Other income (expense):					
Interest income	—	6	1	—	7
Interest income—affiliates	—	4	7	(11)	—
Interest expense	(64)	(38)	(58)	—	(160)
Interest expense—affiliates	—	(7)	(4)	11	—
Other income (expense), net	(13)	9	15	—	11
Intercompany debt forgiveness income (expense)	—	(32)	32	—	—
Income (loss) from equity investments in subsidiaries	(29)	17	—	12	—
Income (loss) before benefit (provision) for income taxes	(140)	(34)	22	12	(140)
Benefit (provision) for income taxes	(1)	5	(5)	—	(1)
Net income (loss)	(141)	(29)	17	12	(141)
Preferred stock dividends	(4)	—	—	—	(4)
Income (loss) applicable to common shareholders	\$ (145)	\$ (29)	\$ 17	\$ 12	\$ (145)

Condensed Consolidated Statement of Operations

	Year Ended December 31, 2008				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ 1,814	\$ 785	\$ —	\$ 2,599
Revenue—affiliates	—	20	101	(121)	—
Total revenue	—	1,834	886	(121)	2,599
Cost of revenue	(17)	(1,332)	(486)	—	(1,835)
Cost of revenue—affiliates	—	(101)	(20)	121	—
Total cost of revenue	(17)	(1,433)	(506)	121	(1,835)
Gross margin	(17)	401	380	—	764
Selling, general and administrative	(26)	(300)	(165)	—	(491)
Depreciation and amortization	(1)	(203)	(122)	—	(326)
Operating income (loss)	(44)	(102)	93	—	(53)
Other income (expense):					
Interest income	2	6	2	—	10
Interest income—affiliates	—	2	5	(7)	—
Interest expense	(54)	(48)	(74)	—	(176)
Interest expense—affiliates	—	(5)	(2)	7	—
Other income (expense), net	(2)	26	(50)	—	(26)
Intercompany debt forgiveness income (expense)	—	(8)	8	—	—
Loss from equity investments in subsidiaries	(186)	(27)	—	213	—
Loss before pre-confirmation contingencies and provision for income taxes	(284)	(156)	(18)	213	(245)
Net gain on pre-confirmation contingencies	—	10	—	—	10
Loss before provision for income taxes	(284)	(146)	(18)	213	(235)
Provision for income taxes	—	(40)	(9)	—	(49)
Net loss	(284)	(186)	(27)	213	(284)
Preferred stock dividends	(4)	—	—	—	(4)
Loss applicable to common shareholders	<u>\$ (288)</u>	<u>\$ (186)</u>	<u>\$ (27)</u>	<u>\$ 213</u>	<u>\$ (288)</u>

Condensed Consolidated Statement of Cash Flows

	Year Ended December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (118)	\$ 214	\$ 87	\$ —	\$ 183
Cash flows provided by (used in) investing activities:					
Purchases of property and equipment	—	(117)	(50)	—	(167)
Purchases of marketable securities	—	(10)	—	—	(10)
Genesis acquisition, net of cash acquired	—	(7)	—	—	(7)
Proceeds from sale of marketable securities	—	8	—	—	8
Loans made to affiliates	(1)	(20)	—	21	—
Loan repayments from affiliates	26	8	—	(34)	—
Change in restricted cash and cash equivalents	—	8	—	—	8
Net cash flows provided by (used) in investing activities	25	(130)	(50)	(13)	(168)
Cash flows provided by (used in) financing activities:					
Proceeds from short and long term debt	150	—	—	—	150
Repayment of capital lease obligations	—	(45)	(13)	—	(58)
Repayment of long term debt (including current portion)	(144)	(20)	(15)	—	(179)
Premium paid on extinguishment of debt	(1)	(1)	—	—	(2)
Finance costs incurred	(6)	—	—	—	(6)
Proceeds from exercise of stock options	1	—	—	—	1
Payment of employee taxes on share-based compensation	—	(1)	—	—	(1)
Proceeds from affiliate loans	—	1	20	(21)	—
Repayment of loans from affiliates	—	(26)	(8)	34	—
Net cash flows used in financing activities	—	(92)	(16)	13	(95)
Effect of exchange rate changes on cash and cash equivalents	—	(24)	(1)	—	(25)
Net increase (decrease) in cash and cash equivalents	(93)	(32)	20	—	(105)
Cash and cash equivalents, beginning of year	95	293	89	—	477
Cash and cash equivalents, end of year	\$ 2	\$ 261	\$ 109	\$ —	\$ 372

Condensed Consolidated Statement of Cash Flows

	Year Ended December 31, 2009				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (276)	\$ 453	\$ 79	\$ —	\$ 256
Cash flows provided by (used in) investing activities:					
Purchases of property and equipment	—	(137)	(37)	—	(174)
Proceeds from sale of marketable securities	4	—	—	—	4
Loans made to affiliates	—	(15)	—	15	—
Loan repayments from affiliates	—	16	—	(16)	—
Change in restricted cash and cash equivalents	—	2	—	—	2
Net cash flows provided by (used in) investing activities	4	(134)	(37)	(1)	(168)
Cash flows provided by (used in) financing activities:					
Proceeds from short and long term debt	735	2	4	—	741
Repayment of capital lease obligations	—	(57)	(18)	—	(75)
Repayment of long term debt (including current portion)	(344)	(235)	(18)	—	(597)
Premium paid on extinguishment of debt	(3)	(11)	—	—	(14)
Finance costs incurred	(23)	—	—	—	(23)
Proceeds from sales/leasebacks	—	—	7	—	7
Payment of employee taxes on share-based compensation	—	(11)	(2)	—	(13)
Proceeds from affiliate loans	—	—	15	(15)	—
Repayment of loans from affiliates	—	—	(16)	16	—
Net cash flows provide by (used) in financing activities	365	(312)	(28)	1	26
Effect of exchange rate changes on cash and cash equivalents	—	1	2	—	3
Net increase in cash and cash equivalents	93	8	16	—	117
Cash and cash equivalents, beginning of year	2	285	73	—	360
Cash and cash equivalents, end of year	\$ 95	\$ 293	\$ 89	\$ —	\$ 477

Condensed Consolidated Statement of Cash Flows

	Year Ended December 31, 2008				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (71)	\$ 95	\$ 179	\$ —	\$ 203
Cash flows provided by (used in) investing activities:					
Purchases of property and equipment	—	(125)	(67)	—	(192)
Purchases of marketable securities	—	(11)	—	—	(11)
Proceeds from sale of property and equipment	—	10	—	—	10
Proceeds from sale of marketable securities	8	8	—	—	16
Loans made to affiliates	(111)	(8)	—	119	—
Loan repayments from affiliates	42	13	—	(55)	—
Return of capital from subsidiary	—	41	—	(41)	—
Change in restricted cash and cash equivalents	—	32	(1)	—	31
Net cash flows used in investing activities	(61)	(40)	(68)	23	(146)
Cash flows provided by (used in) financing activities:					
Proceeds from short and long term debt	—	3	7	—	10
Repayment of capital lease obligations	—	(36)	(23)	—	(59)
Repayment of long term debt (including current portion)	(4)	(6)	(14)	—	(24)
Proceeds from exercise of stock options	1	—	—	—	1
Payment of employee taxes on share-based compensation	—	(3)	—	—	(3)
Capital repayment to parent	—	—	(41)	41	—
Proceeds from affiliate loans	8	111	—	(119)	—
Repayment of loans to affiliates	—	(42)	(13)	55	—
Net cash flows provide by (used) in financing activities	5	27	(84)	(23)	(75)
Effect of exchange rate changes on cash and cash equivalents	—	(7)	(12)	—	(19)
Net increase (decrease) in cash and cash equivalents	(127)	75	15	—	(37)
Cash and cash equivalents, beginning of year	129	210	58	—	397
Cash and cash equivalents, end of year	\$ 2	\$ 285	\$ 73	\$ —	\$ 360

25. SUBSEQUENT EVENTS

2011 Long-Term Incentive Program

In connection with the Company's annual long-term incentive program for 2011, on January 21, 2011, the Company awarded 626,200 restricted stock units and 626,200 performance share opportunities to certain employees which vest on January 21, 2014, subject to continued employment through the vesting date and subject to earlier pro-rata payout in the event of death or long-term disability. Each participant's target performance share opportunity is based on total shareholder return over a three year period as compared to two peer groups. Depending on how the Company ranks in total shareholder return as compared to the two peer groups, each performance share grantee may earn 0% to 200% of the target number of performance shares. No payout will be made if the average ranking of the Company's total shareholder return relative to each of the two peer groups (weighted equally) is below the 30th percentile, and the maximum payout of 200% will be made if such average ranking is at or above the 80th percentile. However, any payout exceeding 100% of the performance target award shall (other than in the context of a change in control) be paid at the sole discretion of the Board of Directors and, if paid, shall be in cash rather than shares.

2011 Special Reward Program

On January 21, 2011, the Board of Directors approved a grant of awards under a special rewards program intended to retain and motivate certain employees. The awards granted aggregated: (i) 271,693 restricted stock units which vest over a two or three year period from the grant date subject to continued employment through the vesting date and subject to earlier pro-rata payout in the event of death or long-term disability; and (ii) \$5 in cash incentive which vests over a one or two year period from the grant date.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS (in millions)

	<u>Column A</u>		<u>Column B</u>		<u>Column C</u>		<u>Column D</u>		<u>Column E</u>
	Balance at beginning of period								Balance at end of period
			<u>Additions</u>				<u>Deductions</u>		
			<u>Charged to costs and expenses</u>		<u>Charged to other accounts</u>				
2010									
Reserve for uncollectible accounts and sales credits	\$ 50	\$	14	\$	4	\$	(23)	\$	45
Deferred tax valuation allowance	2,294		—		—		(94)		2,200
2009									
Reserve for uncollectible accounts and sales credits	\$ 58	\$	26	\$	2	\$	(36)	\$	50
Deferred tax valuation allowance	2,294		—		—		—		2,294
2008									
Reserve for uncollectible accounts and sales credits	\$ 52	\$	27	\$	3	\$	(24)	\$	58
Deferred tax valuation allowance	2,663		—		—		(369)		2,294

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share information)

	<u>March 31, 2011</u> (unaudited)	<u>December 31, 2010</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 265	\$ 372
Restricted cash and cash equivalents - current portion	4	4
Accounts receivable, net of allowances of \$47 and \$45	356	324
Prepaid costs and other current assets	103	91
Total current assets	728	791
Restricted cash and cash equivalents - long term	5	5
Property and equipment, net of accumulated depreciation of \$1,613 and \$1,514	1,189	1,179
Intangible assets, net (including goodwill of \$211 and \$208)	229	227
Other assets	110	108
Total assets	<u>\$ 2,261</u>	<u>\$ 2,310</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 262	\$ 297
Accrued cost of access	91	78
Short term debt and current portion of long term debt	37	27
Obligations under capital leases - current portion	52	51
Deferred revenue - current portion	180	184
Other current liabilities	366	376
Total current liabilities	988	1,013
Long term debt	1,328	1,311
Obligations under capital leases	78	72
Deferred revenue	337	338
Other deferred liabilities	55	53
Total liabilities	2,786	2,787
SHAREHOLDERS' DEFICIT:		
Common stock, 110,000,000 shares authorized, \$.01 par value, 61,064,896 and 60,497,709 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	1	1
Preferred stock with controlling shareholder, 45,000,000 shares authorized, \$.10 par value, 18,000,000 shares issued and outstanding	2	2
Additional paid-in capital	1,444	1,443
Accumulated other comprehensive income (loss)	(1)	15
Accumulated deficit	(1,971)	(1,938)
Total shareholders' deficit	(525)	(477)
Total liabilities and shareholders' deficit	<u>\$ 2,261</u>	<u>\$ 2,310</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except share and per share information)
(unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenue	\$ 661	\$ 648
Cost of revenue (excluding depreciation and amortization, shown separately below):		
Cost of access	(298)	(305)
Real estate, network and operations	(108)	(99)
Third party maintenance	(24)	(27)
Cost of equipment and other sales	(26)	(24)
Total cost of revenue	(456)	(455)
Gross margin	205	193
Selling, general and administrative	(121)	(116)
Depreciation and amortization	(80)	(88)
Operating income (loss)	4	(11)
Other income (expense):		
Interest expense	(45)	(49)
Other income (expense), net	18	(52)
Loss before provision for income taxes	(23)	(112)
Provision for income taxes	(10)	(7)
Net loss	(33)	(119)
Preferred stock dividends	(1)	(1)
Loss applicable to common shareholders	\$ (34)	\$ (120)
Loss per common share, basic and diluted:		
Loss applicable to common shareholders	\$ (0.56)	\$ (1.99)
Weighted average number of common shares	60,755,348	60,267,487

The accompanying notes are an integral part of these condensed consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows provided by (used in) operating activities:		
Net loss	\$ (33)	\$ (119)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on sale of property and equipment	—	(1)
Deferred income tax	2	—
Non-cash stock compensation expense	4	5
Depreciation and amortization	80	88
Provision for doubtful accounts	1	2
Amortization of prior period IRUs	(7)	(6)
Change in long term deferred revenue	4	10
Other	(20)	62
Change in operating working capital:		
- Changes in accounts receivable	(28)	(47)
- Changes in accounts payable and accrued cost of access	(27)	(6)
- Changes in other current assets	(12)	(7)
- Changes in other current liabilities	(21)	(12)
Net cash used in operating activities	(57)	(31)
Cash flows provided by (used in) investing activities:		
Purchases of property and equipment	(36)	(41)
Change in restricted cash and cash equivalents	—	2
Net cash used in investing activities	(36)	(39)
Cash flows provided by (used in) financing activities:		
Repayment of capital lease obligations	(16)	(14)
Repayment of debt	(1)	(4)
Proceeds from sales-leasebacks	4	—
Proceeds from exercise of stock options	1	—
Payment of employee taxes on share-based compensation	(3)	(1)
Finance costs incurred	(1)	(1)
Net cash used in financing activities	(16)	(20)
Effect of exchange rate changes on cash and cash equivalents	2	(28)
Net decrease in cash and cash equivalents	(107)	(118)
Cash and cash equivalents, beginning of period	372	477
Cash and cash equivalents, end of period	<u>\$ 265</u>	<u>\$ 359</u>
Non-cash investing and financing activities:		
Capital lease and debt obligations incurred	<u>\$ 30</u>	<u>\$ 16</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except countries, cities, carriers, data centers, share and per share information)
(unaudited)

1. BACKGROUND AND ORGANIZATION

Global Crossing Limited or “GCL” is a holding company with all of its revenue generated by its subsidiaries and substantially all of its assets owned by its subsidiaries. GCL and its subsidiaries (collectively, the “Company”) are a global communications service provider. The Company offers a full range of data, voice and collaboration services and delivers service to approximately 40 percent of the companies in the Fortune 500, as well as 700 carriers, mobile operators and Internet service providers around the world. The Company delivers converged IP services to more than 700 cities in more than 70 countries, and has 17 data centers located in major business centers. The Company’s operations are based principally in North America, Europe, Latin America and a portion of the Asia/Pacific region. The vast majority of the Company’s revenue is generated from monthly services. The Company reports financial results based on three separate operating segments: (i) Global Crossing (U.K.) Telecommunications Ltd (“GCUK”) and its subsidiaries (collectively, the “GCUK Segment”); (ii) GC Impsat Holdings I Plc (“GC Impsat”) and its subsidiaries (collectively, the “GC Impsat Segment”); and (iii) GCL and its other subsidiaries (collectively, the “Rest of World Segment” or “ROW Segment”) (see Note 11, “Segment Reporting”).

See Note 14, “Subsequent Event”, for information related to the Agreement and Plan of Amalgamation with Level 3.

2. BASIS OF PRESENTATION

Basis of Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company’s 2010 annual report on Form 10-K as amended by the Company’s Form 10-K/A filed on February 28, 2011. These unaudited condensed consolidated financial statements include the accounts of the Company over which it exercises control. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results for the Company. The results of operations for any interim period are not necessarily indicative of results to be expected for the full year.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the unaudited condensed consolidated financial statements, the disclosure of contingent assets and liabilities in the unaudited condensed consolidated financial statements and the accompanying notes, and the reported amounts of revenue and expenses and cash flows during the periods presented. Actual amounts and results could differ from those estimates. The estimates the Company makes are based on historical factors, current circumstances and the experience and judgment of the Company’s management. The Company evaluates its assumptions and estimates on an ongoing basis and may employ third party experts to assist in the Company’s evaluations.

Venezuelan Currency Risk

In Venezuela, the official bolívars—U.S. Dollar exchange rate established by the Venezuelan Central Bank (“BCV”) and the Venezuelan Ministry of Finance has historically attributed to the bolívar a value significantly greater than the value that prevailed on the former unregulated parallel market. The official rate is the rate used by the Comisión de Administración de Divisas (“CADIVI”), an agency of the Venezuelan government, to exchange bolívars pursuant to an official process that requires application and government approval. The Company uses the official rate to record the assets, liabilities and transactions of its Venezuelan subsidiary. Effective January 12, 2010, the Venezuelan government devalued the Venezuelan bolívar. The official rate increased from 2.15 Venezuelan bolívars to the U.S. Dollar to 4.30 for goods and services deemed “non-essential” and 2.60 for goods and services deemed “essential”. This devaluation reduced the Company’s net monetary assets (including unrestricted cash and cash equivalents) by approximately \$27 based on the bolívars balances as of such date, resulting in a corresponding foreign exchange loss, included in other expense, net in the unaudited condensed Company’s consolidated statement of operations for the three months ended March 31, 2010. Effective January 1, 2011, the Venezuela government further increased the official rate for goods and services deemed “essential” to 4.30 Venezuelan bolívars to the U.S. Dollar. This change had no effect on the carrying value of the Company’s net monetary assets.

In an attempt to control inflation, on May 18, 2010, the Venezuelan government announced that the unregulated parallel currency exchange market would be shut down and that the BCV would be given control over the previously unregulated portions of the exchange market. In June 2010, a new regulated currency trading system controlled by the BCV, the Transaction System for Foreign Currency Denominated Securities (“SITME”) commenced operations and established an initial weighted average implicit exchange rate of approximately 5.30 bolivares to the U.S. Dollar. Subject to the limitations and restrictions imposed by the BCV, entities domiciled in Venezuela may access the SITME by buying U.S. Dollar denominated securities through banks authorized by the BCV. The purpose of the new regulated system is to supplement the CADIVI application and approval process with an additional process that allows for quicker and smaller exchanges.

As indicated above, the conversion of bolivares into foreign currencies is limited by the current exchange control regime. Accordingly, the acquisition of foreign currency by Venezuelan companies to honor foreign debt, pay dividends or otherwise expatriate capital is subject to either the limitations and restrictions of the SITME or the CADIVI registration, application and approval process, and is also subject to the availability of foreign currency within the guidelines set forth by the National Executive Power for the allocation of foreign currency. Approvals under the CADIVI process have been less forthcoming at times, resulting in a significant buildup of excess cash in the Company’s Venezuelan subsidiary and a significant increase in the Company’s exchange rate and exchange control risks.

At March 31, 2011, the Company had \$8 of obligations registered and subject to approval by CADIVI for the conversion of bolivares into foreign currencies. The Company cannot predict the timing and extent of any CADIVI approvals to honor foreign debt, distribute dividends or otherwise expatriate capital using the official Venezuelan exchange rate. Some approvals have been issued within a few months while others have taken more than one year. During the three months ended March 31 2011 and 2010, the Company received \$2 and nil, respectively, of approvals from CADIVI to convert bolivares to U.S. Dollars at both the essential and non-essential official rates. To date, the Company has not executed any exchanges through SITME. If the Company was to successfully avail itself of the SITME process to convert a portion of its Venezuelan subsidiary’s cash balances into U.S. Dollars, the Company would incur currency exchange losses in the period of conversion based on the difference between the official exchange rate and the SITME rate. Additionally, if the Company was to determine in the future that the SITME rate was the more appropriate rate to use to measure bolivar-based assets, liabilities and transactions, reported results would be further adversely affected.

As of March 31, 2011, the Company’s Venezuelan subsidiary had \$44 of cash and cash equivalents, of which \$4 was held in U.S. Dollars and \$40 (valued at the fixed official CADIVI rate of 4.30 Venezuelan bolivares to the U.S. Dollar at March 31, 2011 (the “CADIVI rate”)) was held in Venezuelan bolivares. For the three months ended March 31, 2011, the Company’s Venezuelan subsidiary contributed approximately \$14 of the Company’s consolidated revenue and \$8 of the Company’s consolidated OIBDA (see Note 11, “Segment Reporting”), in each case based on the CADIVI rate. These amounts do not include any allocated corporate overhead costs or transfer pricing adjustments. As of March 31, 2011, the Company’s Venezuelan subsidiary had \$42 of net monetary assets of which \$5 were denominated in U.S. Dollars and \$37 were denominated in Venezuelan bolivares at the CADIVI rate. As of March 31, 2011, the Company’s Venezuelan subsidiary had \$76 of net assets. In light of the Venezuelan exchange control regime, none of these net assets (other than the \$4 of cash denominated in U.S. Dollars and held outside of Venezuela) may be transferred to GCL in the form of loans, advances or cash dividends without the consent of a third party (i.e., CADIVI or SITME).

3. FINANCING ACTIVITIES

Financing Activities

During the three months ended March 31, 2011, the Company entered into various debt agreements to finance various equipment purchases and software licenses. The total debt obligation resulting from these agreements was \$17. These agreements have terms that range from 6 to 24 months with a weighted average effective interest rate of 9.9%. In addition, the Company entered into various capital leasing arrangements that aggregated \$20, including \$4 of proceeds from sales-leasebacks. These agreements have terms that range from 12 to 48 months with a weighted average effective interest rate of 8.9%.

GCUK Notes Tender Offer

As required by the indenture governing the senior secured notes due 2014 (the “GCUK Notes”), within 120 days after the end of each twelve month period ending December 31, GCUK must offer (the “Excess Cash Offer”) to purchase a portion of the GCUK Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date, using 50% of “Designated GCUK Cash Flow” from that period. “Designated GCUK Cash Flow” means GCUK’s consolidated net income plus non-cash charges minus capital expenditures, calculated in accordance with the terms of the indenture governing the GCUK Notes. With respect to the 2010 Excess Cash Offer, the Company made an offer in April 2011 of approximately \$17, exclusive of

accrued but unpaid interest. Such offer to purchase will expire on May 26, 2011 and the associated purchases are required to be completed within 150 days after December 31, 2010.

4. ACQUISITIONS

Genesis Networks Acquisition

On October 29, 2010, the Company acquired 100% of the capital stock of Genesis Networks, a privately held company providing high performance, rich media and video-based applications, serving many of the world's major broadcasters, producers and aggregators of specialized programming. The Company paid a purchase price for Genesis Networks of approximately \$8 and repaid a portion of the debt and other liabilities assumed as part of the acquisition for total consideration including direct costs of \$27.

The acquired network connects 70 cities on five continents and links important international media centers through 225 on-net points. The acquisition of Genesis Networks enables us to provide value-added solutions to address specialized video transmission requirements across multiple industries. The results of Genesis Networks' operations are included in the Company's consolidated financial statements commencing on October 29, 2010.

Genesis Networks contributed approximately \$7 of the Company's consolidated revenue and \$(2) of our consolidated net loss for the three months ended March 31, 2011.

Pro Forma Financial Information

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Genesis Networks had occurred at January 1, 2010:

	Three Months Ended March 31, 2010	
Revenue	\$	655
Net loss applicable to common shareholders (1)	\$	(127)
Net loss applicable to common shareholders per common share - basic and diluted	\$	(2.11)

(1) Net loss applicable to common shareholders was adjusted to include \$4 of acquisition-related costs in the three months ended March 31, 2010.

Included in the pro forma consolidated results of operations for the three months ended March 31, 2010 are the following significant items: (i) a \$6 property tax refund recorded in the U.K. which is included in real estate, network and operations in the accompanying condensed consolidated statements of operations; and (ii) a \$27 foreign exchange loss as a result of the devaluation of the Venezuelan bolivar which is included in other income (expense), net in the accompanying condensed consolidated statements of operations (see Note 2, "Basis of Presentation").

The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the Genesis Networks acquisition been completed as of the beginning of the period presented, nor should it be taken as indicative of the Company's future consolidated results of operations.

5. RESTRUCTURING ACTIVITIES

At March 31, 2011 and December 31, 2010, restructuring liabilities are included in other current liabilities and other deferred liabilities in the Company's condensed consolidated balance sheets. Below is a description of the Company's significant restructuring plans:

2007 Restructuring Plans

During 2007, the Company adopted a restructuring plan as a result of the Impsat Fiber Networks, Inc. ("Impsat") acquisition under which redundant Impsat employees were terminated. As a result, the Company incurred cash restructuring costs of approximately \$8 for severance and related benefits. The liabilities associated with this restructuring plan have been accounted for as part of the purchase price of Impsat. As of March 31, 2011 and December 31, 2010, the remaining liability of the 2007 restructuring plan including accrued interest was \$5 and \$3, respectively, all related to the GC Impsat Segment. In July 2009, the Company settled a claim initiated in October 2007 by a former director and officer of Impsat to be paid out in installments through February 2011. In

February 2010, the Company settled another claim initiated in November 2007 by a former officer of Impsat which was fully paid in April 2010.

2003 and Prior Restructuring Plans

Prior to the Company's emergence from bankruptcy on December 9, 2003, the Company adopted certain restructuring plans as a result of the slowdown of the economy and telecommunications industry, as well as its efforts to restructure while under Chapter 11 bankruptcy protection. As a result of these activities, the Company eliminated employees and vacated facilities. All amounts incurred for employee separations were paid as of December 31, 2004 and it is anticipated that the remainder of the restructuring liability, all of which relates to facility closings, will be paid through 2025.

The undiscounted facilities closing reserve, which represents estimated future cash flows, is composed of continuing building lease obligations and broker commissions for the restructured sites (aggregating \$74 as of March 31, 2011), offset by anticipated receipts from existing and future third-party subleases. As of March 31, 2011, anticipated third-party sublease receipts were \$66, representing \$49 from subleases already entered into and \$17 from subleases projected to be entered into in the future.

The table below reflects the activity associated with the restructuring reserve relating to the restructuring plans initiated during and prior to 2003 for the three months ended March 31, 2011:

	Facility Closings (unaudited)
Balance at December 31, 2010	\$ 10
Deductions	(1)
Balance at March 31, 2011	<u>\$ 9</u>

6. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	March 31, 2011 (unaudited)	December 31, 2010
Accrued taxes, including value added taxes in foreign jurisdictions	\$ 100	\$ 105
Accrued payroll, bonus, commissions, and related benefits	69	58
Customer deposits	32	34
Accrued preferred dividends (1)	26	26
Accrued interest	25	31
Accrued real estate and related costs	14	14
Accrued third party maintenance costs	11	9
Accrued restructuring costs - current portion	9	8
Accrued professional fees	9	8
Income taxes payable	7	5
Accrued capital expenditures	4	5
Other	60	73
Total other current liabilities	<u>\$ 366</u>	<u>\$ 376</u>

(1) For further information see Note 10, "Related Party Transactions."

7. COMPREHENSIVE LOSS

The components of comprehensive loss for the periods indicated are as follows:

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
Net loss	\$ (33)	\$ (119)
Foreign currency translation adjustment	(16)	27
Comprehensive loss	<u>\$ (49)</u>	<u>\$ (92)</u>

8. LOSS PER COMMON SHARE

Basic loss per common share is computed as loss applicable to common shareholders divided by the weighted-average number of common shares outstanding for the period. Loss applicable to common shareholders includes preferred stock dividends of \$1 for the three months ended March 31, 2011 and 2010.

Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. However, since the Company had net losses for the three months ended March 31, 2011 and 2010, diluted loss per common share is the same as basic loss per common share.

Diluted loss per share for the three months ended March 31, 2011 and 2010 does not include the effect of the following potential shares, as they are anti-dilutive:

Potential common shares excluded from the calculation of diluted loss per share	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Convertible preferred stock	18	18
Employee stock awards	2	3
Diluted weighted average number of common shares	<u>20</u>	<u>21</u>

On May 30, 2006, the Company completed a public offering of \$144 aggregate principal amount of 5% convertible senior notes due 2011 (the "5% Convertible Notes") for total gross proceeds of \$144. The 5% Convertible Notes which were convertible into approximately 6.3 million shares at a conversion price of \$22.98 per share were not included in the above table for the three months ended March 31, 2010 as the conversion price was greater than the average market price per share. The 5% Convertible Notes were retired in the fourth quarter of 2010.

9. CONTINGENCIES

Contingencies

Amounts accrued for contingent liabilities are included in other current liabilities and other deferred liabilities at March 31, 2011 and December 31, 2010. In accordance with the accounting for contingencies as governed by ASC Topic 450, the Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Further, with respect to loss contingencies, where it is probable that a liability has been incurred and there is a range in the expected loss and no amount in the range is more likely than any other amount, the Company accrues at the low end of the range. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Although the Company believes it has accrued for the following matters in accordance with ASC Topic 450, litigation is inherently unpredictable and it is possible that cash flows or results of operations could be materially and adversely affected in any particular period by the unfavorable developments in, or resolution or disposition of, one or more of these contingencies. The following is a description of the material legal proceedings and claims involving the Company commenced or pending during the three months ended March 31, 2011. Estimates of reasonably possible losses may change from time to time and actual losses may be materially different from estimated amounts.

A large portion of the Company's North American network comprises infeasible rights of use purchased from CenturyLink, Inc. on a fiber-optic communication system constructed by CenturyLink within rights-of-way granted to certain railroads by various landowners. In May 2001, a purported class action was commenced on behalf of such landowners in the U.S. District Court for the Southern District of Illinois against CenturyLink and three of the Company's subsidiaries, among other defendants. The complaint alleges that the railroads had only limited rights-of-way granted to them that did not include permission to install fiber-optic cable for use by CenturyLink or any other entities. The action seeks actual damages in an unstated amount and alleges that the wrongs done by the Company involve fraud, malice, intentional wrongdoing, willful or wanton conduct and/or reckless disregard for the rights of the plaintiff landowners. As a result, plaintiffs also request an award of punitive damages. The Company made a demand of CenturyLink to defend and indemnify the Company in the lawsuit. In response, CenturyLink has appointed defense counsel to protect the Company's interests.

The plaintiffs' claims against the Company relating to periods of time prior to the Company's January 28, 2002 bankruptcy filing were discharged in accordance with the Company's Plan of Reorganization. By agreement between the parties, the Plan of Reorganization preserved plaintiffs' rights to pursue any post-confirmation claims of trespass or ejection. If the plaintiffs were to prevail, the Company could lose its ability to operate large portions of its North American network. However, the Company believes that it would be entitled to indemnification from CenturyLink for any losses under the terms of the IRU agreement under which the Company originally purchased this capacity, and CenturyLink has reaffirmed this indemnification obligation.

Multiple attempts have been made to settle the above class action lawsuit and many similar class action lawsuits that have been pending against CenturyLink in other courts regarding the rights of way issue. In 2002, a proposed settlement was submitted to the U.S. District Court for the Northern District of Illinois and was preliminarily approved by the District Court, but rejected by the Court of Appeals for the Seventh Circuit in 2004. During 2008, the parties to the various class actions reached preliminary agreement to settle all of the pending cases and the parties submitted to the U.S. District Court for Massachusetts a motion for class certification and for approval of the proposed settlement. The District Court granted preliminary approval of the settlement and a number of objections to the settlement were filed. In a memorandum and order dated September 10, 2009, the District Court concluded that it did not have subject matter jurisdiction over the claims, denied final approval of the settlement and dismissed the case in its entirety. A number of the plaintiff groups then requested the Court to modify its decision. In a revised memorandum and order dated December 9, 2009, the Court reiterated its holding that the Court lacked subject matter jurisdiction over the claims and dismissed the case. Although the Company is not currently a defendant in any pending class action lawsuits involving the CenturyLink network, if the plaintiffs in such lawsuits were to prevail, CenturyLink could be forced to breach its contractual obligations to provide the Company with the aforementioned infeasible rights of use.

Peruvian Tax Audit

Beginning in 2005, one of the Company's Peruvian subsidiaries received a number of assessments for tax, penalty and interest based upon a tax examination conducted during 2004 by the Peruvian tax authorities (SUNAT) for calendar years 2001 and 2002. The SUNAT examiner took the position that the Company incorrectly documented its importations and incorrectly deducted its foreign exchange losses against its foreign exchange gains on loan balances. The total amount of the asserted claims, including potential interest and penalties, was \$27, consisting of \$3 for income tax withholding in connection with the import of services for calendar years 2001 and 2002, \$7 in connection with value-added taxes (VAT) in connection with the import of services for calendar years 2001 and 2002, \$16 in connection with the disallowance of VAT credits for periods beginning in 2005 and \$1 for income tax in connection with foreign exchange deductions claimed during calendar year 2002. Due to accrued interest and foreign exchange effects, the total assessments have effectively increased to \$70.

The Company challenged the tax assessments during 2005 by filing administrative claims before SUNAT. During August 2006 and June 2007 SUNAT rejected the Company's administrative claims, thereby confirming the assessments. Appeals were filed in September 2006 and July 2007 in the Tax Court, which is the highest administrative authority. The Tax Court is currently reviewing the September 2006 appeal. At this time the Company cannot estimate the loss or range of loss that could reasonably be expected to result from this matter.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against subsidiaries within the GC Impsat Segment for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys fees and statutorily mandated inflation adjustments) as a result of their separation from the Company or termination of service relationships. The asserted claims aggregate approximately \$57.

The Company has asserted defenses to these claims in the court proceedings denying liability and estimates that the range of loss that could reasonably be expected to result from these claims is between \$12 and \$18.

Brazilian Tax Claims

In November 2002 and in October 2004, the Brazilian tax authorities of the States of Parana and São Paulo, respectively, issued two tax infraction notices against Impsat's Brazilian subsidiary for the collection of the Import Duty and the Tax on Manufactured Products, plus fines and interest that amount to approximately \$11. The notices informed Impsat Brazil that the taxes were levied because a specific document (Declaração de Necessidade—"Statement of Necessity") was not provided by Impsat Brazil at the time of importation, in breach of MERCOSUR rules. Objections were filed on behalf of Impsat Brazil arguing that the Argentine exporter (Corning Cable Systems Argentina S.A.) complied with the MERCOSUR rules. In the case of the São Paulo infraction notice, a favorable first instance decision was granted. However, due to the amount involved, the case was remitted to official compulsory review by the Federal Taxpayers Council. In the case of the Parana infraction notice, an unfavorable administrative decision was issued, and the Company will appeal such decision in court.

In December 2004, March 2009 and April 2009, the São Paulo tax authorities issued tax assessments against Impsat Brazil for the collection of Tax on Distribution of Goods and Services ("ICMS") supposedly due on the lease of movable properties (in the case of the December 2004 and March 2009 assessments) and the sale of internet access services (in the case of the April 2009 assessment) by treating such activities as the provision of communications services, for which ICMS tax actually applies. Including penalties and interest, these assessments amount to approximately \$39. Impsat Brazil filed objections to these assessments, arguing that the lease of assets and the provision of internet access are not communication services subject to ICMS. The objection to the December 2004 assessment was rejected in the State Administrative Court, and the Company will appeal such decision. The objections to the March and April 2009 assessments are still pending final administrative decisions.

The Company believes there are reasonable grounds to have all of the Brazilian tax assessments cancelled and estimates that the range of loss that could reasonably be expected to result from these assessments is between nil and \$10.

Paraguayan Government Contract Claim

In 2005 and 2003, respectively, the National Telecommunications Commission of Paraguay ("CONATEL") commenced separate administrative investigations against a joint venture ("JV 1") between GC Impsat's Argentine subsidiary and Electro Import S.A. and another joint venture ("JV 2") between GC Impsat's Argentine subsidiary and Loma Plata S.A. Both administrative investigations involve alleged breaches by the joint ventures of their obligations under government contracts relating to the installation and operation of public telephones and/or phone booths in Paraguay and under the regulatory licenses under which they operate. JV 1 and JV 2 have asserted various defenses in pending administrative proceedings relating to these matters. The Company estimates that \$10 is the maximum loss that the Company could reasonably be expected to incur as a result of these matters.

Customer Bankruptcy Claim

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

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

The Court dismissed the customer's bankruptcy case by order dated November 25, 2009, retained the adversary proceeding (including the customer's counterclaim), which is still pending. On December 26, 2009, the Company terminated service to the customer. The Company amended its complaint to include allegations relating to the manipulation of traffic data, so called "ANI stripping," and the customer filed an amended answer, affirmative defenses and counterclaims. The Court established January 15, 2011 as the cut-off date for all discovery, except for a few depositions that are being completed.

On January 14, 2011, the Company filed a motion for summary judgment asserting that the customer is not entitled to recover any damages (other than those based on rescission-type theories) because it is precluded by the limitation of liability provisions in the

contract and applicable law. Briefing on this motion is continuing and a hearing is scheduled for May 5, 2011. Additional procedural motions regarding discovery and evidentiary issues will also be heard by the Court at that time. Trial is anticipated to be held in mid-2011. The lower end of the customer's most recent damage estimate is approximately \$150, and it has alleged damages substantially in excess of that amount. While the final outcome of this matter is uncertain, the Company believes it has good defenses to limit substantially the amount of damages recoverable by the customer, including defenses based upon the limitation of liability provisions in the contract.

Brazilian Municipal Telecommunications Services Fees

In April and May 2010, the Company's Brazilian subsidiaries received collection notifications from the municipality of Rio de Janeiro regarding fees in the amount of approximately \$80 for the use of public space (including both air space and underground space) relating to ducts containing telecommunications cables. The Company is challenging the fees on multiple grounds, including the lack of objective criteria for the calculation of the fees, the existence of prior court injunctions barring collection of the fees and the unconstitutionality of the assessment. On August 26, 2010, a justice of the Brazilian Supreme Court ruled unconstitutional a decree of the municipality that purported to tax the use of public air space and subsoil for the installation and passage of equipment utilized to provide telecommunication services. An interlocutory appeal was filed requesting a review by the full Brazilian Supreme Court. The appeal was denied in February 2011. Separately, the Company requested the municipality to suspend collection of the fees until final resolution of the asserted objections. This request was granted as to one of the Company's Brazilian subsidiaries that had been assessed a fee of \$70, and the Company expects the request to be granted as to the other Brazilian subsidiary that had been assessed the remaining \$10 fee. Based on subsequent developments and analyses conducted after receipt of the collection notices, the Company does not at this time believe that this matter can reasonably be expected to result in a material loss.

10. RELATED PARTY TRANSACTIONS

Commercial and other relationships between the Company and ST Telemedia

During the three months ended March 31, 2011 and 2010, the Company received approximately \$1 and \$2, respectively, of collocation services from subsidiaries and affiliates of Singapore Technologies Telemedia Pte. Ltd. ("ST Telemedia"). Additionally, during the three months ended March 31, 2011 and 2010, the Company accrued dividends of \$1 related to preferred stock held by affiliates of ST Telemedia.

As of March 31, 2011 and December 31, 2010, the Company had approximately \$27 due to ST Telemedia and its subsidiaries and affiliates and in each case nil and nil due from ST Telemedia and its subsidiaries and affiliates. The amounts due to ST Telemedia and its subsidiaries and affiliates primarily relate to dividends accrued on the Company's 2% cumulative senior convertible preferred stock, and are included in "other current liabilities" in the accompanying condensed consolidated balance sheets.

11. SEGMENT REPORTING

Operating segments are defined in ASC Topic 280 as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision makers ("CODMs") in deciding how to assess performance and allocate resources. The Company's CODMs assess performance and allocate resources based on three separate operating segments which management operates and manages as strategic business units: (i) the GCUK Segment; (ii) the GC Impsat Segment; and (iii) the ROW Segment.

The GCUK Segment is a provider of managed network communications services providing a wide range of telecommunications services, including data, IP and voice services to government and other public sector organizations, major corporations and other communications companies in the United Kingdom ("U.K."). The GC Impsat Segment is a provider of telecommunication services including IP, voice, data center and information technology services to corporate and government clients in Latin America. The ROW Segment represents all the operations of Global Crossing Limited and its subsidiaries excluding the GCUK and GC Impsat Segments and comprises operations primarily in North America, with smaller operations in Europe, Latin America, and a portion of the Asia/Pacific region. This segment also includes our subsea fiber network, serving many of the world's largest corporations and many other telecommunications carriers with a full range of managed telecommunication services including data, IP and voice products. The services provided by all the Company's segments support a migration path to a fully converged IP environment.

The CODMs measure and evaluate the Company's reportable segments based on operating income (loss) before depreciation and amortization ("OIBDA"). OIBDA, as defined by the Company, is operating income (loss) before depreciation and amortization. OIBDA differs from operating income (loss), as calculated in accordance with U.S. GAAP and reflected in the Company's condensed consolidated financial statements, in that it excludes depreciation and amortization. Such excluded expenses primarily reflect the non-cash impacts of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods. In addition, OIBDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for reinvestment, distributions or other discretionary uses.

OIBDA is an important part of the Company's internal reporting and planning processes and a key measure to evaluate profitability and operating performance, make comparisons between periods, and to make resource allocation decisions.

There are material limitations to using non-U.S. GAAP financial measures. The Company's calculation of OIBDA may differ from similarly titled measures used by other companies, and may not be comparable to those other measures. Additionally, OIBDA does not include certain significant items such as depreciation and amortization, interest income, interest expense, income taxes, other non-operating income or expense items, and preferred stock dividends. OIBDA should be considered in addition to, and not as a substitute for, other measures of financial performance reported in accordance with U.S. GAAP.

The Company believes that OIBDA is a relevant indicator of operating performance, especially in a capital-intensive industry such as telecommunications. OIBDA provides the Company with an indication of the underlying performance of its everyday business operations. It excludes the effect of items associated with the Company's capitalization and tax structures, such as interest income, interest expense and income taxes, and of other items not associated with the Company's everyday operations.

The following tables provide operating financial information for the Company's three reportable segments and a reconciliation of segment results to consolidated results.

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
Revenues from external customers		
GCUK	\$ 114	\$ 120
GC Impsat	150	130
ROW	397	398
Total consolidated	<u>\$ 661</u>	<u>\$ 648</u>
Intersegment revenues		
GC Impsat	\$ 2	\$ 2
ROW	6	4
Total	<u>\$ 8</u>	<u>\$ 6</u>
Total segment operating revenues		
GCUK	\$ 114	\$ 120
GC Impsat	152	132
ROW	403	402
Less: intersegment revenues	(8)	(6)
Total consolidated segments	<u>\$ 661</u>	<u>\$ 648</u>
	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
OIBDA		
GCUK	\$ 18	\$ 30
GC Impsat	49	40
ROW	17	7
Total consolidated segments	<u>\$ 84</u>	<u>\$ 77</u>

A reconciliation of OIBDA to income (loss) applicable to common shareholders follows:

	Three Months Ended March 31, 2011				
	GCUK	GC Impsat	ROW (unaudited)	Eliminations	Total Consolidated
OIBDA	\$ 18	\$ 49	\$ 17	\$ —	\$ 84
Depreciation and amortization	(16)	(20)	(44)	—	(80)
Operating income (loss)	2	29	(27)	—	4
Interest income	2	1	3	(6)	—
Interest expense	(15)	(3)	(33)	6	(45)
Other income, net	7	1	10	—	18
Provision for income taxes	—	(9)	(1)	—	(10)
Preferred stock dividends	—	—	(1)	—	(1)
Income (loss) applicable to common shareholders	<u>\$ (4)</u>	<u>\$ 19</u>	<u>\$ (49)</u>	<u>\$ —</u>	<u>\$ (34)</u>

	Three Months Ended March 31, 2010				
	GCUK	GC Impsat	ROW (unaudited)	Eliminations	Total Consolidated
OIBDA	\$ 30	\$ 40	\$ 7	\$ —	\$ 77
Depreciation and amortization	(17)	(24)	(47)	—	(88)
Operating income (loss)	13	16	(40)	—	(11)
Interest income	2	1	4	(7)	—
Interest expense	(14)	(7)	(35)	7	(49)
Other expense, net	(13)	(28)	(11)	—	(52)
Provision for income taxes	—	(6)	(1)	—	(7)
Preferred stock dividends	—	—	(1)	—	(1)
Loss applicable to common shareholders	<u>\$ (12)</u>	<u>\$ (24)</u>	<u>\$ (84)</u>	<u>\$ —</u>	<u>\$ (120)</u>

	March 31, 2011 (unaudited)	December 31, 2010
Total Assets		
GCUK	\$ 534	\$ 564
GC Impsat	807	845
ROW	<u>1,376</u>	<u>1,430</u>
Total segments	2,717	2,839
Less: Intercompany loans and accounts receivable	<u>(456)</u>	<u>(529)</u>
Total consolidated assets	<u>\$ 2,261</u>	<u>\$ 2,310</u>

	March 31, 2011 (unaudited)	December 31, 2010
Unrestricted Cash		
GCUK	\$ 59	\$ 76
GC Impsat	116	170
ROW	<u>90</u>	<u>126</u>
Total consolidated unrestricted cash	<u>\$ 265</u>	<u>\$ 372</u>

	March 31, 2011 (unaudited)	December 31, 2010
Restricted Cash		
ROW	\$ 9	\$ 9
Total consolidated restricted cash	<u>\$ 9</u>	<u>\$ 9</u>

Eliminations include intersegment eliminations and other reconciling items.

The Company accounts for intersegment sales of products and services at current market prices.

12. FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accrued expenses and obligations under capital leases approximate their fair value (see Note 2, “Basis of Presentation” regarding the January 12, 2010 devaluation of the Venezuelan bolivar by the Venezuelan government). The fair values of the Company’s debt instruments are based on market quotes and management estimates. Management believes the carrying value of other debt approximates fair value as of March 31, 2011 and December 31, 2010, respectively.

The fair values of our debt instruments are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(unaudited)			
12% Senior Secured Notes	\$ 737	\$ 853	\$ 737	\$ 846
GCUK Senior Secured Notes	441	453	431	444
9% Senior Notes	150	152	150	150
Other debt	37	37	20	20

13. GUARANTEES OF PARENT COMPANY DEBT

On September 22, 2009, GCL issued \$750 in aggregate principal amount of 12% Senior Secured Notes due September 15, 2015 (the “Original 12% Senior Secured Notes”). The Original 12% Senior Secured Notes were guaranteed by a majority of the Company’s direct and indirect subsidiaries (the “Guarantors”), and were not registered under the Securities Act. As required under a registration rights agreement, the Company registered an identical series of notes (the “12% Senior Secured Exchange Notes”) under the Securities Act with the SEC and offered to exchange those 12% Senior Secured Exchange Notes for the Original 12% Senior Secured Notes. All \$750 aggregate outstanding principal amount of Original 12% Senior Secured Notes were exchanged for 12% Senior Secured Exchange Notes in the exchange offer. The 12% Senior Secured Exchange Notes are also guaranteed by the Guarantors. In connection with the registration of the 12% Senior Secured Exchange Notes and related guarantees, GCL is required to provide the financial information in respect of those notes set forth under Rule 3-10 of Regulation S-X, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered” (“Rule 3-10”).

On November 16, 2010, GCL issued \$150 in aggregate principal amount of the 9% Senior Notes due November 15, 2019 (the “Original 9% Senior Notes”). The Original 9% Senior Notes which are not registered under the Securities Act are guaranteed by the same group of direct and indirect subsidiaries of the Company that guarantee the 12% Senior Secured Exchange Notes. Pursuant to a registration rights agreement to which the Company is a party, the Company is required to register an identical series of notes (the “9% Senior Exchange Notes”) with the SEC and to offer to exchange those registered 9% Senior Exchange Notes for the Original 9% Senior Notes. The 9% Senior Exchange Notes will also be guaranteed by the Guarantors. In connection with the registration of the 9% Senior Exchange Notes and related guarantees, GCL will be required to provide the financial information in respect of those notes set forth under Rule 3-10.

The condensed consolidating financial information below in respect of the obligors on the 12% Senior Secured Exchange Notes has been prepared and presented pursuant to Rule 3-10. Although Rule 3-10 will not apply to the Original 9% Senior Notes until the exchange offer is completed, the below financial information is equally applicable to the obligors on the Original 9% Senior Notes since the obligors on the Original 9% Senior Notes and the 12% Senior Secured Exchange Notes are identical. The column labeled Parent Company represents GCL’s stand alone results and its investment in all of its subsidiaries accounted for using the equity method. The Guarantors and the non-Guarantor subsidiaries are presented in separate columns and represent all the applicable subsidiaries on a combined basis. Intercompany eliminations are shown in a separate column.

During the first quarter of 2011, the Company’s Colombian subsidiary became a Guarantor of the 12% Senior Secured Exchange Notes and the Original 9% Senior Notes and has been reflected in the Guarantor subsidiaries column of the condensed consolidated financial statements as of March 31, 2011 and for the three months ended March 31, 2011. For the three months ended March 31, 2011 and 2010, the Company’s Colombian subsidiary contributed approximately \$21 and \$20, respectively, of the Company’s consolidated revenue and nil and \$(1), respectively, of the Company’s consolidated net loss. As of March 31, 2011 and December 31, 2010, the Company’s Colombian subsidiary had approximately \$44 and \$45, respectively, of net assets.

Condensed Consolidated Balance Sheet

	March 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (unaudited)	Eliminations	Consolidated
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 1	\$ 186	\$ 78	\$ —	\$ 265
Restricted cash and cash equivalents - current portion	—	4	—	—	4
Accounts receivable, net of allowances	—	280	76	—	356
Accounts and loans receivable from affiliates	324	185	226	(735)	—
Prepaid costs and other current assets	—	61	43	(1)	103
Total current assets	325	716	423	(736)	728
Restricted cash and cash equivalents - long term	—	5	—	—	5
Property and equipment, net of accumulated depreciation	1	879	309	—	1,189
Intangible assets, net	—	201	28	—	229
Investments in subsidiaries	(505)	(226)	—	731	—
Loans receivable from affiliates	610	96	52	(758)	—
Other assets	29	56	25	—	110
Total assets	\$ 460	\$ 1,727	\$ 837	\$ (763)	\$ 2,261
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 1	\$ 196	\$ 65	\$ —	\$ 262
Accrued cost of access	—	75	16	—	91
Accounts and loans payable to affiliates	31	532	172	(735)	—
Short term debt and current portion of long term debt	—	19	18	—	37
Obligations under capital leases - current portion	—	41	11	—	52
Deferred revenue - current portion	—	127	53	—	180
Other current liabilities	56	184	126	—	366
Total current liabilities	88	1,174	461	(735)	988
Loans payable to affiliates	10	661	87	(758)	—
Long term debt	887	18	423	—	1,328
Obligations under capital leases	—	62	16	—	78
Deferred revenue	—	272	66	(1)	337
Other deferred liabilities	—	45	10	—	55
Total liabilities	985	2,232	1,063	(1,494)	2,786
SHAREHOLDERS' DEFICIT:					
Total shareholders' deficit	(525)	(505)	(226)	731	(525)
Total liabilities and shareholders' deficit	\$ 460	\$ 1,727	\$ 837	\$ (763)	\$ 2,261

Condensed Consolidated Balance Sheet

	December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 2	\$ 261	\$ 109	\$ —	\$ 372
Restricted cash and cash equivalents - current portion	—	4	—	—	4
Accounts receivable, net of allowances	—	243	81	—	324
Accounts and loans receivable from affiliates	325	184	233	(742)	—
Prepaid costs and other current assets	—	51	41	(1)	91
Total current assets	327	743	464	(743)	791
Restricted cash and cash equivalents - long term	—	5	—	—	5
Property and equipment, net of accumulated depreciation	—	834	345	—	1,179
Intangible assets, net	—	178	49	—	227
Investments in subsidiaries	(494)	(180)	—	674	—
Loans receivable from affiliates	653	107	54	(814)	—
Other assets	29	55	24	—	108
Total assets	\$ 515	\$ 1,742	\$ 936	\$ (883)	\$ 2,310
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 1	\$ 205	\$ 91	\$ —	\$ 297
Accrued cost of access	—	66	12	—	78
Accounts and loans payable to affiliates	27	537	178	(742)	—
Short term debt and current portion of long term debt	—	9	18	—	27
Obligations under capital leases - current portion	—	36	15	—	51
Deferred revenue - current portion	—	123	61	—	184
Other current liabilities	68	176	132	—	376
Total current liabilities	96	1,152	507	(742)	1,013
Loans payable to affiliates	9	707	98	(814)	—
Long term debt	887	9	415	—	1,311
Obligations under capital leases	—	53	19	—	72
Deferred revenue	—	272	67	(1)	338
Other deferred liabilities	—	43	10	—	53
Total liabilities	992	2,236	1,116	(1,557)	2,787
SHAREHOLDERS' DEFICIT:					
Total shareholders' deficit	(477)	(494)	(180)	674	(477)
Total liabilities and shareholders' deficit	\$ 515	\$ 1,742	\$ 936	\$ (883)	\$ 2,310

Condensed Consolidated Statements of Operations

	Three Months Ended March 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (unaudited)	Eliminations	Consolidated
Revenue	\$ —	\$ 516	\$ 145	\$ —	\$ 661
Revenue - affiliates	—	5	12	(17)	—
Total revenue	—	521	157	(17)	661
Cost of revenue	(6)	(352)	(98)	—	(456)
Cost of revenue - affiliates	—	(12)	(5)	17	—
Total cost of revenue	(6)	(364)	(103)	17	(456)
Gross margin	(6)	157	54	—	205
Selling, general and administrative	(6)	(94)	(21)	—	(121)
Depreciation and amortization	—	(59)	(21)	—	(80)
Operating income (loss)	(12)	4	12	—	4
Other income (expense):					
Interest income - affiliates	—	1	2	(3)	—
Interest expense	(27)	(7)	(11)	—	(45)
Interest expense - affiliates	—	(2)	(1)	3	—
Other income, net	—	12	6	—	18
Income from equity investments in subsidiaries	6	8	—	(14)	—
Income (loss) before provision for income taxes	(33)	16	8	(14)	(23)
Provision for income taxes	—	(10)	—	—	(10)
Net income (loss)	(33)	6	8	(14)	(33)
Preferred stock dividends	(1)	—	—	—	(1)
Income (loss) applicable to common shareholders	<u>\$ (34)</u>	<u>\$ 6</u>	<u>\$ 8</u>	<u>\$ (14)</u>	<u>\$ (34)</u>

	Three Months Ended March 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (unaudited)	Eliminations	Consolidated
Revenue	\$ —	\$ 478	\$ 170	\$ —	\$ 648
Revenue - affiliates	—	5	13	(18)	—
Total revenue	—	483	183	(18)	648
Cost of revenue	(6)	(341)	(108)	—	(455)
Cost of revenue - affiliates	—	(13)	(5)	18	—
Total cost of revenue	(6)	(354)	(113)	18	(455)
Gross margin	(6)	129	70	—	193
Selling, general and administrative	(8)	(79)	(29)	—	(116)
Depreciation and amortization	(1)	(60)	(27)	—	(88)
Operating income (loss)	(15)	(10)	14	—	(11)
Other income (expense):					
Interest income - affiliates	—	1	2	(3)	—
Interest expense	(28)	(5)	(16)	—	(49)
Interest expense - affiliates	—	(2)	(1)	3	—
Other expense, net	—	(37)	(15)	—	(52)
Loss from equity investments in subsidiaries	(76)	(17)	—	93	—
Loss before provision for income taxes	(119)	(70)	(16)	93	(112)
Provision for income taxes	—	(6)	(1)	—	(7)
Net loss	(119)	(76)	(17)	93	(119)
Preferred stock dividends	(1)	—	—	—	(1)

Loss applicable to common shareholders	\$ (120)	\$ (76)	\$ (17)	\$ 93	\$ (120)
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Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (unaudited)	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (46)	\$ 5	\$ (16)	\$ —	\$ (57)
Cash flows provided by (used in) investing activities:					
Purchases of property and equipment	(1)	(26)	(9)	—	(36)
GC Colombia cash transfer to Guarantor Subsidiaries	—	9	(9)	—	—
Loans made to affiliates	—	(1)	—	1	—
Loan repayments from affiliates	45	—	—	(45)	—
Net cash flows provided by (used in) investing activities	44	(18)	(18)	(44)	(36)
Cash flows provided by (used in) financing activities:					
Repayment of capital lease obligations	—	(13)	(3)	—	(16)
Repayment of debt	—	(1)	—	—	(1)
Finance costs incurred	(1)	—	—	—	(1)
Proceeds from sales-leasebacks	—	—	4	—	4
Proceeds from exercise of stock options	1	—	—	—	1
Payment of employee taxes on share-based compensation	—	(3)	—	—	(3)
Proceeds from affiliate loans	1	—	—	(1)	—
Repayment of loans from affiliates	—	(45)	—	45	—
Net cash flows provided by (used in) financing activities	1	(62)	1	44	(16)
Effect of exchange rate changes on cash and cash equivalents	—	—	2	—	2
Net decrease in cash and cash equivalents	(1)	(75)	(31)	—	(107)
Cash and cash equivalents, beginning of period	2	261	109	—	372
Cash and cash equivalents, end of period	\$ 1	\$ 186	\$ 78	\$ —	\$ 265
	Three Months Ended March 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (unaudited)	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (62)	\$ 43	\$ (12)	\$ —	\$ (31)
Cash flows provided by (used in) investing activities:					
Purchases of property and equipment	—	(30)	(11)	—	(41)
Loans made to affiliates	(1)	(20)	—	21	—
Change in restricted cash and cash equivalents	—	5	(3)	—	2
Net cash flows used in investing activities	(1)	(45)	(14)	21	(39)
Cash flows provided by (used in) financing activities:					
Repayment of capital lease obligations	—	(10)	(4)	—	(14)
Repayment of debt	—	(2)	(2)	—	(4)
Finance costs incurred	(1)	—	—	—	(1)
Payment of employee taxes on share-based compensation	—	(1)	—	—	(1)
Proceeds from affiliate loans	—	1	20	(21)	—

Net cash flows provided by (used in) financing activities	<u>(1)</u>	<u>(12)</u>	<u>14</u>	<u>(21)</u>	<u>(20)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>—</u>	<u>(27)</u>	<u>(1)</u>	<u>—</u>	<u>(28)</u>
Net decrease in cash and cash equivalents	(64)	(41)	(13)	—	(118)
Cash and cash equivalents, beginning of period	<u>95</u>	<u>293</u>	<u>89</u>	<u>—</u>	<u>477</u>
Cash and cash equivalents, end of period	<u>\$ 31</u>	<u>\$ 252</u>	<u>\$ 76</u>	<u>\$ —</u>	<u>\$ 359</u>

14. SUBSEQUENT EVENT

On April 10, 2011, GCL entered into an Agreement and Plan of Amalgamation (the “Plan of Amalgamation”) with Level 3 Communications, Inc., a Delaware corporation (“Level 3”), and Apollo Amalgamation Sub, Ltd., a Bermuda company and wholly-owned subsidiary of Level 3 (“Amalgamation Sub”), pursuant to which GCL and Amalgamation Sub will be amalgamated under Bermuda law with the surviving amalgamated company continuing as a subsidiary of Level 3 (the “Amalgamation”). Under the terms and subject to the conditions of the Plan of Amalgamation, each share of capital stock of GCL will be converted into 16 shares of common stock of Level 3 (and, in the case of GCL’s preferred shares, the right to receive accrued and unpaid dividends thereon). The Plan of Amalgamation contains customary representations and warranties and covenants, including, among others, agreements by each of the Company and Level 3 (i) to continue conducting its respective businesses in the ordinary course, consistent with past practices and in compliance with applicable law, during the interim period between the execution of the Plan of Amalgamation and consummation of the Amalgamation and (ii) not to engage in certain specified kinds of transactions during that period, including equity and debt financings (other than capital leases so long as the Company’s aggregate outstanding capital lease obligations do not at any time exceed \$153), capital expenditures, loans, acquisitions, and the repurchase of shares of the Company’s parent’s common stock. The Plan of Amalgamation is subject to certain closing conditions, including the approval of the stockholders of each of GCL and Level 3 and receipt of certain regulatory and governmental approvals. The consummation of the Amalgamation would constitute a “Change of Control” under and as defined in the indentures for the 12% Senior Secured Notes, GCUK Senior Secured Notes and 9% Senior Notes. Pursuant to the indentures, within 30 days following any Change of Control, the Company is required to commence an offer to purchase all of the then outstanding 12% Senior Secured Notes, GCUK Senior Secured Notes and 9% Senior Notes at a purchase price equal to 101% of the principal amounts thereof, plus accrued interest, if any, thereon to the date of purchase. For more information related to the Plan of Amalgamation, see Part II, Item 6. - Exhibit 2.1, “Agreement and Plan of Amalgamation”, filed as part of GCL’s quarterly report on Form 10-Q.

The following Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2011 and the Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2011 and the fiscal year ended December 31, 2010 of Level 3 Communications, Inc. (“Level 3”) have been prepared as if Level 3’s amalgamation with Global Crossing Limited (“Global Crossing”), and the assumptions and adjustments described in the accompanying notes herein had occurred on the dates specified below. On April 10, 2011, Level 3 entered into a definitive agreement pursuant to which a subsidiary of Level 3 will, subject to the conditions in the agreement, amalgamate with Global Crossing (the “Acquisition”). For accounting purposes, the Acquisition will be considered an acquisition of Global Crossing by Level 3.

Under the terms of the amalgamation agreement, Global Crossing shareholders will receive 16 shares of Level 3 common stock for each share of Global Crossing common stock and convertible preferred stock owned at closing. On April 10, 2011, the date the amalgamation agreement was signed, Global Crossing had approximately 79 million common and preferred shares outstanding. Including approximately 6 million shares reserved for outstanding share based compensation awards, Global Crossing had approximately 85 million common and preferred shares outstanding at March 31, 2011. The unaudited pro forma financial information reflects estimated aggregate consideration of approximately \$3.7 billion for the Global Crossing acquisition, calculated as follows (in millions):

Number of Global Crossing common and preferred shares outstanding as of March 31, 2011*	85
Multiplied by exchange ratio per amalgamation agreement	16
Number of Level 3 shares to be issued*	1,360
Multiplied by price of Level 3 common stock*	\$ 1.79
Estimated equity consideration	\$ 2,434
Assumption of net debt as of March 31, 2011	\$ 1,230
Estimated aggregate consideration*	\$ 3,664

*The estimated purchase price has been determined based on the closing price of Level 3’s common stock on May 10, 2011. Pursuant to the acquisition method of accounting, the final purchase price will be based on the number of Global Crossing shares outstanding and the price of Level 3’s common stock as of the closing date. The above estimated aggregate consideration also includes an estimate of approximately 6 million Global Crossing shares reserved for the pre-combination portion of Global Crossing’s outstanding share based compensation awards to be assumed by Level 3.

After consideration of all applicable factors pursuant to the business combination accounting rules, 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 Global Crossing (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.

In order to consummate the Acquisition and to retire certain existing indebtedness of Global Crossing, Level 3 has entered into a financing commitment letter, described below, pursuant to which the Commitment Parties (as defined below) have committed, subject to customary conditions, to provide the financing to allow Level 3 to consummate the Acquisition and to refinance certain existing indebtedness of Global Crossing in connection with the consummation of the Acquisition. Level 3 is currently evaluating strategies for addressing Global Crossing’s outstanding debt at closing, which could take the form of any or a combination of tender offers, consent solicitations, redemptions, defeasance, satisfaction and discharge, change of control offers, and open market purchases. Many of the foregoing options would require the payment of premiums and fees, and in particular certain of Global Crossing’s debt instruments currently are redeemable only at a make-whole premium. The prepayment fee associated with the change of control premium discussed below represents the minimum that Level 3 would expect to pay in fees and expenses; however, depending on the methods Level 3 chooses to refinance that debt, the aggregate amount of premiums and fees could be materially greater.

The following unaudited pro forma financial information related to the Acquisition was prepared using the acquisition method of accounting for business combinations, and is based on the assumption that the Acquisition took place as of March 31, 2011 for the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet. The Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2011 and for the year ended December 31, 2010 are presented as if the Acquisition occurred on January 1, 2010. Unaudited pro forma adjustments, and the assumptions on which they are based, are described in the accompanying notes to Unaudited Pro Forma Condensed Combined Financial Statements, which are referred to in this section as the notes. Certain reclassifications have been made relative to Global Crossing’s historical financial statements in order to present them on a basis consistent with those of Level 3.

In accordance with the acquisition method of accounting, the actual consolidated financial statements of Level 3 will reflect the Acquisition only from and after the completion date of the Acquisition. Level 3 has not yet undertaken a detailed analysis of the fair value of Global Crossing’s assets and liabilities and will not finalize the purchase price allocation related to the Global Crossing acquisition until after the Acquisition is 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.

Acquisition-related costs include transaction costs such as legal, accounting, valuation and other professional services. Total acquisition-related transaction costs expected to be incurred by Level 3 are approximately \$40 million. The costs associated with these non-recurring activities do not represent ongoing costs of the fully integrated 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. Acquisition-related costs recognized in the historical financial statements of Level 3 were less than \$1 million in the three months ended March 31, 2011 and the twelve months ended December 31, 2010. These charges were expensed in accordance with the acquisition method of accounting, and were reflected in selling, general and administrative expenses. Level 3 expects to incur additional acquisition-related expenses associated with the Acquisition including additional integration activities. Based on current plans and information, Level 3 expects to incur approximately \$200 to \$225 million of integration costs associated with the Acquisition, 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 unaudited 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 Acquisition 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 Level 3 may achieve with respect to combining the companies. Synergies have been excluded from consideration because they do not meet the criteria for unaudited pro forma adjustments.

Level 3 entered into certain transactions with Global Crossing prior to entering into the amalgamation agreement, whereby Level 3 received cash for communications services to be provided in the future which it accounted for as deferred revenue. As a result of the Acquisition, Level 3 can no longer amortize this deferred revenue into earnings and accordingly, reduced the purchase price applied to the net assets acquired in the Acquisition by \$79 million, the amount of the unamortized deferred revenue balance on March 31, 2011.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the publicly-available historical consolidated financial statements and accompanying notes of Level 3 and Global Crossing.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet at March 31, 2011

(dollars in millions)	Historical Level 3	Historical Global Crossing	Pro Forma Adjustments	Pro Forma Financing Adjustments	Pro Forma Combined
Assets					
Current Assets:					
Cash and cash equivalents	\$ 1,079	\$ 265	\$ (40)(a)	\$ 272(a)	\$ 1,576
Restricted cash and securities	3	4	—	—	7
Receivables, net	295	356	—	—	651
Other	109	103	(11)(e)	10(a)	211
Total Current Assets	1,486	728	(51)	282	2,445
Property, Plant and Equipment, net	5,276	1,189	1,711(d)	—	8,176
Restricted Cash and Securities	120	5	—	—	125
Goodwill	1,429	211	765(d)	—	2,405
Other Intangibles, net	347	18	282(d)	—	647
Other Assets, net	144	110	(4)(e)	55(a)	268
			(37)(b)		
Total Assets	<u>\$ 8,802</u>	<u>\$ 2,261</u>	<u>\$ 2,666</u>	<u>\$ 337</u>	<u>\$ 14,066</u>
Liabilities and Stockholders' Equity (Deficit)					
Current Liabilities:					
Accounts payable	\$ 328	\$ 353	\$ —	\$ —	\$ 681
Current portion of long-term debt	449	89	—	(37)(b)	501
Accrued payroll and employee benefits	39	69	—	—	108
Accrued interest	134	25	—	(24)(a)	135
Current portion of deferred revenue	151	180	(9)(c)	—	276
			(46)(e)		
Other	79	272	—	—	351
Total Current Liabilities	1,180	988	(55)	(61)	2,052
Long-Term Debt, less current portion	6,618	1,406	11(a)	398(b)	8,446
			13(a)		
Deferred Revenue, less current portion	737	337	(70)(c)	—	814
			(190)(e)		
Other Liabilities	532	55	38(f)	—	625
Total Liabilities	9,067	2,786	(253)	337	11,937
Stockholders' Equity (Deficit):					
Preferred stock	—	2	(2)(i)	—	—
Common stock	17	1	13(i)	—	31
Additional paid-in capital	11,649	1,444	976(i)	—	14,069
Accumulated other comprehensive loss	(47)	(1)	1(j)	—	(47)
Accumulated deficit	(11,884)	(1,971)	1,931(k)	—	(11,924)
Total Stockholders' Equity (Deficit)	(265)	(525)	2,919	—	2,129
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 8,802</u>	<u>\$ 2,261</u>	<u>\$ 2,666</u>	<u>\$ 337</u>	<u>\$ 14,066</u>

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, 2010

(dollars in millions, except per share data)	Historical Level 3	Historical Global Crossing	Pro Forma Adjustments	Pro Forma Combined
Revenue				
Communications	\$ 3,591	\$ 2,609	\$ (59)(g)	\$ 6,141
Coal Mining	60	—	—	60
Total Revenue	3,651	2,609	(59)	6,201
Costs and Expenses (exclusive of depreciation and amortization shown separately below)				
Cost of Revenue				
Communications	1,434	1,266	(40)(g)	2,660
Coal Mining	56	—	—	56
Total Cost of Revenue	1,490	1,266	(40)	2,716
Depreciation and Amortization	876	337	77(d)	1,290
Selling, General and Administrative	1,373	943	—(h) (6)(g)	2,310
Restructuring Charges	2	—	—	2
Total Costs and Expenses	3,741	2,546	31	6,318
Operating Income (Loss)	(90)	63	(90)	(117)
Other Income (Expense):				
Interest income	1	2	—	3
Interest expense	(586)	(191)	(32)(b)	(809)
Loss on extinguishment of debt, net	(59)	(6)	—	(65)
Other, net	21	(45)	—	(24)
Total Other Expense	(623)	(240)	(32)	(895)
Loss from Continuing Operations Before Income Tax	(713)	(177)	(122)	(1,012)
Income Tax Benefit	91	5	—(l)	96
Net Loss from Continuing Operations	<u>\$ (622)</u>	<u>\$ (172)</u>	<u>\$ (122)</u>	<u>\$ (916)</u>
Shares Used to Compute Basic and Diluted Loss from Continuing Operations per Share (in thousands):	<u>1,660,196</u>	<u>60,419</u>	<u>1,360,000(i)</u>	<u>3,020,196</u>
Basic and Diluted Loss from Continuing Operations per Share*	<u>\$ (0.37)</u>	<u>\$ (2.91)</u>		<u>\$ (0.30)</u>

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

* Global Crossing Basic and Diluted Loss from Continuing Operations per Share was increased by \$4 million of preferred stock dividends.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statement of Operations
For the three months ended March 31, 2011

(dollars in millions, except per share data)	Historical Level 3	Historical Global Crossing	Pro Forma Adjustments	Pro Forma Combined
Revenue				
Communications	\$ 914	\$ 661	\$ (15)(g)	\$ 1,560
Coal Mining	15	—	—	15
Total Revenue	929	661	(15)	1,575
Costs and Expenses (exclusive of depreciation and amortization shown separately below)				
Cost of Revenue				
Communications	357	324	(10)(g)	671
Coal Mining	15	—	—	15
Total Cost of Revenue	372	324	(10)	686
Depreciation and Amortization	204	80	23(d)	307
Selling, General and Administrative	357	253	—(h)	608
Restructuring Charges	—	—	—	—
Total Costs and Expenses	933	657	11	1,601
Operating Income (Loss)	(4)	4	(26)	(26)
Other Income (Expense):				
Interest income	—	—	—	—
Interest expense	(157)	(45)	(8)(b)	(210)
Loss on extinguishment of debt, net	(20)	—	—	(20)
Other, net	3	18	—	21
Total Other Expense	(174)	(27)	(8)	(209)
Loss from Continuing Operations Before Income Tax	(178)	(23)	(34)	(235)
Income Tax Expense	(27)	(10)	—(l)	(37)
Net Loss from Continuing Operations	<u>\$ (205)</u>	<u>\$ (33)</u>	<u>\$ (34)</u>	<u>\$ (272)</u>
Shares Used to Compute Basic and Diluted Loss from Continuing Operations per Share (in thousands):	<u>1,681,184</u>	<u>60,755</u>	<u>1,360,000(i)</u>	<u>3,041,184</u>
Basic and Diluted Loss from Continuing Operations per Share*	<u>\$ (0.12)</u>	<u>\$ (0.56)</u>		<u>\$ (0.09)</u>

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

* Global Crossing Basic and Diluted Loss from Continuing Operations per Share was increased by \$1 million of preferred stock dividends.

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 Acquisition 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 Acquisition, the costs to integrate the operations of Level 3 and Global Crossing 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 publicly-available historical consolidated financial statements and accompanying notes of Level 3, and the separate historical consolidated financial statements and accompanying notes of Global Crossing that are incorporated by reference in this current report on Form 8-K. Certain reclassifications have been made to the historical presentation of Global Crossing's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Balance Sheet and relate primarily to accrued payroll and employee benefits, accrued interest, other current liabilities, and capital lease obligations. Certain reclassifications have been made to the historical presentation of Global Crossing's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Statement of Operations primarily related to cost of revenue; selling, general and administrative expenses; loss on extinguishment of debt; and other income, net.

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 Acquisition, (ii) factually supportable and (iii) with respect to the condensed combined statements of operations, expected to have a continuing impact on the combined company. As of the date of this Current Report on Form 8-K, Level 3 has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of Global Crossing'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 Global Crossing'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 March 31, 2011 historical book values of Global Crossing'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 historical book values of Global Crossing's net assets, as adjusted to reflect estimated fair values, 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 Global Crossing, has completed the valuation studies necessary to finalize the required purchase price allocations based on the tangible and intangible assets and liabilities of Global Crossing at the completion of the Acquisition, 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 impact 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 acquisition of Global Crossing has been 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 Global Crossing's tangible and intangible assets and liabilities based on their estimated fair value as of March 31, 2011. 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 Acquisition and will be completed after the Acquisition is 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 May 10, 2011, the purchase price would be approximately \$2.4 billion. The requirement to base the final purchase price on the number of Global Crossing 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 \$1.79 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 Acquisition is completed. For example, an increase or decrease by 10% in the Level 3 common stock price as of the close of business on May 10, 2011 (\$1.79 per share) would increase or decrease the consideration expected to be transferred by approximately \$245 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 as follows:

(dollars in millions)	March 31, 2011
Assets:	
Cash, cash equivalents, and restricted cash	\$ 274
Accounts receivable	356
Other current assets	92
Property, plant and equipment, net	2,900
Goodwill	976
Identifiable intangibles	300
Other assets	69
Total Assets	4,967
Liabilities:	
Accounts payable	(353)
Current portion of long-term debt	(89)
Accrued payroll and employee benefits	(69)
Accrued interest	(25)
Other current liabilities	(272)
Deferred revenue—Global Crossing	(202)
Other liabilities	(93)
Long-term Debt, less current portion	(1,430)
Total Liabilities	(2,533)
Total Estimated Equity Consideration	2,434
Deferred revenue—Level 3	(79)
Total Estimated Purchase Price	\$ 2,355

Upon completion of the final fair value assessment after the Acquisition, 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 initial estimates of the fair value of deferred revenue of Level 3 are subject to change and it is possible that any subsequent adjustments may result in a gain or loss on the settlement of the associated agreements.

The guidance related to business combinations outlines the methodologies for calculating acquisition price 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 acquisition date that do not meet certain re-measurement criteria be recorded in the statement of operations. Total acquisition-related transaction costs expected to be incurred by Level 3 are estimated to be approximately \$40 million and as they are non-recurring, are reflected only in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash and 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 Acquisition, the costs to integrate the operations of Level 3 and Global Crossing, or the costs necessary to achieve these cost savings operating synergies or revenue enhancements. The Acquisition is expected to create annualized operating cost synergies and 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 you that these estimated synergies or cost savings will be achieved.

(3) Accounting Policies

Upon completion of the Acquisition, Level 3 will continue its review of Global Crossing'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

impact on the combined financial statements. At this time, Level 3 is not aware of any differences that would have a material impact 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 acquisition-related financing discussed further below, net of payments which are estimated to be \$1,518 million and are assumed to be made concurrent with or before completion of the Acquisition including \$15 million of fees associated with the senior secured facility, \$50 million of fees associated with the senior unsecured bridge facility, \$40 million for Level 3's estimated transaction costs, \$1,389 million to retire Global Crossing's short term and long term debt (including a \$13 million prepayment fee associated with the change of control premium) excluding capital lease obligations, and \$24 million of accrued interest. Level 3 is currently evaluating strategies for addressing Global Crossing's outstanding debt at closing, which could take the form of any or a combination of tender offers, consent solicitations, redemptions, defeasance, satisfaction and discharge, change of control offers, and open market purchases. Many of the foregoing options would require the payment of premiums and fees, and in particular certain of Global Crossing's debt instruments currently are redeemable only at a make-whole premium. The \$13 million prepayment fee associated with the change of control premium represents the minimum that Level 3 would expect to pay in fees and expenses; however, depending on the methods Level 3 chooses to refinance that debt, the aggregate amount of premiums and fees could be materially greater.

(Dollars in millions)	Financing Adjustments
Proceeds from Level 3 financing activities	\$ 1,750
Debt issuance costs of new Level 3 acquisition-related financing (Note 4b), short term	(10)
Debt issuance costs of new Level 3 acquisition-related financing (Note 4b), long term	(55)
Repayment of Global Crossing's outstanding debt, excluding capital lease obligations (\$1,365 million including net unamortized discount of \$11 million)	(1,376)
Premium to retire Global Crossing's debt	(13)
Payment of accrued interest on retirement of Global Crossing's debt	(24)
Net proceeds from financing activities	<u>\$ 272</u>

- (b) On April 10, 2011, concurrently with the execution of the amalgamation agreement, Level 3 Financing, Inc., a subsidiary of Level 3 ("Level 3 Financing"), and Level 3 entered into a financing commitment letter (the "Commitment Letter") with Bank of America, N.A. ("Bank of America"), Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), and Citigroup Global Markets Inc. (together with Bank of America and Merrill Lynch, the "Commitment Parties"). The Commitment Letter was subsequently amended and restated on April 19, 2011, to add Deutsche Bank Trust Company Americas, Deutsche Bank AG Cayman Islands Branch, Deutsche Bank Securities Inc., Morgan Stanley Senior Funding, Inc., Credit Suisse AG and Credit Suisse Securities (USA) LLC as Commitment Parties. The Commitment Letter provides for a senior secured term loan facility in an aggregate amount of up to \$650 million (the "senior secured facility"). The Commitment Letter also provides for a senior unsecured bridge facility up to \$1.1 billion (the "bridge facility"), if up to \$1.1 billion of senior notes or certain other securities ("debt securities") are not issued by Level 3 Financing or Level 3 to finance the Acquisition on or prior to the closing of the Acquisition. In lieu of drawing on the bridge facility, Level 3 anticipates issuing other debt securities to finance a portion of the total consideration used to replace substantially all of Global Crossing's short term and long term debt. For the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet, Level 3 has assumed it (directly or through its subsidiaries) would borrow an aggregate of \$1,750 million, comprised of a \$650 million senior secured facility and \$1.1 billion of debt securities, to fund the replacement of substantially all of Global Crossing's short term and long term debt, related transaction costs as part of the Acquisition, as well as for general corporate purposes. In the Unaudited Pro Forma Condensed Combined Balance Sheet, the borrowings under the senior secured facility and debt securities are presented as long-term debt under the assumption that Level 3 has the intent and ability (directly or through its subsidiaries) to place \$1,750 million in loans and debt securities. Level 3 expects that the senior secured facility and the debt securities will be incurred by Level 3 Financing. Level 3 expects that, subject to regulatory approval, the senior secured facility will be guaranteed and secured by the same entities that currently secure and guarantee (or that, following the Acquisition, will be required to secure and guarantee) its existing term loans and Level 3 expects that, subject to regulatory approval, the debt securities will be guaranteed by the same entities that guarantee (or that, following the Acquisition, will be required to guarantee) Level 3 Financing's existing notes.

The adjustments to account for these financing activities are as follows:

(Dollars in millions)	As of March 31, 2011	
	Current Portion of Long Term Debt	Long Term Debt, less Current Portion
Level 3's historical debt balance	\$ 449	\$ 6,618
Global Crossing's historical debt balance	89	1,406
Net unamortized discount on Global Crossing debt	—	11
Prepayment premium adjustment on Global Crossing debt	—	13
New loans to and debt issued by Level 3	—	1,750
Repayment of Global Crossing's debt	(37)	(1,352)
Total Debt Balance	<u>\$ 501</u>	<u>\$ 8,446</u>

For pro forma purposes, Level 3 assumes that all Global Crossing debt, except for capital lease obligations, has been replaced with the senior secured facility and debt securities. Level 3 estimates an increase in interest expense of approximately \$32 million in 2010 and an increase of \$8 million in the first three months of 2011 associated with the incremental debt Level 3 will issue in connection with the Acquisition after retiring Global Crossing's existing debt. The change in interest expense for such periods is based on a \$650 million senior secured facility, which will accrue interest at LIBOR + 4% (with a LIBOR floor of 1.5%) with a 6 year maturity and \$1.1 billion in debt securities assuming a 14% interest rate and a 7 year maturity. For the purpose of the Unaudited Pro Forma Condensed Combined Statement of Operations, Level 3 used a rate of 5.5% based on a LIBOR floor of 1.5% included in the terms of the senior secured facility. 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 debt securities and therefore incurred interest expense of approximately \$199 million in 2010 and \$50 million in the first three months of 2011. This interest expense was offset by the elimination of Global Crossing's interest expense due to the retirement of Global Crossings' average outstanding debt of \$1,336 million for the year ended December 31, 2010 and \$1,352 million for the three months ended March 31, 2011, which corresponds to \$167 million in interest expense in 2010 and \$42 million in the first three months of 2011.

(Dollars in millions)	Twelve months ended December 31, 2010	Three months ended March 31, 2011
Global Crossing's historical interest expense	\$ (167)	\$ (42)
Interest expense resulting from loans and other debt Level 3 will incur in connection with the Acquisition	199	50
Increase in interest expense	<u>\$ 32</u>	<u>\$ 8</u>

Based on the LIBO Rate of 0.27% on May 6, 2011, an increase or decrease of 1% from the 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, 2010 or the first three months of 2011 given the LIBOR floor of 1.5%. An increase or decrease of 1% from the interest rate assumed on the debt securities would increase or decrease interest expense on the debt securities by \$11 million and \$3 million for the twelve months ended December 31, 2010 and the three months ended March 31, 2011, respectively.

Included in the incremental interest expense is additional interest expense of approximately \$10 million for the twelve months ended December 31, 2010 and \$3 million for the first three months of 2011 for the amortization of debt issuance costs associated with the senior secured facility and the debt securities that Level 3 will issue to finance a portion of the total consideration used to replace all of Global Crossing's debt, excluding capital lease obligations. Debt issuance costs associated with the two aforementioned debt facilities were assumed to be approximately \$65 million (\$15 million of costs associated with the senior secured facility amortized over 6 years and \$50 million associated with the bridge facility and debt securities amortized over 7 years). The Unaudited Pro Forma Condensed Combined Balance Sheet also includes an adjustment to reduce other assets by \$37 million for the elimination of net deferred financing fees upon retirement of Global Crossing's existing debt.

The actual interest expense that Level 3 expects to incur may vary 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 and market conditions, amongst other factors. Any such variations may be significant.

- (c) Adjustment to remove the Level 3 deferred revenue attributable to Global Crossing contracts existing prior to the Acquisition.

(Dollars in millions)	March 31, 2011	Estimated Fair Value	Decrease
Current portion of deferred revenue	\$ 9	\$ —	\$ 9
Deferred revenue, less current portion	70	—	70

Any subsequent adjustments of the fair value of deferred revenue may result in a gain or loss on the settlement of the associated agreements.

- (d) 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 Acquisition.

(Dollars in millions)	Estimated Fair Value at March 31, 2011	Estimated Useful Lives (Years)
Property, Plant and Equipment	\$ 2,900	2 — 40 years
Customer Relationships	219	10 years
Trademark and trade names	81	Indefinite
Goodwill	976	Indefinite

The preliminary estimates of the fair value assigned to property, plant and equipment reflects appreciation from Global Crossing's discounted historical cost basis resulting from fresh start accounting adjustments it recorded during 2004 and 2005. Adjustments to reflect fair values were estimated by Level 3 management based on a market approach, considering factors such as network capacity utilization, dark fiber, and estimated useful lives, amongst others.

As of the effective date of the Acquisition, 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 synergies will be achieved. The consideration of synergies has been excluded because they do not meet the criteria for these pro forma adjustments. For purposes of the preliminary allocation, Level 3 has estimated a fair value for Global Crossing'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, trademark and trade names are not amortized.

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

(Dollars in millions)	Twelve months ended December 31, 2010	Three months ended March 31, 2011
Global Crossing's historical depreciation and amortization	\$ (337)	\$ (80)
Depreciation and amortization after fair value adjustments associated with acquired assets	414	103
Increase in depreciation and amortization expense	<u>\$ 77</u>	<u>\$ 23</u>

A 10% change in the allocation between these intangible assets and goodwill would result in a change in annual amortization expense of approximately \$2 million in the first full year and would not cause Level 3's pro forma basic and diluted loss from continuing operations per common share to change.

- (e) Adjustment to record the differences between the estimated fair values and the historical carrying amounts of Global Crossing's deferred revenues including the elimination of deferred revenue balances where no future performance obligation exists and deferred revenue attributable to Global Crossing contracts with Level 3 existing prior to the Acquisition. Global Crossing had

certain deferred revenues on its balance sheet associated with sales of capacity leases, prepaid services and installation activities as well as deferred installation costs included in other assets on its balance sheet. These deferred balances arise from Global Crossing receiving up-front payments and incurring up-front costs while recognizing the related revenue and expense 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 and other asset balances of Global Crossing as of March 31, 2011. Revenue is not impacted by the fair value adjustment of deferred revenue.

(Dollars in millions)	March 31, 2011	Estimated Fair Value	Decrease
Current portion of deferred revenue	\$ 180	\$ 134	\$ 46
Deferred Revenue, less current portion	337	147	190
Other deferred installation costs included in Current Assets, Other	11	—	11
Other deferred installation costs included in Other Assets	4	—	4

- (f) As of the completion date of the Acquisition, Level 3 will provide deferred taxes adjustments as part of the accounting for the Acquisition, primarily related to the estimated fair value adjustments for acquired intangibles due to Level 3's net operating loss position.

The pro forma adjustment to record the effect of deferred taxes and other adjustments was computed based on an estimated post-Acquisition effective tax rate of 39% as follows:

(Dollars in millions)	Adjustment as of March 31, 2011
Deferred tax liabilities associated with fair value of indefinite-lived assets of Global Crossing acquired	\$ 38

- (g) Adjustment to eliminate the historical intercompany transactions between Level 3 and Global Crossing. The elimination of intercompany revenue is higher than the cost of revenue elimination as Global Crossing accounted for certain transactions as capital transactions and no adjustment was included in depreciation due to the fair value adjustment on the related property, plant and equipment.
- (h) On the date of completion of the Acquisition, all outstanding employee stock option awards of Global Crossing will be exchanged for Level 3 options and all restricted stock units of Global Crossing vest and will be converted into Level 3 shares in accordance with the terms of the amalgamation agreement. Expense associated with the vesting and conversion will be recognized in selling, general and administrative expenses.
- (i) Adjustment to reflect the elimination of Global Crossing's common and preferred shares outstanding, net of the assumed issuance of common shares as a result of the Acquisition calculated by multiplying Global Crossing's common and preferred shares outstanding by the exchange ratio of 16 Level 3 common shares per Global Crossing common and preferred share. Preferred stock dividends have been eliminated on the Unaudited Pro Forma Condensed Combined Statements of Operations.

(Dollars in millions)	Adjustments as of March 31, 2011
Eliminate Global Crossing preferred stock	\$ (2)
Issue 1,360 million shares of Level 3 common stock	\$ 14
Eliminate Global Crossing common stock	(1)
Adjustment to common stock	\$ 13

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

(Dollars in millions)	Adjustments as of March 31, 2011
Total estimated equity consideration	\$ 2,434
Elimination of Global Crossing additional paid-in capital	(1,444)
Common stock	(14)
Adjustment to additional paid-in capital	<u>\$ 976</u>

- (j) Adjustment to eliminate Global Crossing's accumulated other comprehensive loss.
- (k) Adjustment to eliminate Global Crossing's accumulated deficit, and to record estimated non-recurring acquisition costs of Level 3, as follows:

(Dollars in millions)	Adjustment as of March 31, 2011
Eliminate Global Crossing's accumulated deficit	\$ 1,971
Estimated Acquisition-related expenses (Note 4a)	(40)
Adjustment to accumulated deficit	<u>\$ 1,931</u>

- (l) As of December 31, 2010, Level 3 had net operating loss carry forwards of approximately \$5.9 billion for U.S. federal income tax purposes. Given the Level 3's net loss position, income tax expense is primarily related to state and foreign income taxes and no adjustment for income taxes has been provided in the Unaudited Pro Forma Condensed Combined Statements of Operations.

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.