

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

Filed 01/10/12 for the Period Ending 01/10/12

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 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): **January 10, 2012**

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))
-
-
-

Item 2.01 Completion of Acquisition or Disposition of Assets.

On October 27, 2011, Level 3 Communications, Inc. (the “Company” or “Level 3”) filed with the Securities and Exchange Commission an amendment to its Current Report on Form 8-K filed on October 6, 2011 (as amended, the “Initial Form 8-K”) in connection with the completion on October 4, 2011 of the transactions contemplated by the Agreement and Plan of Amalgamation, dated as of April 10, 2011, by and among the Company, Apollo Amalgamation Sub, Ltd., a Bermuda exempted limited liability company and a wholly owned subsidiary of the Company, and Global Crossing Limited, a Bermuda exempted limited liability company (“Global Crossing”). The Initial Form 8-K presented (i) the audited consolidated financial statements of Global Crossing as at December 31, 2010 and 2009, and for each of the three years ended December 31, 2010, (ii) the unaudited condensed consolidated financial statements of Global Crossing as of June 30, 2011 and December 31, 2010 and for the periods ended June 30, 2011 and 2010 and (iii) the unaudited pro forma condensed combined financial statements of Level 3 as of and for the six months ended June 30, 2011 and for the year ended December 31, 2010 giving effect to the Global Crossing acquisition, each as required by Items 9.01(a) and 9.01(b) of Form 8-K.

This Current Report on Form 8-K updates the financial information in the Initial Form 8-K by presenting (i) the audited consolidated financial statements of Global Crossing as at December 31, 2010 and 2009, and for each of the three years ended December 31, 2010, (ii) the unaudited condensed consolidated financial statements of Global Crossing as of September 30, 2011 and December 31, 2010 and for the periods ended September 30, 2011 and 2010 and (iii) the unaudited pro forma condensed combined financial statements of Level 3 as of and for the nine months ended September 30, 2011 and for the year ended December 31, 2010 giving effect to the Global Crossing acquisition.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The 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 are filed herewith as Exhibit 99.1 and incorporated in this Item 9.01(a) by reference.

The unaudited condensed consolidated financial statements of Global Crossing as of September 30, 2011 and December 31, 2010 and for the periods ended September 30, 2011 and 2010 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 nine months ended September 30, 2011 and for the year ended December 31, 2010, giving effect to the Global Crossing acquisition, 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 Limited as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by Level 3 Communications, Inc. on May 20, 2011).

99.2 Unaudited condensed consolidated financial statements of Global Crossing Limited as of September 30, 2011 and December 31, 2010 and for the periods ended September 30, 2011 and 2010.

99.3 Unaudited pro forma condensed combined financial statements of Level 3 Communications, Inc. as of and for the nine months ended September 30, 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: January 10, 2012

Exhibit Index

Exhibit	Description
23.1	Consent of Ernst & Young LLP.
99.1	Audited consolidated financial statements of Global Crossing Limited as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by Level 3 Communications, Inc. on May 20, 2011).
99.2.	Unaudited condensed consolidated financial statements of Global Crossing Limited as of September 30, 2011 and December 31, 2010 and for the periods ended September 30, 2011 and 2010.
99.3	Unaudited pro forma condensed combined financial statements of Level 3 Communications, Inc. as of and for the nine months ended September 30, 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 incorporated by reference in this Form 8-K of Level 3 Communications, Inc., 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, 333-115751, 333-174354, and 333-177977, Form S-3 No.'s 333-153644, 333-154976, 333-156709, 333-160493, 333-162854, and 333-178060).

/s/ Ernst & Young LLP

Iselin, New Jersey
January 5, 2012

GLOBAL CROSSING LIMITED

Condensed Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2011 and 2010

GLOBAL CROSSING LIMITED AND SUBSIDIARIES
INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	3
Condensed Consolidated Statements of Operations for the nine months ended September 30, 2011 and 2010	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010	5
Notes to Condensed Consolidated Financial Statements	6

GLOBAL CROSSING LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share information)

	<u>September 30, 2011</u> (unaudited)	<u>December 31, 2010</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 226	\$ 372
Restricted cash and cash equivalents - current portion	5	4
Accounts receivable, net of allowances of \$47 and \$45	366	324
Prepaid costs and other current assets	94	91
Total current assets	<u>691</u>	<u>791</u>
Restricted cash and cash equivalents - long term	5	5
Property and equipment, net of accumulated depreciation of \$1,757 and \$1,514	1,129	1,179
Intangible assets, net (including goodwill of \$199 and \$208)	214	227
Other assets	110	108
Total assets	<u>\$ 2,149</u>	<u>\$ 2,310</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 272	\$ 297
Accrued cost of access	82	78
Short term debt and current portion of long term debt	46	27
Obligations under capital leases - current portion	49	51
Deferred revenue - current portion	171	184
Other current liabilities	318	376
Total current liabilities	<u>938</u>	<u>1,013</u>
Long term debt	1,339	1,311
Obligations under capital leases	68	72
Deferred revenue	353	338
Other deferred liabilities	59	53
Total liabilities	<u>2,757</u>	<u>2,787</u>
SHAREHOLDERS' DEFICIT:		
Common stock, 110,000,000 shares authorized, \$.01 par value, 61,305,647 and 60,497,709 shares issued and outstanding as of September 30, 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	1,451	1,443
Accumulated other comprehensive income (loss)	(4)	15
Accumulated deficit	(2,058)	(1,938)
Total shareholders' deficit	<u>(608)</u>	<u>(477)</u>
Total liabilities and shareholders' deficit	<u>\$ 2,149</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)

	Nine Months Ended September 30,	
	2011	2010
Revenue	\$ 2,050	\$ 1,926
Cost of revenue (excluding depreciation and amortization, shown separately below):		
Cost of access	(897)	(870)
Real estate, network and operations	(348)	(303)
Third party maintenance	(69)	(78)
Cost of equipment and other sales	(78)	(75)
Total cost of revenue	(1,392)	(1,326)
Gross margin	658	600
Selling, general and administrative	(376)	(321)
Depreciation and amortization	(243)	(252)
Operating income	39	27
Other income (expense):		
Interest income	1	1
Interest expense	(138)	(141)
Other expense, net	(3)	(37)
Loss before provision for income taxes	(101)	(150)
Provision for income taxes	(19)	(22)
Net loss	(120)	(172)
Preferred stock dividends	(3)	(3)
Loss applicable to common shareholders	\$ (123)	\$ (175)
Loss per common share, basic and diluted:		
Loss applicable to common shareholders	\$ (2.01)	\$ (2.90)
Weighted average number of common shares	61,066,369	60,393,860

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)

	Nine Months Ended September 30,	
	2011	2010
Cash flows provided by (used in) operating activities:		
Net loss	\$ (120)	\$ (172)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on sale of marketable securities	—	2
Gain on sale of property and equipment	—	(1)
Deferred income tax	9	—
Non-cash stock compensation expense	12	15
Depreciation and amortization	243	252
Provision for doubtful accounts	5	1
Amortization of prior period IRUs	(22)	(19)
Change in long term deferred revenue	49	17
Other	(3)	59
Change in operating working capital:		
- Changes in accounts receivable	(51)	(21)
- Changes in accounts payable and accrued cost of access	(21)	(52)
- Changes in other current assets	(19)	(2)
- Changes in other current liabilities	(48)	(45)
Net cash provided by operating activities	<u>34</u>	<u>34</u>
Cash flows provided by (used in) investing activities:		
Purchases of property and equipment	(130)	(120)
Purchases of marketable securities	—	(10)
Proceeds from sale of marketable securities	—	8
Change in restricted cash and cash equivalents	—	(1)
Net cash used in investing activities	<u>(130)</u>	<u>(123)</u>
Cash flows provided by (used in) financing activities:		
Repayment of capital lease obligations	(42)	(41)
Repayment of debt	(11)	(9)
Proceeds from exercise of stock options	2	—
Proceeds from sales-leasebacks	4	—
Finance costs incurred	(1)	(2)
Payment of employee taxes on share-based compensation	(3)	(1)
Net cash used in financing activities	<u>(51)</u>	<u>(53)</u>
Effect of exchange rate changes on cash and cash equivalents	1	(24)
Net decrease in cash and cash equivalents	(146)	(166)
Cash and cash equivalents, beginning of period	372	477
Cash and cash equivalents, end of period	<u>\$ 226</u>	<u>\$ 311</u>
Non-cash investing and financing activities:		
Capital lease and debt obligations incurred	\$ 56	\$ 49
Accrued dividends converted to debt	\$ 26	\$ —

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 13, “Amalgamation with Level 3 Communications, Inc.”, for information related to the Agreement and Plan of Amalgamation with Level 3 Communications, Inc., a Delaware corporation (“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”). 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 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 unaudited condensed Company’s consolidated statement of operations for the nine months ended September 30, 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 September 30, 2011, the Company had \$6 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 nine months ended September 30, 2011, the Company received \$8 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.

In the third quarter of 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 unaudited condensed consolidated statement of operations for the nine months ended September 30, 2010.

As of September 30, 2011, the Company’s Venezuelan subsidiary had \$49 of cash and cash equivalents, of which \$2 was held in U.S. Dollars and \$47 (valued at the fixed official CADIVI rate of 4.30 Venezuelan bolivares to the U.S. Dollar at September 30, 2011 (the “CADIVI rate”)) was held in Venezuelan bolivares. For the nine months ended September 30, 2011, the Company’s Venezuelan subsidiary contributed approximately \$43 of the Company’s consolidated revenue and \$23 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 September 30, 2011, the Company’s Venezuelan subsidiary had \$51 of net monetary assets of which \$6 were denominated in U.S. Dollars and \$45 were denominated in Venezuelan bolivares at the CADIVI rate. As of September 30, 2011, the Company’s Venezuelan subsidiary had \$84 of net assets. In light of the Venezuelan exchange control regime, none of these net assets (other than the \$2 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 nine months ended September 30, 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 \$27. These agreements have terms that range from 6 to 48 months with a weighted average effective interest rate of 9.8%. In addition, the Company entered into various capital leasing arrangements that aggregated \$36, 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 9.1%.

In the nine months ended September 30, 2011, the Company issued a senior unsecured promissory note to STT Crossing Ltd., the holder of the Company’s convertible preferred stock and controlling shareholder, in principal amount of \$26 for payment of dividends accrued from December 9, 2003 through March 31, 2011 on the Company’s convertible preferred stock. See Note 10, “Related Party Transactions” for more information related to the promissory note.

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 expired on May 26, 2011 and no tenders were received by the close of the offer. See Note 13, “Amalgamation with Level 3 Communications, Inc.” for information related to the redemption of the GCUK Notes.

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.

For the nine months ended September 30, 2011, Genesis Networks contributed approximately \$24 of the Company’s consolidated revenue and \$(2) of the Company’s consolidated net loss.

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:

	Nine Months Ended September 30, 2010	
Revenue	\$	1,947
Net loss applicable to common shareholders (1)	\$	(185)
Net loss applicable to common shareholders per common share - basic and diluted	\$	(3.06)

- (1) Net loss applicable to common shareholders was adjusted to include \$4 of acquisition-related costs in the nine months ended September 30, 2010.

Included in the pro forma consolidated results of operations for the nine months ended September 30, 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 September 30, 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 September 30, 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.

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 \$65 as of September 30, 2011), offset by anticipated receipts from existing and future third-party subleases. As of September 30, 2011, anticipated third-party sublease receipts were \$59, representing \$41 from subleases already entered into and \$18 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 nine months ended September 30, 2011:

	Facility Closings (unaudited)
Balance at December 31, 2010	\$ 10
Deductions	(3)
Balance at September 30, 2011	<u>\$ 7</u>

6. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30, 2011 (unaudited)	December 31, 2010
Accrued taxes, including value added taxes in foreign jurisdictions	\$ 92	\$ 105
Accrued payroll, bonus, commissions, and related benefits	78	58
Accrued interest	25	31
Customer deposits	18	34
Accrued real estate and related costs	13	14
Accrued capital expenditures	5	5
Accrued third party maintenance costs	9	9
Accrued restructuring costs - current portion	4	8
Accrued professional fees	6	8
Income taxes payable	6	5
Accrued preferred dividends (1)	1	26
Other	61	73
Total other current liabilities	<u>\$ 318</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:

	Nine Months Ended September 30, 2011 2010 (unaudited)	
Net loss	\$ (120)	\$ (172)
Foreign currency translation adjustment	(19)	19
Comprehensive loss	<u>\$ (139)</u>	<u>\$ (153)</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 \$3 for each of the nine months ended September 30, 2011 and 2010, respectively.

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 nine months ended September 30, 2011 and 2010, diluted loss per common share is the same as basic loss per common share.

Diluted loss per share for the nine months ended September 30, 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	Nine Months Ended September 30, 2011 2010 (in millions)	
Convertible preferred stock	18	18
Employee stock awards	6	2
Diluted weighted average number of common shares	<u>24</u>	<u>20</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 nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2011. Estimates of reasonably possible losses may change from time to time and actual losses may be materially different from estimated amounts.

CenturyLink, Inc. (Qwest) Rights-of-Way Litigation

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 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 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 resulting in additional income tax withholding and value-added taxes (VAT). The total amount of the asserted claims, including potential interest and penalties, was \$26, consisting of \$3 for income tax withholding in connection with the import of services for calendar years 2001 and 2002, \$7 in connection with VAT in connection with the import of services for calendar years 2001 and 2002, and \$16 in connection with the disallowance of VAT credits for periods beginning in 2005. Due to accrued interest and foreign exchange effects, the total assessments have effectively increased to \$82.

The Company challenged the tax assessments during 2005 by filing administrative claims before SUNAT. During August 2006 and June 2007 SUNAT rejected the Company's administrative claims, thereby confirming the assessments. Appeals were filed in September 2006 and July 2007 in the Tax Court, which is the highest administrative authority. In October of 2011, the Tax Court rendered its opinion largely confirming SUNAT's positions on these issues. The Company intends to appeal the Tax Court's decision to Peru's judicial system. 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 \$44.

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 \$11 and \$21.

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 \$38.

. 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 has appealed 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 \$11 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.

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) by reason of a limitation of liability provision in the contract and applicable law. On July 22, 2011, the Court issued its decision on the motion. Although the Court held that the limitation of liability provision of the contract was valid and enforceable and barred the customer from pursuing all forms of lost profit damages, the Court refused to exclude the customer's claim for general damages at least at this point, and is permitting that issue to proceed.

Trial on certain issues commenced on November 16, 2011 and the Court heard testimony from four witnesses. The trial is scheduled to resume on January 24, 2012. 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 nine months ended September 30, 2010, the Company provided approximately \$1 of telecommunications services to subsidiaries and affiliates of ST Telemedia. During the nine months ended September 30, 2011, the Company received approximately \$3 of collocation services from a subsidiary of ST Telemedia. During the nine months ended September 30, 2010, the Company received approximately \$5 of collocation services from a subsidiary and affiliates of ST Telemedia. Additionally, during the nine months ended September 30, 2011 and 2010, the Company accrued dividends of \$3, respectively, related to preferred stock held by a subsidiary of ST Telemedia.

As of September 30, 2011 and December 31, 2010, the Company had approximately \$30 and \$27, respectively, due to ST Telemedia and its subsidiaries and affiliates, and in each case nothing 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 "short term debt" and "other current liabilities" in the accompanying condensed consolidated balance sheets.

Senior Unsecured Promissory Note

On June 14, 2011, the Company issued a senior unsecured promissory note to STT Crossing Ltd. (an indirect subsidiary of ST Telemedia), the holder of the Company's convertible preferred stock and the controlling shareholder of the Company, in principal amount of \$26 for payment of dividends accrued from December 9, 2003 through March 31, 2011 on the Company's convertible preferred stock. The note has an interest rate of 9% per annum and is payable on its maturity date of December 14, 2011 or prior to the maturity date: (i) if all conditions to the consummation of the Amalgamation of the Company with Level 3 Communications, Inc. ("Level 3") have been satisfied or waived; (ii) 45 days after any termination of the Amalgamation agreement relating to the Amalgamation of the Company with Level 3 prior to its consummation; or (iii) if a change of control with respect to the Company or an event of default under the note occurs. Regular quarterly dividends on the Company's convertible preferred stock in the amount of approximately \$1 in respect of periods after March 31, 2011 are expected to be paid in cash on the fifteenth day of each July, October, January and April, subject to the satisfaction of certain solvency tests required by Bermuda law. See Note 13, "Amalgamation with Level 3 Communications, Inc." for information related to the repayment of the senior unsecured promissory note.

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.

	Nine months ended September 30,	
	2011	2010
	(unaudited)	
Revenues from external customers		
GCUK	\$ 347	\$ 348
GC Impsat	475	408
ROW	1,228	1,170
Total consolidated	<u>\$ 2,050</u>	<u>\$ 1,926</u>
Intersegment revenues		
GC Impsat	\$ 7	\$ 7
ROW	13	11
Total	<u>\$ 20</u>	<u>\$ 18</u>
Total segment operating revenues		
GCUK	\$ 347	\$ 348
GC Impsat	482	415
ROW	1,241	1,181
Less: intersegment revenues	(20)	(18)
Total consolidated	<u>\$ 2,050</u>	<u>\$ 1,926</u>
	Nine months ended September 30,	
	2011	2010
	(unaudited)	
OIBDA		
GCUK	\$ 57	\$ 72
GC Impsat	154	130
ROW	71	77
Total segments	<u>\$ 282</u>	<u>\$ 279</u>

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

	Nine Months Ended September 30, 2011				
	GCUK	GC Impsat	ROW (unaudited)	Eliminations	Total Consolidated
OIBDA	\$ 57	\$ 154	\$ 71	\$ —	\$ 282
Depreciation and amortization	(48)	(61)	(134)	—	(243)
Operating income (loss)	9	93	(63)	—	39
Interest income	5	2	10	(16)	1
Interest expense	(43)	(10)	(101)	16	(138)
Other income, net	2	(2)	(3)	—	(3)
Provision for income taxes	—	(20)	1	—	(19)
Preferred stock dividends	—	—	(3)	—	(3)
Income (loss) applicable to common shareholders	<u>\$ (27)</u>	<u>\$ 63</u>	<u>\$ (159)</u>	<u>\$ —</u>	<u>\$ (123)</u>

	Nine Months Ended September 30, 2010				
	GCUK	GC Impsat	ROW (unaudited)	Eliminations	Total Consolidated
OIBDA	\$ 72	\$ 130	\$ 77	\$ —	\$ 279
Depreciation and amortization	(47)	(62)	(143)	—	(252)
Operating income (loss)	25	68	(66)	—	27
Interest income	5	2	15	(21)	1
Interest expense	(42)	(16)	(104)	21	(141)
Other expense, net	(5)	(28)	(4)	—	(37)
Provision for income taxes	—	(22)	—	—	(22)
Preferred stock dividends	—	—	(3)	—	(3)
Income (loss) applicable to common shareholders	<u>\$ (17)</u>	<u>\$ 4</u>	<u>\$ (162)</u>	<u>\$ —</u>	<u>\$ (175)</u>

	September 30, 2011 (unaudited)	December 31, 2010
Total Assets		
GCUK	\$ 503	\$ 564
GC Impsat	809	845
ROW	1,335	1,430
Total segments	2,647	2,839
Less: Intercompany loans and accounts receivable	(498)	(529)
Total consolidated assets	<u>\$ 2,149</u>	<u>\$ 2,310</u>

	September 30, 2011 (unaudited)	December 31, 2010
Unrestricted Cash		
GCUK	\$ 17	\$ 76
GC Impsat	118	170
ROW	91	126
Total consolidated unrestricted cash	<u>\$ 226</u>	<u>\$ 372</u>

	September 30, 2011 (unaudited)	December 31, 2010
Restricted Cash		
ROW	\$ 10	\$ 9
Total consolidated restricted cash	<u>\$ 10</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. Other than the debt retired as part of the Amalgamation with Level 3, described in Note 13, “Amalgamation with Level 3 Communications, Inc.”, management believes the carrying value of other debt approximates fair value as of September 30, 2011 and December 31, 2010, respectively.

13. AMALGAMATION WITH LEVEL 3 COMMUNICATIONS, INC.

On October 4, 2011, a subsidiary of Level 3 completed the amalgamation with GCL and became a wholly owned subsidiary of Level 3 through a tax free, stock for stock transaction (the “Amalgamation”). As a result of the amalgamation, (i) each issued and outstanding common share of GCL was exchanged for 16 shares of Level 3, common stock, including the associated rights under Level 3’s Rights Agreement with Wells Fargo Bank, N.A., as rights agent, (the “Amalgamation Consideration”) and (ii) each issued and outstanding share of GCL’s 2% cumulative senior convertible preferred stock was exchanged for the Amalgamation Consideration, plus an amount equal to the aggregate accrued and unpaid dividends thereon. In addition, (i) the issued and outstanding options to purchase GCL common shares were exchanged into options to purchase Level 3’s common stock and (ii) the issued and outstanding restricted stock units covering GCL’s common shares, to the extent applicable in accordance with their terms, vested and settled for 16 shares of Level 3’s common stock.

As a result of the Amalgamation, Level 3 refinanced a majority of the Company’s outstanding consolidated debt as of September 30, 2011. The entire principal amount of the GCUK Notes (approximately \$430) was redeemed on November 3, 2011 at the current redemption premiums outlined in its indenture dated December 23, 2004. The entire aggregate principal amount of the \$750 of GCL’s outstanding 12% senior notes due 2015 and all of the outstanding \$150 9% senior notes due 2019 were also redeemed in early November 2011. In addition, amounts owed to STT Crossing Ltd. for the senior unsecured promissory note were repaid (see Note 10, “Related Party Transactions”). The shares of GCL stock, which was previously traded under the symbol “GLBC,” ceased trading on the NASDAQ Global Select Market (“NASDAQ”) before the open of trading on October 4, 2011 and were delisted from NASDAQ as of October 5, 2011.

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

The following Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 and the Unaudited Pro Forma Condensed Combined Statements of Operations for the nine months ended September 30, 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 October 4, 2011, a subsidiary of Level 3 completed the amalgamation with Global Crossing and became a wholly owned subsidiary of the Level 3 through a tax free, stock for stock transaction (the “Acquisition”). As a result of the amalgamation, (i) each issued and outstanding common share of Global Crossing was exchanged for 16 shares of Level 3 common stock, including the associated rights under the Level 3’s Rights Agreement with Wells Fargo Bank, N.A., as rights agent, (the “Amalgamation Consideration”) and (ii) each issued and outstanding share of Global Crossing’s 2% cumulative senior convertible preferred stock was exchanged for the Amalgamation Consideration, plus an amount equal to the aggregate accrued and unpaid dividends thereon. In addition, (i) the issued and outstanding options to purchase Global Crossing common shares were exchanged into options to purchase Level 3’s common stock and (ii) the issued and outstanding restricted stock units covering Global Crossing common shares, to the extent applicable in accordance with their terms, vested and settled for Level 3’s common stock.

On October 4, 2011, Global Crossing had approximately 79 million common and preferred shares outstanding. Including approximately 4 million shares reserved for outstanding share based compensation awards(1), Global Crossing had approximately 83 million common and preferred shares outstanding at October 4, 2011. On the date of completion of the Acquisition, all outstanding employee stock option awards of Global Crossing, all of which were fully vested, were exchanged for Level 3 options and all restricted stock units of Global Crossing vested and were converted into Level 3 shares in accordance with the terms of the amalgamation agreement. The unaudited pro forma financial information includes aggregate consideration of approximately \$3.4 billion for the Global Crossing acquisition, calculated as follows (in millions excluding per share amounts):

Number of Global Crossing common and preferred shares outstanding as of October 4, 2011(1)	83
Multiplied by exchange ratio per amalgamation agreement	16
Number of Level 3 shares issued	1,328
Number of Level 3 shares issued after 1 for 15 reverse stock split(2)	88.53
Multiplied by per share price of Level 3 common stock (adjusted for stock split)(3)	\$ 21.15
Equity consideration	\$ 1,873
Cash consideration for tax withholdings	\$ 81
Total consideration distributed	\$ 1,954
Assumption of net debt	\$ 1,445
Aggregate consideration	\$ 3,399

(1) The number of outstanding Global Crossing shares reserved for outstanding shares based awards has been reduced by approximately 3 million shares to reflect the value of withholding taxes paid on behalf of award holders. Level 3 paid, using cash, \$81 million of withholding taxes due to various jurisdictions as a result of the consummation of the Acquisition. The share figures do not include shares reserved for certain non-qualified stock options as the value of such options is not material to the aggregate consideration.

(2) Level 3 completed a 1 for 15 reverse stock split on October 19, 2011.

(3) Based on the closing stock price of Level 3 common stock as of October 3, 2011 (\$1.41, which adjusted for stock split is \$21.15).

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 issued its common stock to acquire Global Crossing (at a premium), the board of directors of the combined company is composed principally of former Level 3 directors and the executive management team of the combined company is largely comprised of former Level 3 executives, among other factors.

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 September 30, 2011 for the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet. The Unaudited Pro Forma Condensed Combined Statements of Operations for the nine months ended September 30, 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 completed a detailed analysis of the fair value of Global Crossing's assets and liabilities and will finalize the purchase price allocation related to the Global Crossing acquisition no later than October 4, 2012. 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 and Global Crossing are approximately \$62 million, of which approximately \$19 million had been incurred through September 30, 2011. 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 and Global Crossing were approximately \$19 million in the nine months ended September 30, 2011 and less than \$1 million for the year ended December 31, 2010. These charges were expensed in accordance with the acquisition method of accounting, and were reflected primarily in selling, general and administrative expenses. Level 3 expects to incur additional acquisition-related expenses associated with the Acquisition including additional integration activities. As of September 30, 2011, Level 3 had incurred approximately \$10 million in expenses associated with 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 \$75 million, the amount of the unamortized deferred revenue balance on September 30, 2011.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Global Crossing incorporated by reference in this document, and of Level 3 included in its Annual Report on Form 10-K.

Level 3 sold all of the common stock of the holding company for its coal mining operations on November 14, 2011 and post-closing conditions were satisfied on November 23, 2011. As a result of that sale transaction, the assets and liabilities associated with the coal mining business will be removed from Level 3's balance sheet as of the closing of that sale. The sale of its coal business was not a significant disposition, and has not been reflected in these pro forma financial statements as the impact to the condensed combined balance sheet and condensed combined statement of operations is not material.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Condensed Combined Balance Sheet at September 30, 2011

	<u>Historical Level 3</u>	<u>Historical Global Crossing</u>	<u>Pro Forma Adjustments</u> (dollars in millions)	<u>Pro Forma Financing Adjustments</u>	<u>Pro Forma Combined</u>
Assets					
Current Assets:					
Cash and cash equivalents	\$ 461	\$ 226	\$ (43)(a) (81)(i)	\$ 297(a)	\$ 860
Restricted cash and securities	1,259	5	—	(1,254)(a)	10
Receivables, net	337	366	—	—	703
Other	104	94	(10)(e)	6(a)	194
Total Current Assets	2,161	691	(134)	(951)	1,767
Property, Plant and Equipment, net	5,117	1,129	1,990(d)	—	8,236
Restricted Cash and Securities	121	5	—	—	126
Goodwill	1,428	199	242(d)	—	1,869
Other Intangibles, net	300	15	285(d)	—	600
Other Assets, net	127	110	(4)(e) (33)(b)	40(a)	240
Total Assets	<u>\$ 9,254</u>	<u>\$ 2,149</u>	<u>\$ 2,346</u>	<u>\$ (911)</u>	<u>\$ 12,838</u>
Liabilities and Stockholders' Equity (Deficit)					
Current Liabilities:					
Accounts payable	\$ 342	\$ 354	\$ —	\$ —	\$ 696
Current portion of long-term debt	265	95	—	(26)(b)	334
Accrued payroll and employee benefits	77	78	—	—	155
Accrued interest	189	25	—	(24)(a)	190
Current portion of deferred revenue	140	171	(9)(c) (26)(e)	—	276
Other	90	215	—	—	305
Total Current Liabilities	1,103	938	(35)	(50)	1,956
Long-Term Debt, less current portion	7,420	1,407	10(a) 159(a)	(847)(b)	8,149
Deferred Revenue, less current portion	742	353	(66)(c) (198)(e)	—	831
Other Liabilities	512	59	38(f)	—	609
Total Liabilities	9,777	2,757	(92)	(897)	11,545
Stockholders' Equity (Deficit):					
Preferred stock	—	2	(2)(i)	—	—
Common stock	1	1	—(i)	—	2
Additional paid-in capital	11,813	1,451	421(i)	—	13,685
Accumulated other comprehensive income (loss)	(65)	(4)	4(j)	—	(65)
Accumulated deficit	(12,272)	(2,058)	2,015(k)	(14)(a)	(12,329)
Total Stockholders' Equity (Deficit)	<u>(523)</u>	<u>(608)</u>	<u>2,438</u>	<u>(14)</u>	<u>1,293</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 9,254</u>	<u>\$ 2,149</u>	<u>\$ 2,346</u>	<u>\$ (911)</u>	<u>\$ 12,838</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

	<u>Historical Level 3</u>	<u>Historical Global Crossing</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
	(dollars in millions, except per share data)			
Revenue				
Communications	\$ 3,591	\$ 2,609	\$ (59)(g)	\$ 6,141
Coal Mining	60	—	—	60
Total Revenue	<u>3,651</u>	<u>2,609</u>	<u>(59)</u>	<u>6,201</u>
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	<u>1,490</u>	<u>1,266</u>	<u>(40)</u>	<u>2,716</u>
Depreciation and Amortization	876	337	82(d)	1,295
Selling, General and Administrative	1,373	943	(6)(g)	2,310
			—(h)	
Restructuring Charges	2	—	—	2
Total Costs and Expenses	<u>3,741</u>	<u>2,546</u>	<u>36</u>	<u>6,323</u>
Operating Income (Loss)	<u>(90)</u>	<u>63</u>	<u>(95)</u>	<u>(122)</u>
Other Income				
Interest income	1	2	—	3
Interest expense	(586)	(191)	23(b)	(754)
Loss on extinguishment of debt	(59)	(6)	—	(65)
Other	21	(45)	—	(24)
Total Other Expense	<u>(623)</u>	<u>(240)</u>	<u>23</u>	<u>(840)</u>
Loss from Continuing Operations Before Income Taxes	(713)	(177)	(72)	(962)
Income Tax Benefit	91	5	—(l)	96
Loss from Continuing Operations	<u>\$ (622)</u>	<u>\$ (172)</u>	<u>\$ (72)</u>	<u>\$ (866)</u>
Shares Used to Compute Basic and Diluted Loss from Continuing Operations per Share(1) (in thousands)	<u>110,680</u>	<u>60,419</u>	88,530(i)	199,210
Basic and Diluted Loss from Continuing Operations per Share(2)	<u>\$ (5.62)</u>	<u>\$ (2.91)</u>		<u>\$ (4.35)</u>

(1) The Level 3 share figures have been adjusted to reflect the 1 for 15 reverse stock split completed on October 19, 2011.

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

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 nine months ended September 30, 2011

	Historical Level 3	Historical Global Crossing	Pro Forma Adjustments	Pro Forma Combined
		(dollars in millions, except per share data)		
Revenue				
Communications	\$ 2,754	\$ 2,050	\$ (43)(g)	\$ 4,761
Coal Mining	54	—	—	54
Total Revenue	2,808	2,050	(43)	4,815
Costs and Expenses (exclusive of depreciation and amortization shown separately below)				
Cost of Revenue				
Communications	1,046	975	(26)(g)	1,995
Coal Mining	52	—	—	52
Total Cost of Revenue	1,098	975	(26)	2,047
Depreciation and Amortization	615	243	71(d)	929
Selling, General and Administrative	1,089	793	(5)(g)	1,858
			(19)(h)	
Restructuring Charges	—	—	—	—
Total Costs and Expenses	2,802	2,011	21	4,834
Operating Income (Loss)	6	39	(64)	(19)
Other Income				
Interest income	—	1	—	1
Interest expense	(495)	(138)	14(b)	(619)
Loss on extinguishment of debt	(73)	—	—	(73)
Other	5	(3)	—	2
Total Other Expense	(563)	(140)	14	(689)
Loss from Continuing Operations Before Income Taxes	(557)	(101)	(50)	(708)
Income Tax Expense	(36)	(19)	—(l)	(55)
Net Loss from Continuing Operations	<u>\$ (593)</u>	<u>\$ (120)</u>	<u>\$ (50)</u>	<u>\$ (763)</u>
Shares Used to Compute Basic and Diluted Loss from Continuing Operations per Share(1) (in thousands)	114,585	61,066	88,530(i)	203,115
Basic and Diluted Loss from Continuing Operations per Share(2)	<u>\$ (5.18)</u>	<u>\$ (1.97)</u>		<u>\$ (3.76)</u>

(1) The Level 3 share figures have been adjusted to reflect the 1 for 15 reverse stock split completed on October 19, 2011.

(2) Global Crossing Basic and Diluted Loss from Continuing Operations per Share was increased by \$3 million of preferred stock dividends.

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

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(1) Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Level 3 would have been had the 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 historical consolidated financial statements and accompanying notes of Global Crossing that are incorporated by reference in this Current Report on Form 8-K, and of Level 3 included in its Annual Report on Form 10-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 Statements of Operations primarily related to cost of revenue, selling, general and administrative expenses, loss on extinguishment of debt, and other income, net.

Level 3 sold all of the common stock of the holding company for its coal mining operations on November 14, 2011 and post-closing conditions were satisfied on November 23, 2011. As a result of that sale transaction, the assets and liabilities associated with the coal mining business will be removed from Level 3's balance sheet as of the closing of that sale. The sale of its coal business was not a significant disposition, and has not been reflected in these pro forma financial statements as the impact to the condensed combined balance sheet and condensed combined statement of operations is not material.

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 completed 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 to date, any material adjustments necessary 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 September 30, 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 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.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(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 purchase price is based on the actual consideration paid by Level 3 and is allocated to Global Crossing's tangible and intangible assets and liabilities based on their estimated fair value as of September 30, 2011. The final determination of the allocation of the purchase price will be based on the fair value of such assets and liabilities and will be determined no later than October 4, 2012. 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 October 3, 2011 and the cash consideration paid for withholding taxes, the total consideration distributed is approximately \$2.0 billion.

Based upon a preliminary valuation, the total consideration (as calculated in the manner described above) was allocated as follows:

	<u>September 30, 2011</u> (dollars in millions)
Assets:	
Cash, cash equivalents, and restricted cash	\$ 236
Accounts receivable	366
Other current assets	84
Property, plant and equipment, net	3,119
Goodwill(1)	441
Identifiable intangibles	300
Other Assets	73
	<u>4,619</u>
Total Assets	4,619
Liabilities:	
Accounts payable	(354)
Current portion of long-term debt	(95)
Accrued payroll and employee benefits	(78)
Accrued interest	(25)
Other current liabilities	(215)
Deferred revenue — Global Crossing	(300)
Other liabilities	(97)
Long-term debt, less current portion	(1,576)
Total Liabilities	(2,740)
Total Allocated Purchase Price	1,879
Add Level 3 deferred revenue	75
Total Consideration Distributed	\$ 1,954

(1) Includes \$75 million adjustment for deferred revenue recorded on Level 3.

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.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(2) Basis of Preliminary Purchase Price Allocation (Continued)

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. Incremental acquisition-related transaction costs expected to be incurred by Level 3 and Global Crossing after September 30, 2011 are estimated to be approximately \$43 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 "Cautionary Factors That May Affect Future Results" and "Risk Factors" in the Level 3 Annual Report Form 10-K for the year ended December 31, 2010, as those important disclosures have been updated in subsequent filings made by Level 3 with the Securities and Exchange Commission. Level 3 cannot assure you that these estimated synergies or cost savings will be achieved. 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 was approximately \$1,644 million and were assumed to be made concurrent with or before completion of the Acquisition including \$14 million of fees associated with the Tranche B II Term Loan, \$32 million of fees associated with the 8.125% Senior Notes, \$14 million of commitment fees attributable to the unused bridge facility, \$43 million for additional estimated transaction costs incurred by Level 3 and Global Crossing, \$1,517 million to retire Global Crossing's short term and long term debt (including a \$159 million prepayment fee associated with the change of control premium) excluding capital lease and vendor financing obligations, and \$24 million of accrued interest.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

	Financing Adjustments (Dollars in millions)
Proceeds from new Level 3 financing activities	\$ 650
Proceeds from release of Level 3 Escrow restricted cash and securities	1,254
Debt issuance costs of new Level 3 acquisition-related financing (Note 4b), short term	(6)
Debt issuance costs of new Level 3 acquisition-related financing (Note 4b), long term	(40)
Discount on new Level 3 acquisition-related financing (Note 4b)	(6)
Commitment fees attributable to the unused bridge facility (Note 4b)	(14)
Repayment of Global Crossing's outstanding debt, excluding capital lease and vendor financing obligations (\$1,348 million including net unamortized discount of \$10 million)	(1,358)
Premium to retire Global Crossing's debt	(159)
Payment of accrued interest on retirement of Global Crossing's debt	(24)
Net proceeds from financing activities	<u>\$ 297</u>

See note (i), below, regarding the cash effect of employee-related tax withholding obligations in connection with the vesting of Global Crossing restricted stock unit awards as a result of the Acquisition.

- (b) Level 3, through its indirect wholly owned subsidiary, Level 3 Escrow, Inc., issued \$600 million of 8.125% Senior Notes due 2019 ("Initially Issued 8.125% Senior Notes") in June 2011 in a private offering. Level 3 subsequently issued, through Level 3 Escrow, Inc., an additional \$600 million of 8.125% Senior Notes ("Additional 8.125% Senior Notes") in a separate private offering in July 2011. The gross proceeds from these offerings and \$54 million of expected interest obligations were placed in a segregated escrow account as of September 30, 2011. The restrictions on the proceeds from these offerings and the accrued interest obligations lapsed upon closing of the Acquisition. In addition, Level 3 Financing increased the borrowings under its existing senior secured facility through the creation of a new \$650 million Tranche B II Term Loan ("Tranche B II Term Loan").

The net proceeds of Level 3 Financing's Tranche B II Term Loan in an aggregate amount of \$650 million were used to consummate the Acquisition, to refinance certain existing indebtedness of Global Crossing in connection with the consummation of the Acquisition and for general corporate purposes. In addition, the \$1.2 billion of proceeds from the initial and additional issuance of 8.125% Senior Notes due 2019 in June and July 2011 by Level 3, through an indirect wholly owned subsidiary, were deposited into an escrow account. On October 4, 2011, following the consummation of the Acquisition and the satisfaction of certain escrow conditions, the 8.125% Senior Notes were assumed by Level 3 Financing (the "Notes Assumption"), and the funds were released from the escrow account. The net proceeds from the 8.125% Senior Notes were used to refinance certain existing indebtedness of Global Crossing in connection with the closing of the Acquisition and for general corporate purposes.

As a result of the Acquisition, Level 3 issued approximately 88.53 million shares (as adjusted for the 1 for 15 reverse stock split completed on October 19, 2011) of Level 3 common stock to former holders of Global Crossing common shares and Global Crossing's 2% cumulative senior convertible preferred stock, and Level 3 redeemed and discharged approximately \$1.35 billion of Global Crossing's outstanding consolidated debt. Approximately \$430 million of Global Crossing (UK) Finance PLC Senior Secured notes due 2014 were redeemed on November 3, 2011 at the current redemption premiums outlined in its indenture dated December 23, 2004. The entire aggregate principal amount of the \$750 million of Global Crossing Limited's

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

outstanding 12% senior notes due 2015 and all of the outstanding \$150 million of 9% senior notes due 2019 were redeemed in early November 2011. Of the outstanding principal of each of the Global Crossing Limited senior notes, 35 percent were first redeemed on November 3, 2011 as a result of a qualified “Equity Offering” (as defined under the indentures relating to each issue of the Global Crossing Limited senior notes) to its new corporate parent. The remaining 65 percent of the outstanding principal of each issue of the Global Crossing senior notes were redeemed subsequently on November 4, 2011 at “make-whole” prices calculated using the rate of the comparable U.S. Treasury security plus 50 basis points. The shares of Global Crossing Common Stock, which previously traded under the symbol “GLBC,” ceased trading on the NASDAQ Global Select Market (“NASDAQ”) before the open of trading on October 4, 2011 and were delisted from NASDAQ as of October 5, 2011.

The Tranche B II Term Loan, the Initially Issued 8.125% Senior Notes and the Additional 8.125% Senior Notes have been issued by Level 3 Financing or one of its subsidiaries. The Tranche B II Term Loan is guaranteed and secured by the same entities that currently secure and guarantee its existing term loans and all the 8.125% Senior Notes will be guaranteed by the same entities that guarantee Level 3 Financing’s existing notes.

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

	As of September 30, 2011	
	Current Portion of Long Term Debt	Long Term Debt, less Current Portion
	(Dollars in millions)	
Level 3’s historical debt balance	\$ 265	\$ 7,420
Global Crossing’s historical debt balance	95	1,407
Net unamortized discount on Global Crossing Debt	—	10
Prepayment premium adjustment on Global Crossing debt	—	159
New loans to and debt issued by Level 3	—	650
Issuance discount on Tranche B II Term Loan	—	(6)
Repayment of Global Crossing’s debt	(26)	(1,491)
Total Debt Balance	<u>\$ 334</u>	<u>\$ 8,149</u>

For pro forma purposes, Level 3 assumes that all Global Crossing debt, except for capital lease and vendor financing obligations, has been replaced with the \$1,200 million of 8.125% Senior Notes and \$650 million of the Tranche B II Term Loan. Level 3 estimates a decrease in interest expense of approximately \$23 million in 2010 and a decrease of approximately \$14 million in the first nine months of 2011 associated with the incremental debt Level 3 issued in connection with the Acquisition after retiring Global Crossing’s existing debt. The change in interest expense for such periods is based on the \$650 million Tranche B II Term Loan, which will accrue interest at LIBOR + 4.25% (with a LIBOR floor of 1.5%) and was priced to investors at 99% of its principal amount with a 7 year maturity, \$600 million in Initially Issued 8.125% Senior Notes which will bear interest at 8.125% and were priced to investors at 99.264% of their principal amount and mature in 8 years, and the additional \$600 million

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

of 8.125% Senior Notes which were priced at 98.545% of their principal amount. For the purpose of the Unaudited Pro Forma Condensed Combined Statement of Operations, Level 3 used a rate of 5.75% based on a LIBOR floor of 1.5% included in the terms of the Tranche B II Term Loan. For the purposes of the Unaudited Pro Forma Condensed Combined Statements of Operations, it has been assumed that Level 3 borrowed the \$650 million under the Tranche B II Term Loan and issued all the 8.125% Senior Notes and therefore incurred interest expense of approximately \$144 million in 2010 and \$108 million in the first nine 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 \$1,343 million for the nine months ended September 30, 2011, which corresponds to \$167 million in interest expense in 2010 and \$122 million in the first nine months of 2011.

	Twelve months ended December 31, 2010	Nine months ended September 30, 2011
	(Dollars in millions)	
Global Crossing's historical interest expense	\$ (167)	\$ (122)
Interest expense resulting from loans and other debt Level 3 incurred in connection with the Acquisition	144	108
Decrease in interest expense	<u>\$ (23)</u>	<u>\$ (14)</u>

Based on the LIBO Rate of 0.38% on October 3, 2011, an increase or decrease of 1% from the rate assumed on the Tranche B II Term Loan 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 nine months of 2011 given the LIBOR floor of 1.5%.

Included in interest expense is additional interest expense of approximately \$9 million for the twelve months ended December 31, 2010 and \$7 million for the first nine months of 2011 for the amortization of debt issuance costs and issuance discounts associated with the Tranche B II Term Loan, the Initially Issued 8.125% Senior Notes and the \$600 million of Additional 8.125% Senior Notes that Level 3 has assumed for purposes of these Unaudited Pro Forma Condensed Combined Financial Statements will be issued to finance the total consideration used to replace all of Global Crossing's debt, excluding capital lease and vendor financing obligations. Debt issuance costs associated with the three aforementioned debt and loan facilities were assumed to be approximately \$46 million (\$14 million of costs associated with the Tranche B II Term Loan amortized over 7 years and \$32 million associated with the 8.125% Senior Notes amortized over 8 years). The Unaudited Pro Forma Condensed Combined Balance Sheet also includes an adjustment to reduce other assets by \$33 million for the elimination of net deferred financing fees upon retirement of Global Crossing's existing debt.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

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

	September 30, 2011	Estimated Fair Value (Dollars in millions)	Decrease
Current portion of deferred revenue	\$ 9	\$ —	\$ 9
Deferred revenue, less current portion	66	—	66

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 and useful lives of assets acquired by Level 3 at the completion of the Acquisition.

	Estimated Fair Value at September 30, 2011 (Dollars in millions)	Estimated Useful Lives (Years)
Property, Plant and Equipment	\$ 3,119	2 - 40 years
Customer Relationships	219	10 years
Trademark and trade names	81	Indefinite
Goodwill	441	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.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

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.

	Twelve Months ended December 31, 2010	Nine Months ended September 30, 2011
	(Dollars in millions)	
Global Crossing's historical depreciation and amortization	\$ (337)	\$ (243)
Depreciation and amortization after fair value adjustments associated with acquired assets	419	314
Increase in depreciation and amortization expense	<u>\$ 82</u>	<u>\$ 71</u>

A 10% change in the allocation between these acquired assets and goodwill would result in a change in annual depreciation and amortization expense of approximately \$42 million in the first full year and would result in a split adjusted \$0.21 per common share change in Level 3's pro forma basic and diluted loss from continuing operations.

- (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 September 30, 2011. Pro forma revenue reported for the periods ended December 31, 2010 and September 30, 2011 have not been reduced for the fair value adjustment of deferred revenue as the adjustment is non-recurring in nature. Level 3 expects to reflect a fair value adjustment to reduce Global Crossing's deferred revenue which it expects will cause revenue to be lowered by approximately \$13 million in the three months ended December 31, 2011 and approximately \$32 million for the year ended December 31, 2012.

	September 30, 2011	Estimated Fair Value (Dollars in millions)	Decrease
Current portion of deferred revenue	\$ 171	\$ 145	\$ 26
Deferred Revenue, less current portion	353	155	198
Other deferred installation costs included in Current Assets	10	—	10
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. Level 3 is still evaluating the deferred tax assets and deferred tax liabilities resulting from the Acquisition. The final value of these assets and liabilities may vary significantly from the current estimates reflected in these pro forma financial statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

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:

	<u>Adjustment as of September 30, 2011</u> (Dollars in millions)
Deferred tax liabilities associated with fair value of indefinite-lived assets of Global Crossing acquired	\$ 38

- (g) Adjustment to eliminate the historical 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) Adjustment to eliminate the historical acquisition-related transaction costs incurred by Level 3 and Global Crossing, of which approximately \$10 million had been incurred by Level 3 and approximately \$9 million had been incurred by Global Crossing through September 30, 2011.
- (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 pre-split 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.

	<u>Adjustments as of September 30, 2011</u> (Dollars in millions)
Eliminate Global Crossing preferred stock	\$ (2)
Issue 88.53 million shares (split adjusted) of Level 3 common stock	\$ 1
Eliminate Global Crossing common stock	(1)
Adjustment to common stock	\$ —

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

	<u>Adjustments as of September 30, 2011</u> (Dollars in millions)
Total estimated equity consideration	\$ 1,873
Elimination of Global Crossing additional paid-in capital	(1,451)
Common stock	(1)
Adjustment to additional paid-in capital	\$ 421

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(4) Pro Forma Adjustments (Continued)

Holders of Global Crossing's outstanding restricted stock units and other stock-based awards, to the extent applicable in accordance with their terms, vested and settled for Level 3 common shares upon consummation of the Acquisition. In lieu of issuing all the vested shares, Level 3 reduced the number of shares issued to the holders, and using cash on hand, remitted the withholding taxes directly to the applicable authorities. In total, Level 3 paid approximately \$81 million in payroll taxes for vested units and reduced the number of shares distributed to holders by 3.3 million shares (split adjusted), which represented the equivalent value of the taxes paid.

(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 and Global Crossing, as follows:

	<u>Adjustment as of</u> <u>September 30, 2011</u> (Dollars in millions)
Eliminate Global Crossing's accumulated deficit	\$ 2,058
Estimated transaction-related expenses (Note 4a)	(43)
Adjustment to accumulated deficit	<u>\$ 2,015</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.